

17 February 2023

## RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

### STRONG OCCUPIER DEMAND DRIVES FURTHER GROWTH IN RENTS, EARNINGS AND DIVIDENDS

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

“SEGRO is today reporting strong operational results for 2022, including a record level of rent roll growth driven by our active asset management and a strong leasing performance. Our modern, well-located and highly sustainable warehouses continue to be in high demand from a diverse range of occupiers, underpinned by long-term structural drivers.

“Our strategy over the past decade has focused on cultivating a unique portfolio located in the most supply-constrained European urban and logistics markets, backed by a strong balance sheet to enable SEGRO to outperform through the property cycle. Our portfolio valuation fell in the second half of 2022 as investment yields rose and values weakened across the sector in response to macroeconomic conditions. However, the impact on our portfolio was mitigated by its high quality and the strong rental growth we delivered across all of our markets.

“Our prime portfolio, excellent land bank, development expertise, customer focus and balance sheet capacity mean we are well positioned to deliver attractive returns and further growth into the years ahead.”

#### HIGHLIGHTS<sup>1</sup>:

- **Adjusted pre-tax profit of £386 million up 8.4 per cent compared with the prior year (2021: £356 million).** Adjusted EPS increased by 6.5 per cent to 31.0 pence (2021: 29.1 pence, 28.0 pence excluding the 1.1 pence SELP performance fee recognised in 2021 resulting in a 10.7 per cent increase).
- **Adjusted NAV per share down 15.0 per cent to 966 pence** (31 December 2021: 1,137 pence) driven by a portfolio valuation decline of 11.0 per cent (2021: 13.1 per cent increase, H2 2022 16.6 per cent decrease). This was primarily driven by market-wide yield expansion in the second half, partly offset by **estimated rental value growth (ERV) of 10.9 per cent**, portfolio asset management successes and development profits.
- **Net rental income of £522 million, up 18.9 per cent (2021: £439 million)**, driven by strong like-for-like rental growth of 6.7 per cent and development completions.
- **Strong occupier demand, with our customer focus and active management of the portfolio generating a record £98 million of new headline rent commitments during the period** (2021: £95 million), including £41 million of new pre-let agreements, and a 23 per cent average uplift on rent reviews and renewals.
- **Net capital investment of £1.3 billion** (2021: £1.5 billion) in asset acquisitions, development projects and land purchases, less disposals.
- **639,200 sq m of development completions delivered during 2022, at a yield on cost of 7.4 per cent.** 80 per cent of this is already let to customers from a diverse range of sectors.

- **Continued momentum in the development pipeline with 915,600 sq m of projects under construction or in advanced pre-let discussions** equating to £86 million of potential rent, of which 75 per cent has been or is expected to be pre-let, supporting growth in earnings over the year ahead and into 2024.
- **Significant progress with our Responsible SEGRO strategic priorities, de-risking and investing in the future of our business**, including a ten per cent reduction in the average embodied carbon intensity of our development programme; the launch of ten Community Investment Plans (CIPs); and meaningful changes to promote diversity and inclusion across our business.
- **£3.1 billion of new financing** helping to maintain our long-average debt maturity of 8.6 years and providing high visibility on funding costs with no significant near-term debt maturities. Average cost of debt at 31 December 2022 of 2.5 per cent, and interest cover of 4.5 times.
- **Strong balance sheet providing capacity to invest in our development programme and allowing us flexibility to make further commitments.** We have access to £2.2 billion of available liquidity and a modest level of gearing reflected in LTV of 32 per cent at 31 December 2022 (31 December 2021: 23 per cent).
- **2022 full year dividend increased 8.2 per cent to 26.3 pence** (2021: 24.3 pence). Final dividend increased by 7.7 per cent to 18.2 pence (2021: 16.9 pence)

## FINANCIAL SUMMARY

	2022	2021	Change per cent
Adjusted <sup>3</sup> profit before tax (£m)	386	356	8.4
IFRS <sup>3</sup> (loss)/profit before tax (£m)	(1,967)	4,355	-
Adjusted <sup>3</sup> earnings per share (pence)	31.0	29.1 <sup>2</sup>	6.5
IFRS <sup>3</sup> earnings per share (pence)	(159.7)	339.0	-
Dividend per share (pence)	26.3	24.3	8.2
Total Accounting Return (%) <sup>4</sup>	(12.8)	42.5	-
	2022	2021	Change per cent
Assets under Management (£m)	20,947	21,286	-
Portfolio valuation (SEGRO share, £m)	17,925	18,377	(11.0) <sup>5</sup>
Net true equivalent yield (per cent)	4.8	3.8	
Adjusted <sup>67</sup> net asset value per share (pence, diluted)	966	1,137	(15.0)
IFRS net asset value per share (pence, diluted)	938	1,115	-
Net debt (SEGRO share, £m)	5,693	4,161	-
Loan to value ratio including joint ventures and associates at share (per cent)	32	23	-

1. Figures quoted on pages 1 to 19 refer to SEGRO and SEGRO's share of joint ventures and associates, 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.

2. 2021 comparator included 1.1 pence recognised for SELP performance fee, excluding this Adjusted EPS for FY21 was 28.0 pence. For further information on the SELP Performance fee see Note 6 to the condensed financial information.

3. The primary driver of the difference between Adjusted profit before tax and IFRS loss before tax (£1,967m IFRS loss before tax versus £386m Adjusted profit before tax) and earnings per share (31.0p Adjusted earnings versus -159.7p IFRS earnings) is the unrealised valuation deficit on our portfolio recognised in IFRS but not recognised in our Adjusted profit and earnings metrics. Further information and reconciliations between the Adjusted and IFRS metrics can be found in Note 2 (Adjusted profit) and Notes 11 (Earnings per ordinary share) to the condensed financial information.

4. Total Accounting Return is calculated based on the opening and closing adjusted NAV per share adding back dividends paid during the period.

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

6. A reconciliation between Adjusted net asset value per share and IFRS net asset value per share is shown in Note 11 to the condensed financial information.

7. Adjusted net asset value is in line with EPRA Net Tangible Assets (NTA) (see Table 5 in the Supplementary Notes for a NAV reconciliation).

8. FY21 comparators in table on page 3 have been adjusted to take £10 million capitalised interest out of development capex and to account for £503 million of acquisitions that were reclassified as 'covered land' from 'completed properties' after FY21 results and now presented as land acquisitions.

## OPERATING SUMMARY & KEY METRICS

		2022	2021
<b>MARKET RENTAL GROWTH REMAINS STRONG DUE TO TIGHT SUPPLY-DEMAND DYNAMICS, PORTFOLIO VALUATION IMPACTED BY MACRO ECONOMIC ENVIRONMENT (see page 9):</b>			
Valuation decline driven by increased yields (100bp on average) and partly offset by estimated rental value (ERV) growth, active asset management of the standing portfolio, and gains recognised on completed development and buildings under construction.			
Portfolio valuation change (%):	Group	<b>(11.0)</b>	28.8
	UK	<b>(13.1)</b>	32.2
	CE	<b>(7.3)</b>	22.5
ERV growth (%)	Group	<b>10.9</b>	13.1
	UK	<b>11.5</b>	18.8
	CE	<b>9.9</b>	4.1
<b>RECORD GROWTH IN RENTAL INCOME DRIVEN BY HIGH OCCUPIER DEMAND AND ACTIVE ASSET MANAGEMENT OF OUR PRIME PORTFOLIO (see page 11):</b>			
Existing portfolio contributed strongly to our rent roll growth through continued rental growth, the capture of reversion in the UK portfolio and indexation provisions on the Continent, supplemented by pre-lets signed during the year.			
Total new rent signed during the period (£m)		<b>98</b>	95
Pre-lets signed during the period (£m)		<b>41</b>	49
Like-for-like net rental income growth (%):	Group	<b>6.7</b>	4.9
	UK	<b>7.7</b>	5.6
	CE	<b>4.9</b>	3.6
Uplift on rent reviews and renewals (%):	Group	<b>23.3</b>	13.0
(note: excludes uplifts from indexation)	UK	<b>28.0</b>	18.7
	CE	<b>1.7</b>	1.5
Occupancy rate (%)		<b>96.0</b>	96.8
Customer retention (%)		<b>76</b>	77
Visibility of customer energy use (%)		<b>68</b>	54
Corporate and customer carbon emission (tonnes CO <sub>2</sub> e)		<b>272,218</b>	280,575
<b>INVESTMENT ACTIVITY REMAINS DISCIPLINED AND FOCUSED ON SECURING PROFITABLE GROWTH (see page 13):</b>			
Capital investment continues to focus on our development programme (through capex and securing land to provide future growth opportunities). Development capex for 2023, including infrastructure, expected to be in excess of £600 million.			
Development capex (£m)		<b>787</b>	639 <sup>8</sup>
Asset acquisitions (£m)		<b>155</b>	494 <sup>8</sup>
Land acquisitions (£m)		<b>712</b>	829 <sup>8</sup>
Disposals (£m)		<b>367</b>	515
<b>EXECUTING AND GROWING OUR DEVELOPMENT PIPELINE (see page 14):</b>			
Our active and largely pre-let development pipeline remains a key driver of rent roll growth and attractive returns on capital. Potential rent of £86 million from projects currently on site or expected to commence shortly.			
Development completions:			
– Space completed (sq m)		<b>639,200</b>	839,200
– Potential rent (£m) (Rent secured)		<b>46 (80%)</b>	52 (93%)
Average embodied carbon intensity (kgCO <sub>2</sub> e/m <sup>2</sup> )		<b>353</b>	391
Current development pipeline potential rent (£m) (Rent secured)		<b>67 (73%)</b>	62 (60%)
Near-term development pipeline potential rent (£m)		<b>19</b>	20

## OUTLOOK

Our long-standing disciplined approach to portfolio management means that SEGRO has one of the best and most modern pan-European industrial warehouse portfolios, through which we can serve our customers' entire regional and local distribution needs. Two-thirds of this portfolio is located in Europe's most attractive urban markets, often in substantial clusters in key sub-markets, where the lack of available land means that supply-demand dynamics are tightest and where long-term growth and returns are therefore likely to be the highest. This is complemented by the remaining one-third of our portfolio, comprising clusters of high-quality logistics warehouses situated at key hubs along major transportation corridors.

Occupier demand for warehouse space across Europe continues to be positive and is derived from a wide variety of customer types. Our space is flexible and can be adapted to suit businesses from many different industries which, when coupled with our relentless focus on customer service through our market-leading operating platform, is reflected in high customer satisfaction and retention rates, as well as our asset management and leasing performance. Our business is therefore both resilient and positioned to support growth sectors and adapt to trends, including e-commerce, the digital sector (data centres), urbanisation and the consequential need for industrial and distribution space close to the end customer from a very broad range of businesses.

Supply and availability of modern, sustainable warehouse space in the locations most desired by occupiers remains extremely limited across Europe. Vacancy levels are at historic lows and supply is likely to remain constrained given recent increases in financing and construction costs. We expect this contrast between positive demand and limited supply to drive further growth in rental levels. We already have £130 million of reversionary potential embedded in the portfolio (most of which will be captured through the five-yearly rent review process), as well as indexation provisions in almost half of our leases, both of which underpin future like-for-like rental income growth even before any further growth in market rental levels.

Our sizeable, mostly pre-let current development programme and well-located land bank, provide us with further potential to grow our rent roll profitably and allows us significant optionality due to the short construction periods of our assets. We will continue to be led by customer demand and our Disciplined approach to capital allocation as we make decisions regarding the execution of future projects.

With modest leverage, a long-average debt maturity of 8.6 years, no near-term refinancing requirements and virtually all of our debt at fixed or capped rates, we have significant financial flexibility to continue to invest capital in the development and acquisition opportunities that offer the most attractive risk-adjusted returns.

Macroeconomic factors caused a sharp correction in interest rates in the second half of 2022, with a consequential impact on real estate volumes, property yields and asset values. As we enter 2023, there are early signs of liquidity returning to the investment markets as investors see value at current levels of pricing. As the path of future interest rates becomes more evident, we believe there is a significant volume of capital ready to be deployed into the industrial and logistics sector due to its attractive fundamentals. We will continue to respond tactically to changes in market conditions, but our long-term strategic focus is to ensure that our properties are of the highest quality and the most sought after, able to generate superior long-term growth, and therefore command a valuation premium.

We will also continue to invest in and de-risk the future of our business via the significant progress we have made with our Responsible SEGRO strategic priorities.

Our prime portfolio and market-leading operating platform combine to create a strong competitive advantage, and position us to create value through the cycle for all of our stakeholders. We therefore remain confident in our ability to deliver attractive returns and continued growth in earnings and dividends into the future.

## WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

A live webcast of the results presentation will be available from 08:30am (UK time) at:

<https://www.investis-live.com/segro/63d7a413aaec340f003dc325/sfya>

The webcast will be available for replay at SEGRO's website at: <http://www.segro.com/investors> shortly after the live presentation.

A conference call facility will be available at 08:30am (UK time) on the following number:

Dial-in: +44 (0)800 640 6441  
+44 (0) 203 936 2999  
Access code: 869845

An audio recording of the conference call will be available until 24 February 2023 on:

UK: +44 (0) 203 936 3001  
Access code: 508626

A video of David Sleath, Chief Executive discussing the results will be available to view on [www.segro.com](http://www.segro.com), together with this announcement, the Full Year 2022 Property Analysis Report and other information about SEGRO.

### CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

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SEGRO	Soumen Das (Chief Financial Officer)	Tel: + 44 (0) 20 7451 9110 (after 11am)
	Claire Mogford (Head of Investor Relations)	Mob: +44 (0) 7710 153 974 Tel: +44 (0) 20 7451 9048 (after 11am)
FTI Consulting	Richard Sunderland / Ellie Sweeney / Eve Kirmatzis	Tel: +44 (0) 20 3727 1000

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### FINANCIAL CALENDAR

2022 full year dividend ex-div date	16 March 2023
2022 full year dividend record date	17 March 2023
2022 full year dividend scrip dividend price announced	23 March 2023
Last date for scrip dividend elections	12 April 2023
2022 full year dividend payment date	4 May 2023
2023 Q1 Trading Update	20 April 2023
Half Year 2023 Results (provisional)	27 July 2023

### ABOUT SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), listed on the London Stock Exchange and Euronext Paris, and is a leading owner, manager and developer of modern warehouses and industrial property. It owns or manages 9.9 million square metres of space (106 million square feet) valued at £20.9 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 seven other European countries.

For over 100 years SEGRO has been creating the space that enables extraordinary things to happen. From modern big box warehouses, used primarily for regional, national and international distribution hubs, to urban warehousing located close to major population centres and business districts, it provides high-quality assets that allow its customers to thrive.

A commitment to be a force for societal and environmental good is integral to SEGRO's purpose and strategy. Its Responsible SEGRO framework focuses on three long-term priorities where the company believes it can make the greatest impact: Championing low-carbon growth, Investing in local communities and environments and Nurturing talent.

See [www.SEGRO.com](http://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 performance, costs, revenues and other trend information. All statements other than historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations and all forward-looking 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 you 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. The information contained in this announcement is provided as at the date of this announcement and is subject to change without notice. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), SEGRO does not undertake to update forward-looking statements, including to reflect any new information or 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 estimate or profit forecast. The information in this announcement does not constitute an offer to sell or an invitation to buy securities in SEGRO plc or an invitation or inducement to engage in or enter into any contract or commitment or other investment activities.

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

Our business delivered strong operational results during 2022, a year where we saw significant geopolitical uncertainty and changes to the macroeconomic environment. This led to an unprecedented disconnect between the occupier and investment markets emerging over the summer months.

Actions taken by central banks to address high levels of inflation by sharply raising interest rates led to significantly reduced liquidity in the property investment markets in the second half of the year, as both buyers and sellers reacted to the increased volatility in capital markets and the higher cost of capital. Valuers increased yields to reflect this higher interest rate environment, leading to falls in property valuations across all markets. In contrast to former property cycles however, occupational demand and rental performance in the industrial and logistics sector has remained strong, supported by long-term structural tailwinds and tight supply.

The expertise and knowledge of our local teams on the ground across Europe meant we could respond quickly to the changing market environment and deliver progress in all our operating metrics throughout the year as well as continued growth in both earnings and dividends.

Looking back on 2022, our main highlights include:

- a record £98 million of new rent contracted, arising from a combination of active asset management of our existing portfolio, our expanded development programme, market rental growth and the benefits of indexation;
- 639,200 sq m of development completions, and a reduction of ten per cent in the average embodied carbon intensity of our development programme;
- the acquisition of key strategic land plots in some of Europe's most supply constrained urban markets such as London, Paris and Berlin;
- progress towards reducing our portfolio's carbon emissions with the introduction of green lease clauses, and a significant increase in our solar capacity;
- the launch of Community Investment Plans in ten key markets, providing tangible economic and social benefits for thousands of people in the communities closest to our assets;
- meaningful changes to promote diversity and inclusion within our workforce and the wider property sector, including, for example, changes to our recruitment process which resulted in a more diverse 2022 graduate intake.

This activity helped us to deliver a 6.5 per cent increase in Adjusted earnings per share (10.7 per cent excluding the SELP performance fee) and we are therefore recommending a 7.7 per cent increase in our final dividend to 18.2 pence per share, resulting in a total distribution of 26.3 pence for 2022 (2021: 24.3 pence).

Reflecting on 2022, three things stand out for me:

- the performance of our high-quality portfolio, and the benefits of the decade-long reshaping of both that and our balance sheet, particularly in the current market environment;
- the continued strength and diversity of occupier demand;
- the tangible progress that we have made with our Responsible SEGRO strategic priorities, and the long-term value that we are creating through our activities.

Over a decade ago, we launched a strategy centred around an ambition to create a portfolio focused on the most attractive industrial and logistics markets across the UK and Continental Europe, one that would deliver attractive total returns throughout the cycle. An important element of this strategy was the strengthening of our balance sheet to provide resilience, and to ensure we could take advantage of opportunities for further growth even in more challenging market environments.

Since launching that strategy, the industrial and logistics sector has transformed. Long-term structural trends of digitalisation and urbanisation have led to increased occupier demand, driving down vacancy rates to record lows. This shortage of supply led to exceptional levels of rental growth, attracting huge amounts of investment into our sector and increased competition.

We adapted our strategy accordingly, selling non-core assets in secondary locations and buying new assets in our preferred locations. As competition for standing assets increased we moved away from acquiring them on-market, instead investing capital into development, where we believed we could produce better risk-adjusted returns. We also reduced leverage and worked hard to create a diverse, long-duration debt profile.

During 2022 our portfolio was not immune to the sharp rises in interest rates, which increased the cost of capital and consequently, yields on commercial properties. This led to a fall in valuation of 11.0 per cent during the year. At this time, benchmark information is not available for the Continent but in the UK our portfolio has outperformed the MSCI Quarterly All Industrial index, which showed a decline in capital values of 17.4 per cent during 2022, versus SEGRO's UK portfolio which decreased by 15.5 per cent. This reflects the positive benefit of the changes made to our portfolio over the past ten years and our continued focus on Disciplined capital allocation.

Importantly, the strength of our balance sheet has meant that, as long-term investors, we have been able to look through the current volatility, and focus on the areas that we can control: capitalising on the continued strength of occupier demand to drive rental growth; capturing a significant amount of the reversionary potential in our portfolio (which has grown once again due to further market rental growth in both the UK and Continental Europe); and signing pre-lets to build out our well-located land bank.

Consistent throughout 2022 was the strength of the occupier market. Demand from our customers has been, and continues to be, very resilient. Take-up remained very high and well above historical averages. Most notably, we saw increased demand from businesses which are attempting to make their supply-chains more resilient during 2022: holding more inventory locally and therefore requiring more space; moving parts of their operations back to Europe and the impacts of businesses choosing to source materials closer to their end destination.

We have also seen customers placing greater importance on the sustainability of the buildings they occupy. Many of our larger customers have their own net-zero targets and want the space that they occupy to contribute to this. Smaller businesses have been impacted by recent increases in energy prices and are recognising the benefits of choosing more energy efficient buildings and working with a landlord who will help them to understand their energy consumption and can provide solutions to help reduce it.

These structural drivers are resulting in demand from a diverse range of businesses and our teams have been working hard to capitalise on it. In 2022 we leased space to existing customers who value the excellent customer service that they receive from SEGRO, and to new customers who bring even greater diversity into our rent roll.

As part of the day-to-day management of our portfolio, our teams prioritise our three Responsible SEGRO strategic priorities and in 2022 we saw tangible benefits from these initiatives.

There were a number of innovations within our development programme that helped us to reduce our average embodied carbon intensity, such as using recycled roof materials to create asphalt for road surfaces. We have also significantly increased the number of solar panels installed on our warehouses, with one project in the Netherlands adding almost 20 per cent to our total Group capacity, which makes us excited about further similar opportunities across the portfolio.

We have launched ten Community Investment Plans (CIPs) in key markets, and projects are underway across the UK and Continental Europe that focus on employability, supporting local economies and improving local environments, making meaningful changes to the day-to-day lives of people in our local communities. Thousands of people have already benefited from projects linked to these and this is only the beginning.



We have also made great progress with our Nurturing talent ambitions, focusing on the wellbeing of our people (including providing extra support for those most impacted by the cost of living crisis) and actioning recommendations from the National Equality Standards audit to promote diversity and inclusion within our workplace and the wider property sector.

Not only are these initiatives creating additional value for our stakeholders, they are ensuring that our business is fit for the future and that it is truly delivering on its Purpose of creating the space that enables extraordinary things to happen.

2022 might not have been the year that we all expected, but our business has shown its quality and resilience and has continued to deliver value. I am proud of how everyone at SEGRO has come together and worked hard to make this happen.

## **PERFORMANCE REVIEW**

### **Portfolio Performance Summary**

Valuation declines from market-driven yield expansion were partly offset by gains from strong rental growth, asset management and development.

Warehouse property values continued to rise during the first six months of 2022, but sharp increases in interest rates resulted in market uncertainty and volatility. This led to a higher cost of capital, which was reflected by the valuers through significant yield expansion during the second half of the year.

Occupier demand was strong throughout, and supply remained at historically low levels, driving further market rental growth. Along with asset management and development gains, this helped to offset some of the impact of yield expansion, but not enough to prevent property values falling over the year.

The Group's property portfolio was valued at £17.9 billion at 31 December 2022 (£20.9 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, decreased by 11.0 per cent (adjusting for capital expenditure and asset recycling during the year), offsetting some of the 28.8 per cent growth achieved in 2021. The valuation fell 16.6 per cent in the second half of 2022.

In total, our portfolio generated a total property return (TPR) of -8.1 per cent (2021: 35.6 per cent). The UK delivered a TPR of -10.6 per cent which compared favourably to its MSCI calculated benchmark of -14.4 per cent. The Continental European TPR was -3.7 per cent, however the MSCI calculated benchmark will not be available until later in the year.

The reduction in valuation of our portfolio primarily comprises a 13.1 per cent decrease in the assets held throughout the year (2H22: -19.6 per cent, 2021: +29.0 per cent), driven by yield expansion in most markets (100 basis points across the whole portfolio), but this was partly offset by a 10.9 per cent increase in our valuer's estimate of the market rental value of our portfolio (2021: 13.1 per cent).

Assets held throughout the year in the UK decreased in value by 15.5 per cent (2H22: -21.4 per cent, 2021: +34.5 per cent), outperforming the MSCI Real Estate UK All Industrial Quarterly index which decreased by 17.4 per cent over the same period. The outperformance was due to the prime quality of our portfolio providing resilience on capital values along with the significant embedded reversionary potential. The true equivalent yield applied to our UK portfolio was 4.8 per cent, 110 basis points higher than at 31 December 2021 (3.7 per cent) reflecting significant yield expansion, which was offset by strong rental growth and the impact of newly completed developments. Rental values improved by 11.5 per cent (2021: 18.8 per cent).

Assets held throughout the year in Continental Europe decreased in value by 8.8 per cent (2H22: -12.4 per cent, 2021: +18.7 per cent) on a constant currency basis, reflecting a combination of yield expansion to 4.8 per cent (31 December 2021: 4.0 per cent) and rental value growth of 9.9 per cent (2021: 4.1 per cent).

More details of our property portfolio can be found in Note 26 to the Financial Statements and in the 2022 Property Analysis Report at [www.SEGRO.com/investors](http://www.SEGRO.com/investors).

## Valuation: what to expect in 2023

Forecasting yields over any period is notoriously difficult given the multitude of economic and financial drivers (particularly interest rates and credit spreads), most of which are outside our direct control.

Nevertheless, the operating prospects for our portfolio are strong, supported by structural drivers of occupational demand and limited supply, therefore we are optimistic about the potential for further rental value growth, particularly in our urban warehouse portfolio.

These attractive fundamentals mean we anticipate investors will return to the market to invest in industrial and logistics assets once there is more clarity over the interest rate trajectory. We have seen encouraging early signs that activity is increasing.

We believe that our high-quality portfolio and focus on active asset management will enable us to outperform the wider industrial and logistics markets in the countries in which we operate through the cycle.

### Property portfolio metrics at 31 December 2022<sup>1</sup>

	Lettable area sq m (AUM)	Portfolio value, £m				Valuation movement <sup>2,3</sup> %	Yield <sup>3</sup>		Occupancy (ERV) %
		Completed	Land & development	Combined property portfolio	Combined property portfolio (AUM)		Topped-up net initial %	Net true equivalent %	
<b>UK</b>									
Greater London	1,308,638	6,065	347	6,412	6,420	(16.2)	3.3	4.6	93.6
Thames Valley	606,469	2,325	686	3,011	3,011	(12.3)	4.2	5.3	97.4
National Logistics	713,138	1,167	554	1,721	1,721	(17.8)	4.5	5.3	98.8
<b>UK Total</b>	<b>2,628,245</b>	<b>9,557</b>	<b>1,587</b>	<b>11,144</b>	<b>11,152</b>	<b>(15.5)</b>	<b>3.7</b>	<b>4.8</b>	<b>95.3</b>
<b>Continental Europe</b>									
Germany	1,813,597	1,664	335	1,999	2,850	(9.6)	3.9	4.3	96.4
Netherlands	260,042	170	12	182	363	(10.8)	4.5	4.8	100.0
France	1,567,240	1,771	463	2,234	2,792	(7.9)	4.1	4.8	95.3
Italy	1,547,405	962	191	1,153	1,686	(15.9)	4.8	4.8	100.0
Spain	313,199	263	70	333	533	(6.0)	4.5	4.5	100.0
Poland	1,635,436	702	71	773	1,358	(2.2)	5.7	5.9	97.0
Czech Republic	169,513	102	5	107	213	7.4	4.3	5.5	97.5
<b>Continental Europe Total</b>	<b>7,306,432</b>	<b>5,634</b>	<b>1,147</b>	<b>6,781</b>	<b>9,795</b>	<b>(8.8)</b>	<b>4.4</b>	<b>4.8</b>	<b>97.1</b>
<b>GROUP TOTAL</b>	<b>9,934,677</b>	<b>15,191</b>	<b>2,734</b>	<b>17,925</b>	<b>20,947</b>	<b>(13.1)</b>	<b>3.9</b>	<b>4.8</b>	<b>96.0</b>

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.

## ASSET MANAGEMENT UPDATE

### Growing rental income from letting existing space and new developments

At 31 December 2022, our portfolio generated passing rent of £587 million, rising to £634 million once rent free periods expire ('headline rent'). During the year, we contracted £98 million of new headline rent. We grew the rent from our existing space significantly as a result of the capture of reversionary potential, and also due to the impact of indexation. Strong occupier demand for new space also helped us sign a high number of pre-let agreements for delivery over the next two years.

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. Amazon remained our largest customer during 2022, accounting for 7 per cent of our total rent roll.

Customers from the transport and logistics sector were the largest takers of our space during 2022, in order to service their e-commerce and increasingly manufacturing related contracts as these sectors focus on building efficiency and resilience into their supply chains and distribution networks. We also signed new leases with data centre operators taking space in response to the growth in cloud computing.

- **£31 million of net new rent from existing assets.** We generated £21 million of headline rent from new leases on existing assets (2021: £26 million) and £28 million from rent reviews, lease renewals and indexation (2021: £9 million). This was offset by rent from space returned of £18 million (2021: £20 million), much of it for refurbishment and including £2 million of rent lost due to insolvency (2021: £2 million).
- **Rental growth from lease reviews and renewals.** These generated an uplift of 23.3 per cent (2021: 13.0 per cent) for the portfolio, compared to previous headline rent. During the year, new rents agreed at review and renewal were 28.0 per cent higher in the UK (2021: 18.7 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £18 million of headline rent. In Continental Europe, rents agreed on renewal were 1.7 per cent higher (2021: 1.5 per cent higher), as a result of market rental growth continuing to outpace the indexation provisions that have accumulated over recent years.
- **Continued strong demand from customers for pre-let agreements.** We contracted £41 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2021: £49 million). This includes the first pre-let at our new UK big box park in Coventry, space for third-party logistics operators, online retailers and manufacturers across Continental Europe, and a multi-storey data centre development in Slough.
- **Rent roll growth increased to £77 million.** An important contributor to increases in earnings and dividends is the growth in our rent roll, primarily through increasing rent from our existing assets and generating new rent through development. Rent roll growth, which reflects net new headline rent from existing space (adjusted for takebacks of space for development), take-up of developments and pre-lets agreed during the period, increased to £77 million in 2022, from £72 million in 2021.

## Summary of key leasing data for 2022

Summary of key leasing data <sup>1</sup> for the year to 31 December		2022	2021
Take-up of existing space <sup>2</sup> (A)	£m	21	26
Space returned <sup>3</sup> (B)	£m	(18)	(20)
<b>NET ABSORPTION OF EXISTING SPACE<sup>2</sup> (A-B)</b>	£m	<b>3</b>	6
Other rental movements (rent reviews, renewals, indexation) <sup>2</sup> (C)	£m	28	9
<b>RENT ROLL GROWTH FROM EXISTING SPACE</b>	£m	<b>31</b>	15
Take-up of pre-let developments completed in the year (signed in prior years) <sup>2</sup> (D)	£m	27	43
Take-up of speculative developments completed in the past two years <sup>2</sup> (D)	£m	13	15
<b>TOTAL TAKE-UP<sup>2</sup> (A+C+D)</b>	£m	<b>89</b>	93
Less take-up of pre-lets and speculative lettings signed in prior years <sup>2</sup>	£m	(32)	(47)
Pre-lets signed in the year for future delivery <sup>2</sup>	£m	41	49
<b>RENTAL INCOME CONTRACTED IN THE YEAR<sup>2</sup></b>	£m	<b>98</b>	95
Takeback of space for redevelopment	£m	(4)	(3)
Known Takeback/letting from acquisition	£m	–	–
Retention rate <sup>4</sup>	%	76	77

1 All figures reflect exchange rates at 31 December 2022 and include joint ventures at share.

2 Headline rent.

3 Headline rent, 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.

## Existing portfolio continues to perform well and delivered another set of strong operating metrics

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

- **High levels of customer satisfaction.** Although the quality and location of our portfolio is important to our customers, we believe the service we provide is crucial to maintaining high customer retention and low vacancy. We carry out a rolling survey of our customers throughout the year to identify and rectify issues promptly. In 2022, we spoke to 286 customers, and 98 per cent said that they would recommend SEGRO to others (2021: 97 per cent) while 85 per cent said they rated their experience with SEGRO as 'Excellent' or 'Good' (2021: 90 per cent).
- **Occupancy has remained high.** The occupancy rate at 31 December 2022 was 96.0 per cent (31 December 2021: 96.8 per cent), with a slight decrease due to taking some existing space back for our redevelopment plans and some speculative completions towards the end of the year. The occupancy rate excluding recently completed speculative developments remains high at 97.3 per cent (2021: 97.3 per cent). The average occupancy rate during the period was 96.4 per cent (2021: 96.2 per cent) which is above our target of 94 to 96 per cent.
- **Customer retention rate of 76 per cent.** Approximately £61 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 1 per cent retained but in new premises. We value the long-term relationships that we build with our customers and always try to work with them to meet their changing requirements. However, with vacancy at such low levels we also take the opportunity to create space for reletting, and to capture market rental growth. We have actively taken space back during 2022 to enable redevelopment.
- **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 6.1 per cent of the headline rent (2021: 6.3 per cent). We maintained the portfolio's weighted average lease length, with 7.0 years to first break and 8.3 years to expiry (31 December 2021: 7.2 years to first break, 8.5 years to expiry). Lease terms are longer in the UK (8.1 years to break) than in Continental Europe (5.6 years to break), reflecting the market convention of shorter leases in countries such as France and Poland.

## **A reduction in our corporate and customer carbon emissions and increased visibility of the energy usage of our customers**

Alongside the day-to-day management of our portfolio, our teams also worked hard during 2022 on our Responsible SEGRO commitment to Champion low-carbon growth and be a net-zero carbon business by 2030.

We made good progress towards our science-based target to reduce the absolute corporate and customer carbon emissions from our portfolio by 42 per cent by 2030 (compared to a 2020 baseline), in line with the 1.5 degree scenario. During 2022, we reduced carbon emissions by 3 per cent, taking our reduction from 2020 to 13 per cent.

All energy for our own operations, and where we procure energy on behalf of our customers, has been on renewable tariffs since 2021. During 2022, we focused our efforts on the customer emissions that we do not directly control. An important step in this is gaining better visibility of this usage, so that we do not have to rely on estimates. We now have visibility of 68 per cent of our portfolio (2021: 54 per cent).

This improved visibility allows us to better identify opportunities to help our customers operate their buildings more efficiently, saving them both carbon emissions and money. During 2022, we introduced the inclusion of green clauses on all new leases across our portfolio. These clauses require our customers to provide us with visibility of their energy use and, where feasible, procure it via a renewable tariff.

We continue to improve the carbon footprint of our portfolio through the ongoing maintenance and refurbishment of our warehouses. At the end of 2022, 58 per cent of the portfolio had an EPC rating of B or better and we expect that proportion to increase through refurbishment and development.

We also made great progress with our ambition to expand the solar capacity of our portfolio. During 2022 we increased our total capacity by 12 MW taking it to 44 MW (2021: 35 MW). This included the retrofitting of solar onto an existing asset in the Netherlands which added almost 6 MW of capacity. We continue to add solar capacity through our development programme, installing panels on every asset where feasible.

## **DEVELOPMENT UPDATE**

### **Growing through development**

#### **Development activity**

During 2022, we invested £1.5 billion in our development pipeline, which comprised £787 million (2021: £639 million) in development spend, of which £149 million was for infrastructure, and a further £712 million to replenish our land bank to secure future development-led growth opportunities.

#### **Development projects completed**

We completed 639,200 sq m of new space during the year. These projects were 59 per cent pre-let prior to the start of construction and were 80 per cent let as at 31 December 2022, generating £37 million of headline rent, with a potential further £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 7.4 per cent when fully let.

We completed 475,000 sq m of big box warehouse space, including units at our UK big box parks in the East Midlands, Derby and Kettering. Also within this was 381,000 sq m of big box warehouses across all of our major European markets, let to third-party logistics operators, online retailers, food retailers and manufacturers.

We completed 153,400 sq m of urban warehouses, the majority built on a speculative basis, of which almost 66 per cent is already let. In the UK, this includes our new estates SEGRO Park Hayes and SEGRO Park Tottenham, as well as a further data centre in Slough. On the Continent, we completed further phases of urban warehouse parks in the key markets of Frankfurt, Munich and Paris.

The remaining 10,800 sq m of space was for high value or other uses, for example additional car parking for customers.

Construction cost inflation, caused mainly by supply chain issues and labour shortages, was at its highest during the first half of 2022 but stabilised in the second half of the year. We are seeing evidence of increased contractor availability which may be an early sign of construction costs softening.

Reducing embodied carbon in our development programme is critical to helping us achieve net-zero carbon by 2030. In 2022, we reduced this by 10 per cent to 353kgCO<sub>2</sub>e/sq m.

We continued to use best available data, including the use of Building Information Modelling (BiM) for our life cycle assessments, which helps us to assess how best to reduce the carbon footprint of our development programme.

As a result, wherever possible, we continue to use timber instead of steel on projects across Continental Europe and low-carbon concrete alternatives. We also work with our supply chain partners to find innovative solutions, such as using recycled parts of an old roof to create asphalt for use as a road surface in the Netherlands. During the significant infrastructure works at our Northampton, UK big box logistics park a concrete plant was located onsite to reduce transport emissions and we used over one million recycled milk bottles for the site's drainage system, achieving a 90 per cent carbon saving.

The introduction of our Mandatory Sustainability policy during 2022 also supports our ambitions in this area. It covers all development projects larger than 5,000 sq m (98 per cent of our current development pipeline) and sets out a range of mandatory measures to future-proof our operations and ensure that our net-zero ambitions can be met, including guidelines for embodied carbon, solar installations, electric vehicle charging, energy data, building certifications as well as biodiversity and wellbeing requirements.

All of our development completions in 2022 have been, or are expected to be, accredited BREEAM 'Very Good' (or local equivalent) or higher and 68 per cent were rated 'Excellent' or above.

### **Current development pipeline**

At 31 December 2022, we had development projects approved, contracted or under construction totalling 749,000 sq m, representing £328 million of future capital expenditure to complete and £67 million of annualised gross rental income when fully let. 73 per cent of this rent has already been secured and these projects should yield 6.5 per cent on total development cost when fully occupied.

In the UK, we have 207,600 sq m of space approved or under construction. Within this are our first multi-level warehouse scheme in West London, two new data centres on the Slough Trading Estate and big box warehouses at our logistics parks in Coventry, Derby and East Midlands.

In Continental Europe, we have 484,800 sq m of space approved or under construction. This includes pre-let big box warehouses for a variety of different occupiers, from retailers to manufacturers, across all our European markets. We are also developing further phases of our successful urban warehouse parks in Berlin, Cologne and Paris.

In addition to the projects we are developing ourselves, we also have 56,600 sq m of space under construction as part of forward-funded agreements with local developers in South London and Paris.

We continue to focus our speculative developments on urban warehouse projects, particularly in cities such as London, Paris and Berlin, where modern space is in short supply and occupier demand is strong.

Within our Continental European current development programme, approximately £15 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 2022, SEGRO sold £218 million of completed assets to SELP, representing a net disposal of £109 million.

We have factored current construction and financing costs into the development returns for our current and future development projects. We continue to expect to be able to develop at a 150-200 basis point margin over standing asset yields which means that development remains highly profitable.

Further details of our completed projects and current development pipeline are available in the 2022 Property Analysis Report, at [www.SEGRO.com/investors](http://www.SEGRO.com/investors).

## **FUTURE DEVELOPMENT PIPELINE**

### **Near-term development pipeline**

Within the future development pipeline are a number of pre-let projects 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 12 months.

These projects total 166,600 sq m of space, equating to approximately £179 million of capital expenditure and £19 million of rent.

### **Land bank**

Our land bank identified for future development (including the near-term projects detailed above) totalled 756 hectares as at 31 December 2022, valued at £1.8 billion, roughly 10 per cent of our total portfolio value. This includes £656 million of land acquired for future re-development but which is currently income producing, reducing the holding costs until development can start (equating to £21 million of annualised rent, excluded from passing rent), known as 'covered' land.

The land bank includes £712 million of land acquired during 2022, including land associated with developments already underway or expected to start in the short term. We acquired land in most of our major markets, with the largest acquisitions in supply-constrained urban markets including London, Paris, Berlin and Düsseldorf.

We estimate our land bank can support 3.5 million sq m of development over the next five to seven years. The estimated capital expenditure associated with the future pipeline is approximately £2.8 billion. It could generate £305 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of around 6-7 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.

### **Conditional land acquisitions and land held under option agreements**

Land acquisitions (contracted but subject to further conditions) and land held under option agreements are not included in the figures above, but represent significant further development opportunities. These include sites for big box warehouses in the UK Midlands as well as in Germany, Italy and Poland. They also include urban warehouse sites in East and West London.

The options are held on the balance sheet at a value of £30 million (including joint ventures and associates at share). Those we expect to exercise over the next two to three years are for land capable of supporting almost 1.7 million sq m of space and generating almost £160 million of headline rent, for a blended yield of approximately 6 per cent.

## **INVESTMENT UPDATE**

### **Acquisitions focused on adding to our development programme**

The majority of our asset acquisitions took place in the first half of 2022 and focused older assets with redevelopment potential.

We acquired assets totalling £155 million, reflecting a blended topped-up initial yield of 2.7 per cent. This included:

- urban warehouse estates in Park Royal and Slough (one of which was part of an asset swap) that neighbour our existing assets and unlock potential development opportunities;
- two well-located older urban warehouse estates near to Essen and Frankfurt in Germany, both of which we intend to redevelop in the medium term;
- a big box warehouse close to Paris developed by a customer to a high specification and sold to us off-market.

In addition we acquired £712 million of land to create future development opportunities; £261 million of this was covered land.

### **Asset recycling to crystallise profits on developments**

Asset and land disposals combined totalled £367 million. Most of these disposals completed in the first six months of the year, taking advantage of strong investment markets to crystallise profits on assets where we believed we had maximised returns, and to reinvest the proceeds into our development programme.

We disposed of £247 million of assets, reflecting a blended topped-up initial yield of 4.4 per cent. They included:

- a stand-alone warehouse on the edge of the Slough Trading Estate as part of an asset swap;
- freehold sales of small units in East London;
- big box warehouses in Italy, including an older stand-alone warehouse on the outskirts of Milan and a state-of-the-art facility for an online retailer;
- stand-alone older warehouses in Spain and the Netherlands;
- a big box unit that we developed for a customer in the UK Midlands.

In addition to the above disposals, we sold a portfolio of Continental European big box warehouses developed by SEGRO to SELP and some development land, for which we received £109 million net proceeds from an effective sale of a 50 per cent interest.

Finally, we disposed of £11 million of land, primarily comprising plots in non-core markets and residual land that was unsuitable for industrial development.



## FINANCIAL REVIEW

### Financial highlights

	31 December 2022	31 December 2021
IFRS <sup>1</sup> net asset value (NAV) per share (diluted) (p)	938	1,115
Adjusted <sup>1</sup> NAV per share (diluted) (p)	966	1,137
IFRS (loss)/profit before tax (£m)	(1,967)	4,355
Adjusted <sup>2</sup> profit before tax (£m)	386	356
IFRS earnings per share (EPS) (p)	(159.7)	339.0
Adjusted <sup>2</sup> EPS (p)	31.0	29.1

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

2 A reconciliation between IFRS (loss)/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.

### Financing

During 2022, despite significant capital market volatility, we were able to arrange £3.1 billion of short-and long-term debt from existing relationship banks and investors, new banking partners and the capital markets to finance SEGRO's and SELP's obligations. In response to the heightened market volatility, we established European Medium Term Note (EMTN) programmes for both SEGRO and SELP to enhance the agility of our financing activity and we also increased the level of fixed and capped rate debt.

#### Financing during the year

Short-term debt: SEGRO has increased its revolving credit facilities to €1.8 billion (31 December 2021: €1.2 billion) of which €1.2 billion matures in 2027 and €600 million in 2025. SELP also increased its facilities to €600 million (31 December 2021: €500 million), which mature in 2026. During the year, SEGRO also had access to €1.75 billion of short-term acquisition facilities which have now been fully repaid.

Medium-term debt: SEGRO diversified its sources of funding by arranging €408 million and £300 million of term loans, maturing between 2025 and 2027, from relationship and new banking partners. While the loans were undrawn at year end, we drew €293 million in January 2023.

Long-term debt: SEGRO raised €1,375 million and £350 million of new funds through the US Private Placement, euro and sterling bond markets at a weighted average coupon of 2.7 per cent and a weighted average duration of 10.4 years. In August, SELP issued €750 million of five-year unsecured green bonds with an annual coupon of 3.75 per cent, using part of the proceeds to repurchase the €500 million of bonds maturing in 2023, extending the debt maturity and removing the 2023 refinancing requirement.

#### Financial position at 31 December 2022

As at 31 December 2022, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures and associates totalled £5,887 million (31 December 2021: £4,268 million), of which £7 million (31 December 2021: £8 million) are secured by way of legal charges over specific assets. The remainder of gross borrowings are unsecured. Cash and cash equivalent balances were £194 million (31 December 2021: £107 million). The average debt maturity was 8.6 years (31 December 2021: 8.6 years) and average cost of debt (excluding non-cash interest and commitment fees) was 2.5 per cent (31 December 2021: 1.5 per cent).

SEGRO has an unsecured rating of 'A' from Fitch Ratings as at 31 December 2022.

## Financial Position and Funding

	31 December 2022		31 December 2021	
	SEGRO Group, JVs and associates		SEGRO Group, JVs and associates at share	
	SEGRO Group	at share	SEGRO Group	share
Net borrowings (£m) <sup>3</sup>	4,722	5,693	3,321	4,161
Available cash and undrawn facilities (£m) <sup>3</sup>	1,920	2,208	933	1,145
Balance sheet gearing (%) <sup>3</sup>	41	N/A	24	N/A
Loan to value ratio (%)	32	32	22	23
Weighted average cost of debt (%) <sup>1</sup>	2.6	2.5	1.5	1.5
Interest cover (times) <sup>2</sup>	4.3	4.5	7.0	6.9
Average duration of debt (years)	9.4	8.6	9.6	8.6

1 Based on gross debt, excluding commitment fees and non-cash interest.

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

3 SEGRO Group cash and cash equivalents have been restated as at 31 December 2021. See Note 1 for further details. Net borrowings, Available cash and undrawn facilities and Balance sheet gearing as at 31 December 2021 have been restated in the table above to reflect this change.

Funds available to SEGRO Group (including its share of joint venture and associates funds) at 31 December 2022 totalled £2,208 million (31 December 2021: £1,145 million), comprising £194 million cash and short-term investments and £2,014 million of undrawn credit facilities of which £150 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.

The closest debt maturity is SEGRO's £82 million sterling bond in February 2024.

### Monitoring and mitigating financial risk

As explained in the Risks section of this Annual Report, the Group monitors a number of financial metrics to assess the level of financial risk being taken and to mitigate that risk.

### Treasury policies and governance

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

### Gearing and financial covenants

We consider the key leverage metric for SEGRO to be proportionally consolidated ('look-through') 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 and associates. The LTV at 31 December 2022 on this basis was 32 per cent (31 December 2021: 23 per cent), the increase primarily driven by the reduction in asset values and a higher debt balance.

SEGRO's borrowings contain gearing covenants based on Group net debt and net asset value, excluding debt in joint ventures and associates. The gearing ratio of the Group at 31 December 2022, as defined within the principal debt funding arrangements of the Group, was 41 per cent (31 December 2021: 24 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 48 per cent from their 31 December 2022 values to reach the gearing covenant threshold of 160 per cent. A 48 per cent fall in property values would equate to an LTV ratio of approximately 62 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: the ratio for 2022 was four times, comfortably ahead of the covenant minimum. Net property rental income would need to fall by around 71 per cent from 2022 levels, or the average rate of interest would need to rise to 8 per cent, to reach the interest cover covenant threshold. On a proportionally consolidated basis, including joint ventures and associates, the interest cover ratio was also four 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.

Our intention for the foreseeable future is to maintain our LTV at around 30 per cent, although the evolution of the property cycle will inevitably mean that there are periods of time when our mid-cycle LTV is higher or lower than this. However, this level of LTV through the cycle provides the flexibility to take advantage of investment opportunities arising and ensures significant headroom compared against our tightest gearing covenant should property values decline.

### **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 and associates) should be at fixed or capped rates, including the impact of derivative financial instruments.

At 31 December 2022, including the impact of derivative instruments, 95 per cent (31 December 2021: 65 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures and associates) were either at fixed rates or are protected from rising interest rates with caps. The pure fixed level of debt is 83 per cent at 31 December 2022 (31 December 2021: 46 per cent), rising to 91 per cent including floating rate debt which is now subject to an active cap. The remaining nine per cent of debt is at floating rates, with five per cent subject to caps should three-month EURIBOR rise above a maximum 2.72 per cent.

During the year, in line with our risk management processes and due to the higher levels of market volatility, the Group closed out £928 million notional value of historical interest rate swaps (which transformed fixed rate interest payments into floating rate payments). Had these transactions not occurred, the proportion of fixed and capped rate debt would have been 16 per cent lower.

As a result of the fixed rate cover in place, if short-term interest rates had been 200 basis points higher throughout 2022, the adjusted net finance cost of the Group would have been approximately £27 million higher (2021: £34 million higher) representing around seven per cent (2021: ten 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 risk**

The Group has minimal transactional foreign currency exposure, but does have a potentially significant currency translation exposure arising on the conversion of its 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 its foreign currency gross assets using either borrowings or derivative instruments. The Group targets a hedging range of between the last reported LTV ratio (32 per cent at 31 December 2022) and 100 per cent. At 31 December 2022, the Group was 76 per cent hedged by gross foreign currency denominated liabilities (31 December 2021: 62 per cent).

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 2022 weakened by 10 per cent against sterling (to €1.24, in the case of euros), net assets would have decreased by approximately £137 million and there would have been a reduction in gearing of approximately 2.4 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2022 into sterling within the consolidated income statement of the Group was €1.17: £1. Based on the hedging position at 31 December 2022, and assuming that this position had applied throughout 2022, if the euro had been 10 per cent weaker than the average exchange rate (€1.29: £1), Adjusted profit after tax for the year would have been approximately £11 million (2.9 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £13 million (3.5 per cent) higher than reported.

### **Going concern**

As noted in the Financial Position and Financing sections above, the Group has significant available liquidity to meet its capital commitments, a long-dated debt maturity profile and substantial headroom against financial covenants.

During the year:

- The Group extended the term of its €1.2 billion of bank facilities to 2027 and added a further €1.0 billion and £0.3 billion of bank facilities with maturity dates between 2025 and 2027.
- The Group executed its second Eurobond, raising €1.15 billion with a six times oversubscription rate.
- The Group raised €225 million of funding from existing US Private Placement investors.
- Cash and available committed facilities at 31 December 2022 were £1.7 billion.
- The Group continuously monitors its liquidity position compared to committed and expected capital and operating expenses on a rolling forward 18-month basis. The quantum of committed capital expenditure at any point in time is typically low due to the short timeframe to construct warehouse buildings.
- The Group also regularly stress-tests its financial covenants. As noted above, at 31 December 2022, property values would need to fall by around 48 per cent before breaching the gearing covenant. In terms of interest cover, net rental income would need to fall by 71 per cent or the average interest rate would need to reach eight per cent before breaching the interest cover covenant. All would be significantly in excess of the Group's experience during the financial crisis, and the Covid pandemic.

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 these financial statements.

## **INCOME STATEMENT REVIEW**

### **Presentation of financial information**

The Group Financial Statements are prepared under IFRS where the Group's interests in joint ventures and associates 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 EPRA earnings as set out in 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](http://www.epra.com)). In calculating Adjusted profit, the Directors may also exclude additional items considered to be non-recurring, unusual, or significant by virtue of size and nature. In the current and prior years there have been no such adjustments and therefore Adjusted profit and EPRA earnings are the same.

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

Reconciliations between SEGRO Adjusted metrics and EPRA metrics are provided in the Supplementary Notes to the condensed financial statements, 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, capital expenditure, loan to value and total cost ratio, as they provide a transparent and consistent basis to enable comparison between European property companies.

Look-through metrics provided for like-for-like net rental income include joint ventures and associates at share in order that our full operations are captured, therefore providing more meaningful analysis.

## ADJUSTED PROFIT

### Adjusted profit

	2022 £m	2021 <sup>1</sup> £m
Gross rental income	488	398
Property operating expenses	(76)	(57)
<b>Net rental income<sup>1</sup></b>	<b>412</b>	<b>341</b>
Joint venture fee income	30	52
Management and development fee income	5	5
Net solar energy income	1	1
Administrative expenses	(59)	(59)
Share of joint ventures and associates' Adjusted profit <sup>2</sup>	71	56
<b>Adjusted operating profit before interest and tax</b>	<b>460</b>	<b>396</b>
Net finance costs	(74)	(40)
<b>Adjusted profit before tax</b>	<b>386</b>	<b>356</b>
Tax on Adjusted profit	(11)	(8)
Non-controlling interests share of Adjusted profit	(1)	–
<b>Adjusted profit after tax</b>	<b>374</b>	<b>348</b>

1 The composition of gross and net rental income has changed in 2022 to provide a better measure of the underlying rental income from the property portfolio. There is no impact on Adjusted operating profit before interest and tax from this change and the prior year comparatives in the table above have been re-presented to reflect this change. See Note 2 to the condensed financial statements for further details.

2 Comprises net property rental income less administrative expenses, net finance costs and taxation.

### Net rental income

Net rental income increased by £71 million to £412 million (or by £83 million to £522 million including joint ventures and associates at share before joint venture fees), reflecting the positive net impact of like-for-like rental growth, development completions and investment activity during the year, offset by the impact of disposals.

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 £28 million, or 6.7 per cent, compared to 2021.

This is due to strong rental performance across our portfolio. UK: 7.7 per cent increase, in particular in Greater London and Thames Valley; and Continental Europe: 4.9 per cent increase, in particular in Germany and France.

## Like-for-like net rental income

(including JVs and associates at share)	2022 £m	2021 £m	Change % <sup>3</sup>
UK	271	251	7.7
Continental Europe	153	145	4.9
<b>Like-for-like net rental income before other items<sup>1</sup></b>	<b>424</b>	396	6.7
Other <sup>2</sup>	(4)	(6)	
<b>Like-for-like net rental income (after other)</b>	<b>420</b>	390	7.3
Development lettings	54	11	
Properties taken back for development	1	5	
<b>Like-for-like net rental income plus developments</b>	<b>475</b>	406	
Properties acquired	35	2	
Properties sold	4	18	
<b>Net rental income before surrenders, dilapidations and exchange</b>	<b>514</b>	426	
Lease surrender premiums and dilapidation income	3	3	
Other items and rent lost from lease surrenders	5	8	
Impact of exchange rate difference between periods	–	2	
<b>Net rental income (including joint ventures and associates at share)</b>	<b>522</b>	439	
SEGRO share of joint venture management fees	(13)	(11)	
SEGRO share of joint venture performance fees	–	(13)	
<b>Net rental income after SEGRO share of joint venture fees</b>	<b>509</b>	415	

1 Like-for like change by Business Unit: Greater London 9.5%, Thames Valley 5.3%, National Logistics 4.6%, Northern Europe 8.5%, Southern Europe 4.1%, Central Europe 1.1%.

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

3 Percentage change has been calculated using numbers accurate to one decimal place.

4 The like-for-like net rental growth metric is based on properties held throughout both 2022 and 2021 on a proportionally consolidated basis. This provides details of net rental income growth excluding the distortive impact of acquisitions, disposals and development completions. Where an asset has been sold into a joint venture (sales to SELP, for example) the 50 per cent share owned throughout the period is included in like-for-like calculation, with the balance shown as disposals.

## Income from joint ventures and associates

Joint venture fee income decreased by £22 million to £30 million in 2022. This decrease is primarily due to the recognition of a performance fee of £26 million in respect of the SELP joint venture in the prior year (as detailed further in Note 6). Joint venture management fee income increased by £4 million to £30 million in 2022, primarily from the SELP joint venture.

SEGRO's share of joint ventures and associates' Adjusted profit after tax increased by £15 million from £56 million in 2021 to £71 million in 2022. This includes a performance fee expense (at share) in the prior year of £13 million. Excluding performance fee expense, the Adjusted joint ventures and associates profit after tax increased by £2 million compared to 2021 as net rental income in the SELP joint venture has continued to grow.

## Net finance costs

Net finance costs were £34 million higher than 2021 at £74 million. Average interest rates during the year were 2.6 per cent compared to 1.5 per cent in the prior year. This has been partially offset by a £13 million increase in capitalised interest compared to the prior year. Furthermore, gross debt levels were higher in 2022 compared to the prior year.

## Taxation

The tax charge on Adjusted profit of £11 million (2021: £8 million) reflects an effective tax rate of 2.8 per cent (2021: 2.2 per cent).

The Group's effective tax rate reflects the fact that around three-quarters of its wholly-owned assets are located in the UK and qualify for REIT status. This status means that income from rental profits and gains on disposals of assets in the UK 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 profit/Earnings per share

Adjusted profit after tax increased by £26 million to £374 million (2021: £348 million) as a result of the above movements primarily growth in rental income offset by increased finance costs and the recognition of a performance fee in the prior year.

Adjusted profit is detailed further in Note 2 to the condensed financial statements.

Adjusted earnings per share are 31.0 pence compared to 29.1 pence in 2021 (28.0 pence excluding the impact of the performance fee) due to the increase in Adjusted profit slightly offset by the 8.9 million increase in the average number of shares in issue compared to the prior year.

## IFRS loss

IFRS loss before tax in 2022 was £1,967 million (2021: £4,355 million profit), equating to basic post-tax IFRS loss per share of 159.7 pence compared with profit per share of 339.0 pence for 2021. A reconciliation between Adjusted profit before tax and IFRS (loss)/profit before tax is provided in Note 2 to the condensed financial statements.

The principal drivers of IFRS loss is realised and unrealised property losses and gains. Total loss on properties is £2,175 million (2021: £4,173 million gain). This includes a £1,970 million deficit from valuation of wholly-owned investment properties (2021: £3,617 million surplus) and £236 million deficit from joint ventures and associates at share (2021: £487 million surplus). These valuation losses, driven by yield expansion in most markets partially offset by increases in ERV, are discussed in more detail in the Performance Review above. Other property movements include profit on sale of wholly-owned investment properties of £9 million and £nil for investment properties held by joint ventures and associates at share (2021: wholly-owned £53 million and £10 million joint ventures and associates at share). In respect of trading properties, there was a reversal of provision for impairment of £15 million (2021: increase in provision for impairment of £1 million) and a gain on sale of trading properties of £7 million (2021: £7 million).

IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £199 million (2021: loss of £82 million) primarily as a result of adverse movements on interest rate expectations.

In addition, SEGRO recognised a tax credit in respect of adjustments of £48 million (2021: £280 million charge) primarily in relation to property valuation movements. The 2021 charge includes significant balances in respect of a £145 million withholding tax in France and a SIIC entry charge of £38 million compared to the equivalent 2022 charges which are £4 million and £nil respectively. These items are detailed further in Note 9 to the condensed financial statements.

## Balance sheet

	£m	Shares million	Pence per share
<b>EPRA NTA attributable to ordinary shareholders at 31 December 2021</b>	<b>13,704</b>	<b>1,205.5</b>	<b>1,137</b>
Realised and unrealised property loss	(2,175)		(179)
Adjusted profit after tax and non-controlling interests	374		31
Exchange rate movement (net of hedging)	81		7
Dividend net of scrip shares issued (2021 final and 2022 interim)	(222)		(25)
Early close out of interest rate swaps	(83)		(7)
Other	38		2
<b>EPRA NTA attributable to ordinary shareholders at 31 December 2022</b>	<b>11,717</b>	<b>1,212.5</b>	<b>966</b>

At 31 December 2022, IFRS net assets attributable to ordinary shareholders were £11,373 million (31 December 2021: £13,436 million), reflecting 938 pence per share (31 December 2021: 1,115 pence) on a diluted basis.

Adjusted NAV per share at 31 December 2022 was 966 pence (31 December 2021: 1,137 pence). The 15 per cent decrease primarily reflects property valuation losses in the year as explained above. The chart highlights the other main factors behind the decrease. A reconciliation between IFRS and Adjusted NAV is available in Note 11 to the condensed financial statements.

## Cash flow and net debt reconciliation

Cash flows from operating activities of £479 million are £116 million higher than the prior year. This is primarily due to increased rental income received during the year, the impact of trading properties, following disposals in the year, and other working capital movements. As well as finance cost outflows of £103 million in servicing the debt facilities, a further £77 million was spent in closing out and reprofiling interest rate derivatives. In addition there were tax payments of £95 million primarily in Italy and France.

The Group made net investments of £1,246 million in investment and development properties (including other investments and net investments and loans to joint ventures and associates) during the year on a cash flow basis (2021: £1,266 million). This is principally driven by expenditure of £1,472 million (2021: £1,706 million) to purchase and develop investment properties (mainly to add to the Group's land bank) to deliver further growth in line with our strategy.

Disposals of investment properties decreased by £181 million to £310 million compared to the prior year (2021: £491 million). Disposal proceeds include £218 million in respect of disposals to the SELP joint venture.

Other significant cash flows include dividends paid of £222 million (2021: £180 million) where cash flows are lower than the total dividend due to the level of scrip uptake; an inflow from settlement of foreign exchange derivatives of £15 million (2021: £40 million).

Overall, net debt has increased in the year from £3,321 million to £4,722 million.

### Cash flow and Net Debt Reconciliation

	2022 £m	2021 <sup>1</sup> £m
<b>Operating net debt</b>	<b>(3,321)</b>	<b>(2,301)</b>
Cash flows from operating activities	479	363
Finance costs (net)	(103)	(52)
Cost of early close out of interest rate derivatives and new interest rate derivatives transacted	(77)	–
Dividends received (net)	9	33
Tax paid	(95)	(17)
<b>Net cash received from operating activities</b>	<b>213</b>	<b>327</b>
Dividends paid	(222)	(180)
Purchase and development of investment properties	(1,472)	(1,706)
Sale of investment properties	310	491
Acquisition of interest in property and other investments	(9)	(12)
Net investment in joint ventures and associates	(75)	(39)
Settlement of foreign exchange derivatives	15	40
Proceeds from issue of ordinary shares	–	1
Purchase of non-controlling interest	–	(12)
Other items	15	(8)
<b>Net funds flow</b>	<b>(1,225)</b>	<b>(1,098)</b>
Non-cash movements	(9)	(3)
Exchange rate movements	(167)	81
<b>Closing net debt</b>	<b>(4,722)</b>	<b>(3,321)</b>

<sup>1</sup> Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 to the condensed financial statements for details.



## 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 and associates, at share.

Total spend for the year was £1,898 million, a decrease of £268 million compared to 2021. More detail on developments and acquisitions can be found in the Development and Investment Updates above.

Development capital expenditure was £787 million in the year (2021: £639 million) across all our Business Units, particularly Southern Europe and National Logistics, reflecting our development-led growth strategy. Capitalised interest of £24 million (2021: £10 million) has been recognised in the year.

Spend on existing completed properties, totalled £62 million (2021: £45 million), of which £13 million (2021: £5 million) was for incremental lettable space. The balance mainly comprises refurbishment and fit-out costs, which equates to less than one per cent of total spend.

### EPRA capital expenditure analysis

	2022			2021		
	Wholly owned £m	Joint ventures and associates £m	Total £m	Wholly owned £m	Joint ventures and associates £m	Total £m
Acquisitions	800 <sup>1</sup>	176	976 <sup>5</sup>	1,280 <sup>1</sup>	159	1,439
Development <sup>6</sup>	718 <sup>2</sup>	69	787	579 <sup>2</sup>	60	639
Capitalised interest <sup>4,6</sup>	22	2	24	9	1	10
Investment properties:						
Incremental lettable space	11	2	13	4	1	5
No incremental lettable space	42	7	49	31	9	40
Tenant incentives <sup>3</sup>	39	10	49	22	11	33
<b>Total</b>	<b>1,632</b>	<b>266</b>	<b>1,898</b>	<b>1,925</b>	<b>241</b>	<b>2,166</b>

1 Being £799 million investment property and £1 million trading property (2021: £1,272 million and £8 million respectively) see Note 12.

2 Being £656 million investment property and £62 million trading property (2021: £562 million and £17 million respectively) see Note 12.

3 Includes tenant incentives, letting fees and rental guarantees.

4 Capitalised interest on development expenditure.

5 Total acquisitions completed in 2022 shown in the Investment Update, being asset acquisitions of £155 million and land acquisitions of £712 million, excludes share of assets acquired by SELP from SEGRO of £109 million.

6 Development and capitalised interest on development expenditure were previously presented in total as a single line items in the table above. In line with EPRA BPR Guidelines, development and capitalised interest are now presented as separate line items and the prior year comparative has been represented in the table.

## Dividend increase reflects the strong operational results and confidence for the future

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share by 1.3 pence to 18.2 pence (2021: 16.9 pence) which will be paid as an ordinary dividend. 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 4 May 2023 to shareholders on the register at the close of business on 17 March 2023.

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

- the policy of targeting a payout ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2022 and the outlook for earnings.

The total dividend for the year will, therefore, be 26.3 pence, a rise of 8 per cent versus 2021 (24.3 pence) and represents distribution of 85 per cent of Adjusted profit after tax.

The Board has decided to retain a scrip dividend option for the 2022 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2021, 41 per cent of the 2021 final dividend and 3 per cent of the 2022 interim dividend were paid in new shares, equating to £79 million of cash retained on the balance sheet.

## PRINCIPAL RISKS

### Principal risks and uncertainties

A summary of the Group's principal risks including an update for changes during the period and activity during the year, is provided below. The principal risks remain the same as reported in the Annual Report for 2021 except for the new People and Talent risk. Furthermore, the scope of the Political and Regulatory and Operational Delivery and Compliance risks have been rebalanced. Compliance is now included in the former which is now renamed Legal, Political and Regulatory and the latter now excludes compliance and people aspects and is renamed Operational Delivery. Management believes this better reflects the revised scope of the risks. The impact and probability of each risk has not changed significantly since they were reported in the 2021 Annual Report and the residual risk for each (after factoring in mitigations) remains within appetite.

Furthermore, the macroeconomic impacts on market cycle, portfolio strategy and execution and legal, political and regulatory risks have increased during the year for reasons described in more detail below, whilst the others have remained in line with the prior year.

#### 1. Macroeconomic impact on market cycle

The property market is cyclical in nature and there is a continuous risk that the Group could either misread or fail to react appropriately to the changing property market, cost of finance or wider macroeconomic/geopolitical conditions. This could result in an incorrect strategy or the ability to deliver a strategy being inhibited and consequential impact on property performance and shareholder value.

*Current year activity.* The heightened geopolitical risks and uncertain macroeconomic outlook, which created uncertainty over interest rates and inflation, has led to increased volatility in the capital markets and reduced liquidity in the property investment market.

In response, we have increased the regularity of our economic outlook assessments and reassessed their consequences on our portfolio strategy (see separate principal risk). We are therefore prepared for these pressures if they persisted across the countries we operate in for some time.

#### 2. Portfolio strategy and execution

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:

- Unexpected macroeconomic factors;
- Incorrect or ineffective capital allocation decisions;
- Poor or incorrect market or asset level assumptions including disruptions, for example from changing occupier and customer needs, technological developments and innovation;
- Inaccurate modelling or forecasting;
- Increased market competition for our assets or target customers; and/or
- Lack of appropriate procedures and inadequate due diligence resulting in lengthy, onerous or costly transactions and missed opportunities.

*Current year activity.* The Group's approach to portfolio management and capital allocation remains disciplined and responsive to opportunities that arise. Our portfolio has been positioned to be resilient at all stages in the cycle as we face the impacts of the macroeconomic uncertainty discussed above. Our investment criteria and hurdle rates have also been reassessed to reflect the prevailing conditions impacting our capital allocation and investment decisions.

### **3. Major event/business disruption**

Unexpected global, regional or national events result in severe adverse disruption to SEGRO, such as sustained asset value or revenue impairment, solvency or covenant stress, liquidity or business continuity challenges. A global event or business disruptor may include, but is not limited to a global financial crisis, health pandemic, power/water shortages, civil unrest, act of terrorism, cyber- attack or other IT disruption. Events may be singular or cumulative, and lead to acute/systemic issues in the business and/or operating environment.

*Current year activity.* Whilst the direct impacts of the pandemic have largely abated, the heightened geopolitical uncertainty (including the ongoing conflict in Ukraine) and consequential global macroeconomic volatility has exacerbated increased inflation, financing costs and concerns over the ability to access energy. This is unlikely to return to previous levels in the short-term, causing a degree of uncertainty to the Group's operations and stakeholders. The Group maintains a robust financing and portfolio strategy in order to be well positioned and flexible in response to major events/business disruption. The Board and other committees remain vigilant and responsive in managing the mitigation of risks as they evolve. Working groups are set up as required to collate and align the Group's response in an agile fashion as issues such as energy availability have arisen, often at short notice. These groups report directly to the Executive Committee.

### **4. Health and safety**

A health and safety incident may occur which may involve harm to an individual or loss of life. This may be due to the failure of management processes, failure of a building or other physical asset, or negligence of a third party. Furthermore, the Group may breach relevant legislation and fail to provide suitable employee support. This may consequentially result in litigation, fines, serious reputational damage and a negative impact on employees. This risk is heightened by the continued scale of the Group's development activity.

*Current year activity.* The health and safety of the workforce remains a key priority in locations we operate in, including when working away from the office. We continue to closely monitor our development sites with in-person inspections in order to ensure a safe and compliant working environment. This risk is expected to remain a key focus going forward.

### **5. Environmental sustainability and climate change**

Failure to anticipate and respond to the impact of both physical and transitional risks from climate change on our business is both a principal and emerging risk. The likelihood of increased severity and unpredictability of acute weather-related events, and the rise of chronic climate stressors may result in more frequent and/or prolonged damage to our buildings causing disruption and increased costs to SEGRO and our customers. Non-compliance with changing laws, regulations, policies, taxation and obligations cause loss of value to the Group. Not keeping pace with social attitudes and customer behaviours and preferences whereby SEGRO may need to alter the design and build and/or energy provision of their assets could additionally cause reputational damage and reduce the attractiveness and value of our assets.

*Current year activity.* Our 'Responsible SEGRO' framework continues to prioritise our commitment to net-zero carbon by 2030 underpinned by our Mandatory Sustainability policy for reducing our emissions. This risk is expected to continue to have increased prominence going forward.

### **6. Development plan execution**

The Group has an extensive current programme and future pipeline of developments. The Group could suffer significant financial losses from:

Cost over-runs on larger, more complex projects, for example, due to contractor default or poor performance and management;

Increased construction costs (for example from labour market changes or supply chain pressures) leading to reduced or uneconomic development yields;

Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand and/or inappropriate land acquisition due diligence (including energy accessibility); and

Market competition reducing access to suitable land bank and/or increasing acquisition costs.

*Current year activity.* During the period pressures in the construction supply chain for certain materials and labour were experienced and we continue to work proactively alongside our contractors to mitigate any undue delay and cost increases as far as is possible. More generally, as market conditions have evolved, as detailed in the Portfolio Strategy and Execution risk above, we have reassessed our investment criteria in response. Going forward, with an expected continuing volatile economic environment, similar pressures are likely to continue as we balance the needs of our contractors and customers.

## **7. 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 number of factors including a failure to obtain debt or equity funding (for example, due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; defaulting on loan agreements as a result of a breach of financial or other covenants; or counterparty default.

*Current year activity.* The Group has demonstrated strong access to financial markets as seen by our funding activity (as detailed in the Financial Review), despite the uncertain economic backdrop and volatile capital markets. The Group (including its largest joint venture SELP) now has a meaningful presence in the Euro bond market as well as in the sterling bond and US Private Placement markets leaving us well positioned financially to fund activity in line with our strategy priorities. The Group continues to use fixed rate debt and relevant derivatives to mitigate against the risk of interest rates increasing both now and going forward.

## **8. Legal, political and regulatory**

The Group could fail to anticipate legal, political, tax or other regulatory changes, leading to a significant unforeseen financial or reputational impact.

In general, legal, regulatory and tax matters present medium- to long-term risks with a medium likelihood of causing significant harm to the Group.

Political risks could impact business confidence and conditions in the short and longer terms.

*Current year activity.* The legal and regulatory environment remains dynamic. In response to the conflict in Ukraine, a series of new sanctions were introduced, including by the UK, EU and US. An internal working group was created which met regularly to monitor both the impact of the crisis on the Group and its employees, as well as to ensure that the business continues to comply with relevant sanctions laws as well as considering the legal consequences of any energy shortages. The working group took advice from its external lawyers on these matters.

In addition, we continue to monitor the divergence of UK and EU laws, including in respect of sanctions and potential privacy laws. We remain vigilant for other future changes in the legal, and regulatory political environment.

As governments continue to assess the economic impact of the pandemic, the likelihood of changes to taxation regulations increases. We have enhanced the skills and expertise of our tax team as they work closely with local internal teams and external advisors across each of our jurisdictions.

## 9. People and talent

The performance of the business could be impaired due to SEGRO:

- Not having the appropriate culture, organisational structure and skilled people to deliver its strategy and its strategic priorities;
- Failing to attract, motivate, retain and develop diverse talent as part of our Nurturing Talent ambition; and
- Failing to prepare adequate succession plans.

*Current year activity.* During the year, the market for talent has changed as the property cycle has shifted. The competition for talent, which was until recently very intense, has eased off as economic conditions have become more uncertain. Our focus will continue to ensure we have the right resources and skills in place in an appropriate organisational structure and platforms to support our strategic priorities, particularly in light of our future growth plans.

Our new Group HR Director has expanded the team which supports this function. We review talent, succession planning and key person risk at least annually at senior level. During the year we have created a people planning process with senior leaders so that we can proactively plan for resourcing and development needs.

SEGRO has continued to invest in local communities and environments as part of Responsible SEGRO Framework including delivery of the Community Investment Plans (CIPs) and employment projects (for example Pathways to Property) which is managed by the Partnership Development team. We are continuing to promote our Agile Working as a part of our employment offer.

## 10. Operational delivery

The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: major customer default, supply chain failure or the structural failure of one of our assets.

This risk previously included details now in the separate People and Talent risk (discussed in the previous principal risk).

*Current year activity.* During the period we continue to have enhanced engagement with our customers in light of the volatile economic conditions and have continued to consider customer concentration risks.

We work closely with our supply chain and have undertaken a review of key suppliers to ensure suitable alternatives are in place should one fail. Critical suppliers include those contractors and, by associate their sub-contractors (detailed more fully in the Development Plan Execution risk) and IT suppliers. Furthermore, we continue to ensure our suppliers are paid promptly.

## 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 2022. 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 16 February 2023 and signed on its behalf by:

David Sleath

Chief Executive

16 February 2023

Soumen Das

Chief Financial Officer

16 February 2023

## CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
<b>Revenue</b>	4	<b>669</b>	546
Costs	5	<b>(214)</b>	(140)
		<b>455</b>	406
Administrative expenses		<b>(59)</b>	(59)
Share of (loss)/profit from joint ventures and associates after tax	6	<b>(144)</b>	461
Realised and unrealised property (loss)/gain	7	<b>(1,946)</b>	3,669
<b>Operating (loss)/profit</b>		<b>(1,694)</b>	4,477
Finance income	8	<b>67</b>	35
Finance costs	8	<b>(340)</b>	(157)
<b>(Loss)/profit before tax</b>		<b>(1,967)</b>	4,355
Tax	9	<b>37</b>	(288)
<b>(Loss)/profit after tax</b>		<b>(1,930)</b>	4,067
Attributable to equity shareholders		<b>(1,927)</b>	4,060
Attributable to non-controlling interests		<b>(3)</b>	7
<b>Earnings per share (pence)</b>			
Basic	11	<b>(159.7)</b>	339.0
Diluted	11	<b>(159.7)</b>	338.1



## CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	2021
	£m	£m
(Loss)/profit for the year	(1,930)	4,067
<b>Items that may be reclassified subsequently to profit or loss</b>		
Foreign exchange movement arising on translation of international operations	179	(184)
Fair value movements on derivatives and borrowings in effective hedge relationships	(98)	74
	81	(110)
Tax on components of other comprehensive income/(expense)	-	-
<b>Other comprehensive income/(expense)</b>	81	(110)
<b>Total comprehensive (expense)/income for the year</b>	<b>(1,849)</b>	<b>3,957</b>
Attributable to equity shareholders	(1,845)	3,949
Attributable to non-controlling interests	(4)	8

# CONDENSED GROUP BALANCE SHEET

As at 31 December 2022

		2022	2021
		£m	(restated) <sup>1</sup> £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		12	9
Investment properties	12	14,939	15,492
Other interests in property		30	24
Plant, property and equipment		23	22
Investments in joint ventures and associates	6	1,768	1,795
Other investments		9	5
Other receivables		81	35
Derivative financial instruments		58	50
		<b>16,920</b>	<b>17,432</b>
<b>Current assets</b>			
Trading properties	12	35	45
Trade and other receivables		199	207
Tax asset		21	–
Derivative financial instruments		11	14
Cash and cash equivalents	13	162	85
		<b>428</b>	<b>351</b>
<b>Total assets</b>		<b>17,348</b>	<b>17,783</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	13	4,884	3,406
Deferred tax liabilities	9	226	274
Trade and other payables		77	75
Derivative financial instruments		188	56
Tax liabilities		10	19
		<b>5,385</b>	<b>3,830</b>
<b>Current liabilities</b>			
Trade and other payables		560	463
Derivative financial instruments		14	–
Tax liabilities		16	54
		<b>590</b>	<b>517</b>
<b>Total liabilities</b>		<b>5,975</b>	<b>4,347</b>
<b>Net assets</b>		<b>11,373</b>	<b>13,436</b>
<b>Equity</b>			
Share capital		121	120
Share premium		3,449	3,371
Capital redemption reserve		114	114
Own shares held		(1)	(1)
Other reserves		227	140
Retained earnings brought forward		9,692	5,897
(Loss)/profit for the year attributable to owners of the parent		(1,927)	4,060
Other movements		(302)	(265)
Retained earnings		7,463	9,692
<b>Total shareholders' equity</b>		<b>11,373</b>	<b>13,436</b>
Non-controlling interests		–	–
<b>Total equity</b>		<b>11,373</b>	<b>13,436</b>
<b>Net assets per ordinary share (pence)</b>			
Basic	11	941	1,118
Diluted	11	938	1,115

<sup>1</sup> Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

# CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the parent										Total equity £m
	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Share-based payments reserves £m	Translation, hedging and other reserve £m	Merger reserve £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests <sup>1</sup> £m	
<b>Balance at 1 January 2022</b>	120	3,371	114	(1)	20	(49)	169	9,692	13,436	-	13,436
Loss for the year	-	-	-	-	-	-	-	(1,927)	(1,927)	(3)	(1,930)
Other comprehensive income/(expense)	-	-	-	-	-	82	-	-	82	(1)	81
<b>Total comprehensive income/(expense) for the year</b>	-	-	-	-	-	82	-	(1,927)	(1,845)	(4)	(1,849)
<b>Transactions with owners of the Company</b>											
Own shares acquired	-	-	-	(4)	-	-	-	-	(4)	-	(4)
Equity-settled share-based transactions	-	-	-	4	5	-	-	2	11	-	11
Dividends	1	78	-	-	-	-	-	(301)	(222)	-	(222)
Movement in non-controlling interest <sup>1</sup>	-	-	-	-	-	-	-	(3)	(3)	4	1
<b>Total transaction with owners of the Company</b>	1	78	-	-	5	-	-	(302)	(218)	4	(214)
<b>Balance at 31 December 2022</b>	121	3,449	114	(1)	25	33	169	7,463	11,373	-	11,373

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

## For the year ended 31 December 2021

	Attributable to owners of the parent											
	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Other reserves			Merger reserve £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests <sup>1</sup> £m	Total equity £m
					Share-based payments reserves £m	Translation, hedging and other reserves £m						
<b>Balance at 1 January 2021</b>	119	3,277	114	(1)	22	62	169	5,897	9,659	12	9,671	
Profit for the year	–	–	–	–	–	–	–	4,060	4,060	7	4,067	
Other comprehensive (expense)/income	–	–	–	–	–	(111)	–	–	(111)	1	(110)	
<b>Total comprehensive (expense)/income for the year</b>	–	–	–	–	–	(111)	–	4,060	3,949	8	3,957	
<b>Transactions with owners of the Company</b>												
Issue of shares	–	1	–	–	–	–	–	–	1	–	1	
Own shares acquired	–	–	–	(3)	–	–	–	–	(3)	–	(3)	
Equity-settled share-based transactions	–	–	–	3	(2)	–	–	6	7	–	7	
Dividends	1	93	–	–	–	–	–	(270)	(176)	(4)	(180)	
Movement in non-controlling interest <sup>1</sup>	–	–	–	–	–	–	–	(1)	(1)	(16)	(17)	
<b>Total transaction with owners of the Company</b>	1	94	–	–	(2)	–	–	(265)	(172)	(20)	(192)	
<b>Balance at 31 December 2021</b>	120	3,371	114	(1)	20	(49)	169	9,692	13,436	–	13,436	

1 Non-controlling interests relate to Vallog S.r.l and Sofibus Patrimoine SA. During 2021 the non-controlling interests held in Sofibus Patrimoine SA were acquired by the Group.

## CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2022

	2022 £m	2021 (restated) <sup>1</sup> £m
<b>Cash flows from operating activities</b>		
Cash generated from operations	14(i) 479	363
Interest received	28	48
Dividends received	9	33
Interest paid	(131)	(100)
Cost of early close out of interest rate derivatives and new interest rate derivatives transacted	(77)	–
Tax paid	(95)	(17)
<b>Net cash received from operating activities</b>	<b>213</b>	<b>327</b>
<b>Cash flows from investing activities</b>		
Purchase and development of investment properties <sup>2</sup>	(1,472)	(1,706)
Sale of investment properties	310	491
Acquisition of other interest in property	(6)	(8)
Purchase of plant and equipment and intangibles	(9)	(7)
Acquisition of other investments	(3)	(4)
Investment and loans to joint ventures and associates	(112)	(74)
Divestment from and repayment of loans by joint ventures and associates	37	35
<b>Net cash received used in investing activities</b>	<b>(1,255)</b>	<b>(1,273)</b>
<b>Cash flows from financing activities</b>		
Dividends paid <sup>3</sup>	(222)	(180)
Proceeds from borrowings	2,752	1,214
Repayment of borrowings	(1,421)	(140)
Principal element of lease payments	(2)	(2)
Settlement of foreign exchange derivatives	15	40
Purchase of non-controlling interest	–	(12)
Proceeds from issue of ordinary shares	–	1
Purchase of ordinary shares	(4)	(3)
<b>Net cash generated from financing activities</b>	<b>1,118</b>	<b>918</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>76</b>	<b>(28)</b>
Cash and cash equivalents at the beginning of the year	85	113
Effect of foreign exchange rate changes	1	–
<b>Cash and cash equivalents at the end of the year</b>	13 <b>162</b>	<b>85</b>

1 Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

2 Group cash payment for the purchase and development of investment properties of £1,472 million (2021: £1,706 million) represents total costs for property acquisitions and additions to existing investment properties per Note 12(i) of £1,530 million (2021: £1,878 million) adjusted for the following cash and non-cash movements: deducts interest capitalised of £22 million (2021: £9 million); deducts net movement in capital accruals and prepayments of £23 million (2021: £23 million); deducts non-cash movements of £13 million (2021: £140 million) from asset swaps.

3 Group dividends paid in 2022 of £222 million (2021: £180 million) includes £222 million (2021: £176 million) paid to ordinary shareholders (see Note 10) and £nil (2021: £4 million) paid to non-controlling interest.

## 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 2022 and 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 (approved by the Board on 16 February 2023) 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.

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 UK-adopted International Accounting Standards (IAS) and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. UK adopted International Accounting Standards differs in certain respects from International Financial Reporting Standards as adopted by the EU. The differences have no material impact on the Financial Statements for the periods presented, which therefore also comply with International Reporting Standards as adopted by the EU.

The financial information is in accordance with the accounting policies set out in the 2021 financial statements apart from as detailed below.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of UK-adopted IAS and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, this announcement does not itself contain sufficient information to comply with IASs and IFRSs. The Company expects to publish full financial statements that comply with IASs and IFRSs by March 2023.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.13 (31 December 2021: £1 = €1.19) and Income statement: £1 = €1.17 (2021: £1 = €1.16).

#### **New and amended standards adopted by the Group**

The new accounting standards and amendments that became applicable for the current reporting year did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

The Group has assessed the impact of the IFRS Interpretation Committee's recent Agenda Decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7). The Group holds tenant deposits in separate designated bank accounts where the use of the monies is restricted and defined in the lease agreements, however the access to these monies by the Group is not restricted. Following the clarification by IFRIC these tenant deposits have been judged to meet the definition of 'cash' under IAS 7. The tenant deposits were previously classified as 'Other receivables' and have been classified as 'Cash and cash equivalents' at 31 December 2022. The Group comparative balances have been restated where applicable to reflect this change in classification which resulted in £40 million of tenant deposits as at 31 December 2021 being reclassified from 'Other receivables' to 'Cash and cash equivalents'.

#### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revisions and future periods if the revision affects both current and future periods.

## **Significant areas of estimation uncertainty**

### **Property valuations**

Valuation of property is a central component of the business. In estimating the fair value, the Group engages third party qualified valuers to perform the valuation.

### **Performance fee**

As detailed further in Note 6, performance fees are payable from the SELP joint venture to SEGRO. The fee is based on the joint venture's performance over the 10 year performance period since inception and payable subject to meeting certain criteria and hurdle rates at the end of the period. Performance fee income is recognised during the performance period to the extent that the fee can be reliably estimated and that it is highly probable there will not be a significant future reversal.

The internal rate of return (IRR) calculation to determine whether the hurdle rates will be met, and if so to what extent, at the end of the performance period in October 2023 is currently an estimation and sensitive to movements and assumptions in property valuations over the remaining performance period. As detailed above, property valuations is an area of significant estimation uncertainty.

Determining whether it is highly probable there will not be a significant future change in the performance fee is dependent on the probability and magnitude of future changes in property values over the remaining performance period. Note 6 provides details of the estimated performance fee due in October 2023 and sensitivity of this estimation to movements in property values from 31 December 2022 to the end of the performance period.

The corresponding performance fee expense recognised by SELP is a significant estimate for the same reasons as detailed above. The SELP performance fee expense is accounted for under the equity method within share of profit from joint ventures and associates after tax.

## **Significant areas of judgements in applying the Group's accounting policies**

### **Accounting for significant property transactions**

Property transactions are complex in nature. Management considers each material transaction separately, with an assessment carried out to determine the most appropriate accounting treatment and judgements applied. The judgements include whether the transaction represents an asset acquisition or business combination and the cut-off for property transactions on recognition of property assets and revenue recognition. In making its judgement over the cut-off for property transactions, management considers whether the control of ownership of the assets acquired or disposed of has transferred to or from the Group (this consideration includes the revenue recognition criteria set out in IFRS 15 for the sale of trading properties).

In making its judgement on whether the acquisition of property through the purchase of a corporate vehicle represents an asset acquisition or business combination, management considers whether the integrated set of assets and activities acquired contain both inputs and processes along with the ability to create outputs. Management also applies the optional 'concentration test' allowed under IFRS 3. When applying the optional test, management considers if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Where management judge that substantially all of the fair value of the gross assets acquired are concentrated in a single asset (or a group of similar assets) and the 'concentration test' met, the assets acquired would not represent a business and the purchase would be treated as an asset acquisition.

### **REIT status**

The Company has elected for UK REIT and French SIIC status. To continue to benefit from these tax regimes, the Group is required to comply with certain conditions as outlined in Note 9. Management intends that the Group should continue as a UK REIT and a French SIIC for the foreseeable future.



**Uncertain tax positions**

The Group is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business. The tax impact can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process. Management judgement is required in assessing the likelihood of whether a liability, including any associated penalties, will arise and the most significant assessment relates to the recognition of withholding tax in France and is discussed further in Note 9.

## 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 period.

	Notes	2022 £m	2021 <sup>3</sup> £m
Gross rental income	4	488	398
Property operating expenses	5	(76)	(57)
<b>Net rental income<sup>3</sup></b>		<b>412</b>	<b>341</b>
Joint venture fee income	4	30	52
Management and development fee income	4	5	5
Net solar energy income <sup>2</sup>		1	1
Administrative expenses		(59)	(59)
Share of joint ventures and associates' Adjusted profit after tax <sup>1</sup>	6	71	56
<b>Adjusted operating profit before interest and tax</b>		<b>460</b>	<b>396</b>
Net finance costs	8	(74)	(40)
<b>Adjusted profit before tax</b>		<b>386</b>	<b>356</b>
Adjustments to reconcile to IFRS:			
Adjustments to the share of (loss)/profit from joint ventures and associates' after tax <sup>1</sup>	6	(215)	405
Realised and unrealised property (loss)/gain	7	(1,946)	3,669
Profit on sale of trading properties	12	7	7
Net fair value loss on interest rate swaps and other derivatives	8	(199)	(82)
<b>Total adjustments</b>		<b>(2,353)</b>	<b>3,999</b>
<b>(Loss)/profit before tax</b>		<b>(1,967)</b>	<b>4,355</b>
<b>Tax</b>			
On Adjusted profit	9	(11)	(8)
In respect of adjustments	9	48	(280)
Total tax adjustments		37	(288)
<b>(Loss)/profit after tax before non-controlling interests</b>		<b>(1,930)</b>	<b>4,067</b>
Non-controlling interests:			
Less: share of adjusted profit attributable to non-controlling interests		(1)	–
share of adjustments attributable to non-controlling interests		4	(7)
<b>(Loss)/profit after tax and non-controlling interests</b>		<b>(1,927)</b>	<b>4,060</b>
Of which:			
Adjusted profit after tax and non-controlling interests		374	348
Total adjustments after tax and non-controlling interests		(2,301)	3,712
<b>(Loss)/profit attributable to equity shareholders</b>		<b>(1,927)</b>	<b>4,060</b>

- 1 A detailed breakdown of the adjustments to the share of (loss)/profit from joint ventures and associates is included in Note 6.
- 2 Net solar income of £1 million (2021: £1 million) is calculated as Solar energy income of £2 million (2021: £2 million) shown in Note 4, less Solar energy expenses of £1 million (2021: £1 million) shown in Note 5.
- 3 The composition of gross and net rental income has changed in 2022 to provide a better measure of the underlying rental income from the property portfolio. Management and development fee income; service charge income and expense; and solar energy income and expense are now presented outside of gross and net rental income. Details of the change is disclosed further in Note 4 and 5. Service charge income is netted against the equal and opposite service charge expense and are not shown as separate line items in the table above. There is no impact on Adjusted operating profit before interest and tax from this change and the prior year comparatives in the table above have been represented to reflect this change.

### 3. SEGMENTAL ANALYSIS

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

	Gross rental income <sup>5</sup>	Net rental income <sup>5</sup>	Share of joint ventures and associates' Adjusted profit	Adjusted PBIT <sup>2</sup>	Total Investments directly owned property assets	Investments in joint ventures and associates	Capital expenditure <sup>3</sup>
	£m	£m	£m	£m	£m	£m	£m
<b>31 December 2022</b>							
Thames Valley	116	109	–	107	3,011	–	80
National Logistics	47	43	–	45	1,721	–	362
Greater London	203	185	–	183	6,401	11	325
Northern Europe	33	23	29	60	1,149	958	345
Southern Europe	82	63	40	114	2,503	1,191	474
Central Europe	7	3	22	31	189	616	7
Other	–	(14) <sup>1</sup>	(20) <sup>1</sup>	(80) <sup>1</sup>	–	(1,008) <sup>4</sup>	9
<b>Total</b>	<b>488</b>	<b>412</b>	<b>71</b>	<b>460</b>	<b>14,974</b>	<b>1,768</b>	<b>1,602</b>
			Share of joint ventures and associates' Adjusted profit		Total directly owned property assets	Investments in joint ventures and associates	Capital expenditure <sup>3</sup>
	Gross rental income <sup>5</sup>	Net rental income <sup>5</sup>	Adjusted profit	Adjusted PBIT <sup>2</sup>	£m	£m	£m
	£m	£m	£m	£m	£m	£m	£m
<b>31 December 2021</b>							
Thames Valley	86	80	–	79	3,102	–	454
National Logistics	35	33	–	34	1,717	–	213
Greater London	173	163	–	161	7,325	8	678
Northern Europe	26	18	26	52	928	911	93
Southern Europe	71	56	35	100	2,285	1,178	443
Central Europe	7	4	22	31	180	559	22
Other	–	(13) <sup>1</sup>	(27) <sup>1</sup>	(61) <sup>1</sup>	–	(861) <sup>4</sup>	7
<b>Total</b>	<b>398</b>	<b>341</b>	<b>56</b>	<b>396</b>	<b>15,537</b>	<b>1,795</b>	<b>1,910</b>

- 1 'Other' category includes the corporate centre, SELP holding companies and costs relating to the operational business which are not specifically allocated to a geographical Business Unit. In 2021 the impact of the SELP performance fee (detailed in Note 6) on Share of joint ventures and associates Adjusted profit (being the performance fee expense recognised by SELP of £13 million) and Adjusted PBIT (being the net profit impact to the Group of £13 million) is shown within Other.
- 2 A reconciliation of total Adjusted PBIT to the IFRS (loss)/profit before tax is provided in Note 2.
- 3 Capital expenditure includes additions and acquisitions of investment and trading properties but does not include tenant incentives, letting fees and rental guarantees. Part of the capital expenditure incurred is in response to climate change including the reduction of the carbon footprint of the Group's existing investment properties and developments. The 'Other' category includes non-property related spend, primarily IT.
- 4 Includes the bonds held by SELP Finance S.à r.l., a Luxembourg entity.

5 The composition of gross and net rental income has changed in 2022. Management and development fee income, service charge income and expenses, and solar energy income and expenses are now presented outside of gross and net rental income. See Notes 4 and 5 for further details. The prior year comparatives in the table above have been represented to reflect this change.

Revenues from the most significant countries within the Group were: UK £451 million (2021: £374 million), France £77 million (2021: £71 million), Italy £36 million (2021: £35 million), Germany £46 million (2021: £38 million), Netherlands £30 million (2021: £2 million) and Poland £17 million (2021: £15 million).

#### 4. REVENUE

	2022 £m	2021 <sup>2</sup> £m
Rental income from investment and trading properties	473	382
Rent averaging	14	13
Surrender premia	1	3
<b>Gross rental income<sup>1,2</sup></b>	<b>488</b>	<b>398</b>
Joint venture fee income – management fees*	30	26
– performance fees* <sup>3</sup>	–	26
<b>Joint venture fee income</b>	<b>30</b>	<b>52</b>
Management and development fee income* <sup>2</sup>	5	5
Service charge income* <sup>2</sup>	44	42
Solar energy income* <sup>2</sup>	2	2
Proceeds from sale of trading properties*	100	47
<b>Total revenue</b>	<b>669</b>	<b>546</b>

\* The above income streams reflect revenue recognition under IFRS 15 'Revenue from Contracts with Customers' and total £181 million (2021: £148 million).

1 Net rental income of £412 million (2021: £341 million) is calculated as gross rental income of £488 million (2021: £398 million) less total property operating expenses of £76 million (2021: £57 million) shown in Note 5.

2 The composition of gross rental income within Total Revenue has changed in 2022. Management and development fee, Service charge income and Solar energy income are now presented outside of gross rental income. The prior year comparatives in the table above have been represented to reflect this change. Development fee income (2021: £2 million) and Solar energy income (2021: £2 million) were previously presented within the Rental income from investment and trading properties line in the table above.

3 See Note 6(ii) for further details on the performance fee from SELP.

#### 5. COSTS

	2022 £m	2021 <sup>3</sup> £m
Vacant property costs	10	5
Letting, marketing, legal and professional fees	17	11
Loss allowance and impairment of receivables	3	–
Other expenses	12	11
<b>Property management expenses</b>	<b>42</b>	<b>27</b>
Property administrative expenses <sup>1</sup>	45	39
Costs capitalised <sup>2</sup>	(11)	(9)
<b>Total property operating expenses<sup>3</sup></b>	<b>76</b>	<b>57</b>
Service charge expense <sup>3</sup>	44	42
Solar energy expense <sup>3</sup>	1	1
Trading properties cost of sales	93	40
<b>Total costs</b>	<b>214</b>	<b>140</b>

- 1 Property administrative expenses predominantly relate to the employee staff costs of personnel directly involved in managing the property portfolio.  
2 Costs capitalised primarily relate to internal employee staff costs directly involved in developing the property portfolio.  
3 The composition of Property management expenses within Total costs has changed in 2022. Service charge expense and Solar energy expense are now presented outside of Property management expenses. The prior year comparatives in the table above have been represented to reflect this change. Solar energy expense was previously presented within the Other expenses line in the table above.

## 6. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

### 6(i) – Profit from joint ventures and associates after tax

The table below presents a summary Income Statement of the Group's largest joint ventures and associates, all of which are accounted for using the equity method. SEGRO European Logistics Partnership (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 material joint ventures. During the year SEGRO acquired a 49 per cent share in Reprendre Racines SAS and is accounted for as an associate within the 'Other' column in tables 6(i) and (ii).

	SELP £m	Other £m	At 100% 2022 £m	At 100% 2021 <sup>4</sup> £m	At share 2022 £m	At share 2021 <sup>4</sup> £m
<b>Revenue<sup>1</sup></b>	<b>303</b>	<b>–</b>	<b>303</b>	270	<b>152</b>	135
Gross rental income <sup>4</sup>	<b>237</b>	<b>–</b>	<b>237</b>	210	<b>119</b>	105
Property operating expenses:						
– underlying property operating expenses	<b>(16)</b>	<b>–</b>	<b>(16)</b>	(12)	<b>(8)</b>	(6)
– vacant property costs	<b>(1)</b>	<b>–</b>	<b>(1)</b>	(2)	<b>(1)</b>	(1)
– property management fees <sup>2</sup>	<b>(25)</b>	<b>–</b>	<b>(25)</b>	(22)	<b>(13)</b>	(11)
– performance fees <sup>3</sup>	<b>–</b>	<b>–</b>	<b>–</b>	(26)	<b>–</b>	(13)
<b>Net rental income<sup>4</sup></b>	<b>195</b>	<b>–</b>	<b>195</b>	148	<b>97</b>	74
Management fee income <sup>4</sup>	<b>3</b>	<b>–</b>	<b>3</b>	4	<b>2</b>	2
Administrative expenses	<b>(6)</b>	<b>–</b>	<b>(6)</b>	(3)	<b>(3)</b>	(2)
Finance costs (including adjustments)	<b>(34)</b>	<b>–</b>	<b>(34)</b>	(26)	<b>(17)</b>	(13)
<b>Adjusted profit before tax</b>	<b>158</b>	<b>–</b>	<b>158</b>	123	<b>79</b>	61
Tax	<b>(16)</b>	<b>–</b>	<b>(16)</b>	(11)	<b>(8)</b>	(5)
<b>Adjusted profit after tax</b>	<b>142</b>	<b>–</b>	<b>142</b>	112	<b>71</b>	56
<b>Adjustments:</b>						
Profit on sale of investment properties	<b>–</b>	<b>–</b>	<b>–</b>	19	<b>–</b>	10
Valuation (deficit)/surplus on investment properties	<b>(464)</b>	<b>(8)</b>	<b>(472)</b>	974	<b>(236)</b>	487
Early close out of debt	<b>(3)</b>	<b>–</b>	<b>(3)</b>	–	<b>(2)</b>	–
Tax in respect of adjustments	<b>46</b>	<b>–</b>	<b>46</b>	(183)	<b>23</b>	(92)
<b>Total adjustments</b>	<b>(421)</b>	<b>(8)</b>	<b>(429)</b>	810	<b>(215)</b>	405
<b>(Loss)/profit after tax</b>	<b>(279)</b>	<b>(8)</b>	<b>(287)</b>	922	<b>(144)</b>	461
Other comprehensive income	<b>–</b>	<b>–</b>	<b>–</b>	–	<b>–</b>	–
<b>Total comprehensive (expense)/income for the year</b>	<b>(279)</b>	<b>(8)</b>	<b>(287)</b>	922	<b>(144)</b>	461

- 1 Total revenue at 100% of £303 million (2021: £270 million) includes: Gross rental income of £237 million (2021: £210 million); service charge income of £63 million (2021: £56 million) and management fee income of £3 million (2021: £4 million). Service charge income is netted against the equal and opposite service charge expense in calculating Adjusted profit before tax.
- 2 Property management fees paid to SEGRO.
- 3 Performance fees recognised by SEGRO. In the condensed set of financial statement for the six months ended 30 June 2022 a performance fee of £42 million was recognised by SEGRO. Due to changes in the estimation of the performance fee, as further discussed in the Fees section below, no fee has been recognised for the year ended 31 December 2022.
- 4 The composition of gross and net rental income has changed in 2022. Management fee income and service charge income and expense are now presented outside of gross and net rental income. Service charge income is netted against the equal and opposite service charge expense in the table above and are not shown as separate line items. There is no impact on Adjusted operating profit before interest and tax from this change and the prior year comparatives in the table above have been represented to reflect this change.

The Group has not recognised losses totalling £12 million at share (2021: £nil) in relation to its interests in associates, because the Group has no obligation in respect of these losses.

## 6(ii) – Summarised Balance Sheet information in respect of the Group’s joint ventures and associates

	SELP £m	Other £m	At 100% 2022 £m	At 100% 2021 £m	At share 2022 £m	At share 2021 £m
Investment properties <sup>1</sup>	6,017	27	6,044	5,818	3,022	2,909
Property, plant and equipment	6	–	6	–	3	–
Other receivables	3	–	3	–	1	–
<b>Total non-current assets</b>	<b>6,026</b>	<b>27</b>	<b>6,053</b>	<b>5,818</b>	<b>3,026</b>	<b>2,909</b>
Other receivables	65	7	72	78	36	39
Cash and cash equivalents	57	6	63	43	32	22
<b>Total current assets</b>	<b>122</b>	<b>13</b>	<b>135</b>	<b>121</b>	<b>68</b>	<b>61</b>
<b>Total assets</b>	<b>6,148</b>	<b>40</b>	<b>6,188</b>	<b>5,939</b>	<b>3,094</b>	<b>2,970</b>
Borrowings	(2,005)	–	(2,005)	(1,723)	(1,003)	(862)
Deferred tax	(482)	–	(482)	(504)	(241)	(252)
Other liabilities	–	(40)	(40)	–	(20)	–
<b>Total non-current liabilities</b>	<b>(2,487)</b>	<b>(40)</b>	<b>(2,527)</b>	<b>(2,227)</b>	<b>(1,264)</b>	<b>(1,114)</b>
Other liabilities	(145)	(3)	(148)	(122)	(74)	(61)
<b>Total current liabilities</b>	<b>(145)</b>	<b>(3)</b>	<b>(148)</b>	<b>(122)</b>	<b>(74)</b>	<b>(61)</b>
<b>Total liabilities</b>	<b>(2,632)</b>	<b>(43)</b>	<b>(2,675)</b>	<b>(2,349)</b>	<b>(1,338)</b>	<b>(1,175)</b>
Unrecognised share of losses	–	23	23	–	12	–
<b>Net assets</b>	<b>3,516</b>	<b>20</b>	<b>3,536</b>	<b>3,590</b>	<b>1,768</b>	<b>1,795</b>

1 Investment properties held by SELP include assets held for sale of £nil (at 100%) at 31 December 2022 (2021: £97 million).

## Fees

SEGRO provides certain services, including venture advisory and asset management, to the SELP joint venture and receives fees for doing so.

A 10 year performance fee, denominated in euros, is payable from SELP to SEGRO in October 2023 based on SELP’s internal rate of return (IRR) subject to certain hurdle rates. The IRR calculation is based on a 10 year performance period from the inception of SELP in October 2013 to October 2023. The IRR calculation to determine whether the hurdle rates will be met when the performance period ends is currently an estimation and sensitive to movements and assumptions in property valuations over the remaining performance period.

In the year ended 31 December 2021, SEGRO recognised a performance fee of £26 million (€29 million) in its Income Statement. An equivalent performance fee expense at share of £13 million was recognised within the share of profit from joint ventures and associates.

In the year ended 31 December 2022, no further performance fee has been recognised by SEGRO, and therefore no equivalent performance fee expense has been recognised within the share of profit from joint ventures and associates and reflected in table 6(i) above.

This means the cumulative 10 year performance fee recognised by SEGRO to 31 December 2022 totals £26 million (€29 million) (2021: £26 million (€29 million) plus 2022: £nil). The full amount of the cumulative performance fee recognised is subject to future reversal based on performance over the remaining period to October 2023.

Performance fee income is recognised during the performance period to the extent that it is highly probable there will not be a significant future reversal and the fee can be reliably estimated. None of the cumulative £26 million performance fee recognised will be reversed if property values fall by up to 12 per cent between 31 December 2022 and the end of the performance period in October 2023. If property values fall by over 14 per cent, all of the £26 million cumulative performance fee recognised to date would be reversed.

SEGRO management notes the inherent and increased uncertainty caused by the market conditions at the period end and the sensitivities detailed below. The volatility has impacted management's consideration of the point at which it is highly probable that there will not be a significant reversal relative to the estimations undertaken in the prior year and at the half year. Having considered these market conditions, the market outlook and the track record of property market trends, management believes it highly probable that there will not be a significant reversal of the cumulative performance fee recognised to date.

### Sensitivity

Based on current estimates of the IRR of SELP from inception in October 2013 to 31 December 2022, an additional performance fee (beyond the cumulative fee of €29 million recognised to 31 December 2022) due to SEGRO in October 2023 could be in the region of €164 million (€82 million at share after accounting for the corresponding performance fee expense recognised in SELP). However, this is dependent on future events, in particular property valuation movements, to the end of the performance period in October 2023. The current estimate of the IRR is based on property values as at 31 December 2022; a 10 per cent decrease in property values from 31 December 2022 would result in a €142 million decrease in the estimated fee and a 10 per cent increase in property values would result in a €142 million increase in the estimated fee. Whilst property valuations have become more volatile since the prior year, using a 10 per cent increase/decrease is still considered appropriate to provide transparency on the relative sensitivity of the estimate.

If property values decreased by 12 per cent from 31 December 2022 no additional performance fee would be due beyond the cumulative amount recognised to 31 December 2022. A further performance fee above the £26 million cumulative amount recognised to 31 December 2022 has not been recognised as management has not concluded that it is highly probable that there will not be a significant reversal.

## 7. Realised and Unrealised Property (Loss)/Gain

	2022 £m	2021 £m
Profit on sale of investment properties	9	53
Valuation (deficit)/surplus on investment properties <sup>1</sup>	(1,970)	3,617
Decrease/(increase) in provision for impairment of trading properties	15	(1)
<b>Total realised and unrealised property (loss)/gain</b>	<b>(1,946)</b>	<b>3,669</b>

<sup>1</sup> Includes £1,970 million valuation deficit on investment properties (2021: £3,618 million surplus) less £nil valuation loss on head lease ROU asset (2021: £1 million).

The total valuation deficit on investment and trading properties total £2,191 million (2021: £4,103 million surplus). This comprises £1,970 million deficit from investment properties (2021: £3,617 million surplus), £15 million reversal of impairment from trading properties (2021: £1 million charge), £236 million deficit from joint ventures and associates at share (2021: £487 million surplus).

The total property loss on investment and trading properties total £2,175 million (2021: £4,173 million gain). This comprises the total valuation deficit above of £2,191 million (2021: £4,103 million surplus) plus £9 million profit on sale of investment property (2021: £53 million), £7 million profit on sale of trading property (2021: £7 million), £nil profit on sale of investment property from joint ventures and associates at share (2021: £10 million).

Details of profit on sale of trading properties are given in Note 12(ii).

## 8. Net Finance Costs

	2022 £m	2021 £m
<b>Finance income</b>		
Interest received on bank deposits and related derivatives	21	24
Fair value gain on interest rate swaps and other derivatives	46	11
<b>Total finance income</b>	<b>67</b>	<b>35</b>
<b>Finance costs</b>		
Interest on overdrafts, loans and related derivatives	(104)	(67)
Amortisation of issue costs	(9)	(3)
Interest on lease liabilities	(3)	(3)
<b>Total borrowing costs</b>	<b>(116)</b>	<b>(73)</b>
Less amounts capitalised on the development of properties	22	9
<b>Net borrowing costs</b>	<b>(94)</b>	<b>(64)</b>
Fair value loss on interest rate swaps and other derivatives	(245)	(93)
Exchange differences	(1)	–
<b>Total finance costs</b>	<b>(340)</b>	<b>(157)</b>
<b>Net finance costs</b>	<b>(273)</b>	<b>(122)</b>

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £74 million (2021: £40 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £199 million loss (2021: £82 million loss).

The interest capitalisation rates for 2022 ranged from 1.9 per cent to 4.0 per cent (2021: 1.9 per cent to 2.2 per cent). Interest is capitalised gross of tax relief.



## 9. TAX

### 9(i) – Tax on (loss)/profit

	2022 £m	2021 £m
<b>Tax:</b>		
On Adjusted profit	(11)	(8)
In respect of adjustments:		
– French withholding tax	(4)	(145)
– SIIC entry charge	–	(38)
– Other (primarily in respect of property valuation movements)	52	(97)
<b>Total tax in respect of adjustments</b>	<b>48</b>	<b>(280)</b>
<b>Total tax credit/(charge)</b>	<b>37</b>	<b>(288)</b>
<b>Current tax</b>		
<b>United Kingdom</b>		
Current tax credit	7	4
<b>Total UK current tax credit</b>	<b>7</b>	<b>4</b>
<b>Overseas</b>		
Current tax charge	(30)	(40)
French withholding tax	(1)	(16)
SIIC entry charge	–	(38)
<b>Total overseas current tax charge</b>	<b>(31)</b>	<b>(94)</b>
<b>Total current tax charge</b>	<b>(24)</b>	<b>(90)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(13)	(34)
Released in respect of property disposals in the year	25	22
On valuation movements	50	(173)
<b>Total deferred tax in respect of investment properties</b>	<b>62</b>	<b>(185)</b>
Other deferred tax	(1)	(13)
<b>Total deferred tax credit/(charge)</b>	<b>61</b>	<b>(198)</b>
<b>Total tax credit/(charge) on (loss)/profit on ordinary activities</b>	<b>37</b>	<b>(288)</b>

### 9(ii) – REIT and SIIC regimes and other tax judgements

SEGRO is a Real Estate Investment Trust (REIT) and does not pay tax on its UK property income or gains on property sales, provided that at least 90 per cent of the Group's UK property income is distributed as a dividend to shareholders, which becomes taxable in their hands. In addition, the Group has to meet certain conditions such as ensuring its worldwide property rental business represents more than 75 per cent of total profits and assets. Any potential or proposed changes to the REIT legislation are monitored and discussed with HMRC. It is management's intention that the Group will continue as a REIT for the foreseeable future.

SEGRO is also a SIIC in France, and does not pay corporation tax on its French property income or gains on property sales, provided that at least 95 per cent of the relevant Group French subsidiaries' property income is distributed to their immediate shareholder. In addition, the Group has to meet certain conditions such as ensuring the property rental business of each French subsidiary represents more than 80 per cent of its assets. Any potential or proposed changes to the SIIC legislation are monitored. It is management's intention that the Group will continue as a SIIC for the foreseeable future.

In 2021 a formal tax assessment in relation to the applicability of a 25 per cent withholding tax on distributions from the SIIC was received from the French tax authorities and a tax charge was recognised. A legal conclusion has not been reached and communication with the French tax authorities remains ongoing. As a result, a tax charge on adjustments of £4 million has been recognised in the year ended 31 December 2022 (of which £1 million is current tax and £3 million is deferred tax) (2021: total tax charge of £145 million, of which £16 million is current tax and £129 million is deferred tax). As noted below, until a legal conclusion has been reached, it is possible further tax charges may arise in relation to this matter.

In addition, during 2021, the Group elected Sofibus Patrimoine S.A. into the SIIC regime in France. The entire entry cost of £38 million, payable over a 4 year period, was recognised in the Income Statement for the year ended 31 December 2021 and accordingly no cost has been recognised in the year ended 31 December 2022.

The Group operates in a number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business. The tax impact can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process. The Group uses in-house expertise when assessing uncertain tax positions and seeks the advice of external professional advisors where appropriate. The Group believes that its provisions for tax liabilities and associated penalties are adequate for all open tax years based on its assessment of many factors, including tax laws and prior experience. The most significant assessment relating to the recognition of withholding tax in France is discussed above.

### 9(iii) – Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January £m	Exchange movement £m	Acquisitions/ disposals £m	Recognised in income £m	Balance 31 December £m
Valuation surpluses and deficits on properties/accelerated tax allowances	259	12	–	(62)	209
Others	15	1	–	1	17
<b>Total deferred tax liabilities</b>	<b>274</b>	<b>13</b>	<b>–</b>	<b>(61)</b>	<b>226</b>

## 10. Dividends

	2022 £m	2021 £m
<b>Ordinary dividends paid</b>		
Interim dividend for 2022 @ 8.1 pence per share	98	–
Final dividend for 2021 @ 16.9 pence per share	203	–
Interim dividend for 2021 @ 7.4 pence per share	–	89
Final dividend for 2020 @ 15.2 pence per share	–	181
<b>Total dividends</b>	<b>301</b>	<b>270</b>

The Board recommends a final dividend for 2022 of 18.2 pence which is estimated to result in a distribution of up to £220 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2022 is 26.3 pence (2021: 24.3 pence).

The total dividend in 2022 of £301 million (2021: £270 million) was paid: £222 million as cash (2021: £176 million) and £79 million in scrip dividends (2021: £94 million).

## 11. EARNINGS AND NET ASSETS PER SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 0.2 million shares (2021: 0.2 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.2 million shares (2021: 0.2 million) being the actual number of shares held on trust for employee share schemes at year end.

### 11(i) – Earnings per ordinary share (EPS)

	2022			2021		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic EPS	(1,927)	1,206.6	(159.7)	4,060	1,197.7	339.0
Dilution adjustments:						
Share and save as you earn schemes	–	–	–	–	3.3	(0.9)
Diluted EPS <sup>2</sup>	(1,927)	1,206.6	(159.7)	4,060	1,201.0	338.1
Basic EPS	(1,927)	1,206.6	(159.7)	4,060	1,197.7	339.0
Adjustments to (loss)/profit before tax <sup>1</sup>	2,353		195.0	(3,999)		(333.9)
Tax in respect of Adjustments	(48)		(4.0)	280		23.4
Non-controlling interest on Adjustments	(4)		(0.3)	7		0.6
Adjusted Basic EPS	374	1,206.6	31.0	348	1,197.7	29.1
Adjusted Diluted EPS	374	1,210.0	30.9	348	1,201.0	29.0

1 Details of adjustments are included in Note 2.

2 In the year ended 31 December 2022, share options are excluded from the weighted average diluted number of shares when calculating IFRS diluted loss per share because they are not dilutive.

### 11(ii) – Net assets per share (NAV)

The EPRA Net Tangible Assets (NTA) metric is considered to be most consistent with the nature of SEGRO's business as a UK REIT providing long-term progressive and sustainable returns. EPRA NTA acts as the primary measure of net asset value and is also referred to as Adjusted Net Asset Value (or Adjusted NAV).

A reconciliation from IFRS NAV to Adjusted NAV is set out in the table below along with the net asset per share metrics.

Table 5 of the Supplementary Notes provides a reconciliation from IFRS NAV for each of the three EPRA net asset value metrics.

	2022			2021		
	Equity attributable to ordinary shareholders £m	Shares million	Pence per share	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
<b>Basic NAV</b>	<b>11,373</b>	<b>1,209.1</b>	<b>941</b>	13,436	1,202.3	1,118
Dilution adjustments:						
Share and save as you earn schemes	–	3.4	(3)	–	3.2	(3)
<b>Diluted NAV</b>	<b>11,373</b>	<b>1,212.5</b>	<b>938</b>	13,436	1,205.5	1,115
Fair value adjustment in respect of interest rate derivatives – Group	131		11	24		2
Fair value adjustment in respect of trading properties – Group	2		–	1		–
Deferred tax in respect of depreciation and valuation surpluses – Group <sup>1</sup>	104		8	129		11
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures and associates <sup>1</sup>	119		10	123		10
Intangible assets	(12)		(1)	(9)		(1)
<b>Adjusted NAV</b>	<b>11,717</b>	<b>1,212.5</b>	<b>966</b>	13,704	1,205.5	1,137

1 50 per cent of deferred tax in respect of depreciation and valuation surpluses has been excluded in calculating Adjusted NAV in line with option 3 of EPRA Best Practices Recommendations Guidelines.

## 12. PROPERTIES

### 12(i) Investment properties

	Completed £m	Development £m	Total £m
<b>At 1 January 2022</b>	<b>13,815</b>	<b>1,461</b>	<b>15,276</b>
Exchange movement	143	42	185
Property acquisitions	117	682	799
Additions to existing investment properties	53	678	731
Disposals	(314)	(1)	(315)
Transfers on completion of development and completed properties taken back for redevelopment	340	(340)	–
Transfer from/(to) trading properties	3	(7)	(4)
Revaluation (deficit)/surplus during the year	(2,044)	74	(1,970)
<b>At 31 December 2022</b>	<b>12,113</b>	<b>2,589</b>	<b>14,702</b>
Add tenant lease incentives, letting fees and rental guarantees	164	–	164
<b>Investment properties excluding head lease ROU assets at 31 December 2022</b>	<b>12,277</b>	<b>2,589</b>	<b>14,866</b>
Add head lease liabilities (ROU assets) <sup>1</sup>	73	–	73
<b>Total investment properties at 31 December 2022</b>	<b>12,350</b>	<b>2,589</b>	<b>14,939</b>

1 At 31 December 2022 investment properties included £73 million (2021: £70 million) for the head lease liabilities recognised under IFRS 16.

Investment properties are stated at fair value as at 31 December 2022 based on external valuations performed by professionally qualified, independent valuers. The Group's wholly-owned, joint venture and associate property portfolio is valued by CBRE Ltd on a half-yearly basis (apart from two assets valued by Knight Frank).

The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties. In estimating the fair value of the properties, the valuers consider the highest and best use of the properties. There has been no change to the valuation technique during the year.

CBRE Ltd also undertakes some professional and agency work on behalf of the Group. This is carried out by departments separate from the Valuation team in CBRE and overall the total fees earned from the Group are below 5% of CBRE's total income. This work does not therefore lead to a conflict of interest for the properties being valued by CBRE at the period end.

Completed properties include buildings that are occupied or are available for occupation. Development properties include land available for development (land bank), land under development, construction in progress and covered land. To provide additional transparency over the future development pipeline of the Group, the 'covered land' category has been identified in the year. This new category consists of income producing assets acquired with the explicit intention to redevelop them in the short to medium term. Valued on the balance sheet as land plus remaining contracted income. As a result of the new covered land category, £474 million (carrying value as at 31 December 2021) of standing assets acquired in 2021 have been identified as covered land, these assets were classified as Completed property as at 31 December 2021 and during the period transferred to Development property in the table above. The carrying value of covered land held within Development properties as at 31 December 2022 is £656 million (2021: £nil).

The carrying value of investment properties situated on land held under leaseholds is £209 million (excluding head lease ROU assets) (2021: £206 million).

### Sensitivity analysis

An increase/decrease to ERV will increase/decrease valuations, while an increase/decrease to yield will decrease/increase valuations. Sensitivity analysis showing the impact on valuations of changes in yields and ERV on the property portfolio (including joint ventures and associates at share) and the impact on valuations of changes in development costs on the development property and land portfolio (including joint ventures and associates at share) is shown below.

The valuation deficit recognised by the Group in the year ended 31 December 2022 primarily reflects the impact of higher property yields applied to our portfolio during the second half of 2022. This is reflected in the Group's net true equivalent yield increasing from 3.8 per cent at 31 December 2021 to 4.8 per cent at 31 December 2022. As the change in market conditions and corresponding valuation correction occurred prior to the 31 December 2022 valuation date, management still considers a 25bp movement in yields reflects an appropriate sensitivity as at 31 December 2022.

	Group £m	Impact on valuation of 25bp change in nominal equivalent yield		Impact on valuation of 5% change in estimated rental value (ERV)		Impact on valuation of 10% change in estimated development costs	
		Increase £m	Decrease £m	Increase £m	Decrease £m	Increase £m	Decrease £m
<b>2022</b>							
Completed property	15,191	(793)	883	580	(576)	-	-
Development property and land	2,734	(226)	245	295	(295)	(321)	321
<b>Group total property portfolio</b>	<b>17,925</b>	<b>(1,019)</b>	<b>1,128</b>	<b>875</b>	<b>(871)</b>	<b>(321)</b>	<b>321</b>

	Impact on valuation of 25bp change in nominal equivalent yield			Impact on valuation of 5% change in estimated rental value (ERV)		Impact on valuation of 10% change in estimated development costs	
	Group £m	Increase £m	Decrease £m	Increase £m	Decrease £m	Increase £m	Decrease £m
<b>2021</b>							
Completed property	16,739	(1,057)	1,211	628	(625)	-	-
Development property and land	1,638	(164)	172	192	(199)	(232)	225
<b>Group total property portfolio</b>	<b>18,377</b>	<b>(1,221)</b>	<b>1,383</b>	<b>820</b>	<b>(824)</b>	<b>(232)</b>	<b>225</b>

## 12(ii) Trading properties

	2022 £m	2021 £m
<b>At 1 January</b>	<b>45</b>	<b>52</b>
Exchange movement	1	(2)
Property acquisitions	1	8
Additions to existing trading properties	62	17
Disposals <sup>1</sup>	(93)	(40)
Decrease/(increase) in provision for impairment during the year	15	(1)
Transfer from investment properties	4	11
<b>At 31 December</b>	<b>35</b>	<b>45</b>

<sup>1</sup> Profit on sale of trading properties of £7 million in the year (2021: £7 million) have been generated from total proceeds of £100 million (2021: £47 million), see Note 4, less costs of £93 million (2021: £40 million), see Note 5.

Trading properties were externally valued, as detailed in Note 12(i), resulting in a decrease in the provision for impairment of £15 million (2021: £1 million increase). Based on the fair value at 31 December 2022, the portfolio has unrecognised surplus of £2 million (2021: £1 million).

### 13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2022 £m	2021 (restated) <sup>1</sup> £m
In one year or less	-	-
In more than one year but less than two	83	-
In more than two years but less than five	1,562	877
In more than five years but less than ten	1,662	1,308
In more than ten years	1,577	1,221
In more than one year	4,884	3,406
<b>Total borrowings</b>	<b>4,884</b>	<b>3,406</b>
Cash and cash equivalents <sup>1,2</sup>	(162)	(85)
<b>Net borrowings</b>	<b>4,722</b>	<b>3,321</b>

**Total borrowings is split between secured and unsecured as follows:**

Secured (on land, buildings and other assets)	1	2
Unsecured	4,883	3,404
<b>Total borrowings</b>	<b>4,884</b>	<b>3,406</b>

**Currency profile of total borrowings after derivative instruments**

Sterling	1,120	617
Euros	3,764	2,789
<b>Total borrowings</b>	<b>4,884</b>	<b>3,406</b>

**Maturity profile of undrawn borrowing facilities**

In one year or less	150	8
In more than one year but less than two	-	630
In more than two years but less than five	1,608	210
<b>Total available undrawn borrowing facilities</b>	<b>1,758</b>	<b>848</b>

1 Group Cash and cash equivalents have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

2 Group Cash and cash equivalents also include tenant deposits held in separate designated bank accounts of £50 million (2021: £40 million), the use of the deposits is subject to restrictions as set out in the tenant lease agreement and therefore not available for general use by the Group.

### 14. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

#### 14(i) Reconciliation of cash generated from operations

	2022 £m	2021 (restated) <sup>1</sup> £m
<b>Operating (loss)/profit</b>	<b>(1,694)</b>	<b>4,477</b>
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangibles	4	5
Share of loss/(profit) from joint ventures and associates after tax	144	(461)
Profit on sale of properties	(9)	(53)
Revaluation deficit/(surplus) on investment properties	1,970	(3,617)
Other provisions	(6)	9
	<b>409</b>	<b>360</b>
<b>Changes in working capital:</b>		
Decrease in trading properties	33	12
Increase in debtors and tenant incentives	(6)	(33)
Increase in creditors	43	24
<b>Net cash inflow generated from operations</b>	<b>479</b>	<b>363</b>

1 Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

## 14(ii) Analysis of net debt

	Cash movements			Non-cash adjustments		At 31 December 2022 £m
	At 1 January 2022 £m	Cash inflow <sup>2</sup> £m	Cash outflow <sup>3</sup> £m	Exchange movement £m	Other non-cash adjustments <sup>1</sup> £m	
Bank loans and loan capital	3,429	2,752	(1,421)	168	–	<b>4,928</b>
Capitalised finance costs	(23)	–	(30)	–	9	<b>(44)</b>
<b>Total borrowings</b>	<b>3,406</b>	<b>2,752</b>	<b>(1,451)</b>	<b>168</b>	<b>9</b>	<b>4,884</b>
Cash in hand and at bank <sup>4</sup>	(85)	(76)	–	(1)	–	<b>(162)</b>
<b>Net debt</b>	<b>3,321</b>	<b>2,676</b>	<b>(1,451)</b>	<b>167</b>	<b>9</b>	<b>4,722</b>

1 Total other non-cash adjustments of £9 million relates to the amortisation of issue costs. See Note 8.

2 Proceeds from borrowings of £2,752 million.

3 Group cash outflow of £1,451 million, comprises repayment of borrowings of £1,421 million and capitalised finance costs of £30 million.

4 Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

## 15. Subsequent events

On 10 January 2023 the Group acquired Bath Road Shopping Park in Slough (UK) for £120 million.

## SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

	Notes	2022		2021	
		£m	Pence per share	£m	Pence per share
EPRA Earnings	Table 4	<b>374</b>	<b>31.0</b>	348	29.1
EPRA NTA	Table 5	<b>11,717</b>	<b>966</b>	13,704	1,137
EPRA NRV	Table 5	<b>12,879</b>	<b>1,062</b>	14,986	1,243
EPRA NDV	Table 5	<b>12,170</b>	<b>1,004</b>	13,155	1,091
EPRA LTV	Table 6		<b>34.2%</b>		24.6%
EPRA net initial yield	Table 7		<b>3.7%</b>		3.0%
EPRA 'topped up' net initial yield	Table 7		<b>3.9%</b>		3.3%
EPRA vacancy rate	Table 8		<b>4.0%</b>		3.2%
EPRA cost ratio (including vacant property costs)	Table 9		<b>20.3%</b>		20.2%
EPRA cost ratio (excluding vacant property costs)	Table 9		<b>18.5%</b>		19.0%



**TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION**

	Notes	2022			2021		
		Group £m	JVs and associates £m	Total £m	Group £m	JVs and associates £m	Total £m
Gross rental income	2, 6	488	119	607	398	105	503
Property operating expenses	2, 6	(76)	(9)	(85)	(57)	(7)	(64)
<b>Net rental income<sup>2</sup></b>		<b>412</b>	<b>110</b>	<b>522</b>	341	98	439
Joint venture fee income <sup>1</sup>	2, 6	30	(13)	17	52	(24)	28
Management and development fee income <sup>2</sup>	2, 6	5	2	7	5	2	7
Net solar energy income <sup>2</sup>	2	1	-	1	1	-	1
Administrative expenses	2, 6	(59)	(3)	(62)	(59)	(2)	(61)
<b>Adjusted operating profit before interest and tax</b>		<b>389</b>	<b>96</b>	<b>485</b>	340	74	414
Net finance costs (including adjustments)	2, 6	(74)	(17)	(91)	(40)	(13)	(53)
<b>Adjusted profit before tax</b>		<b>315</b>	<b>79</b>	<b>394</b>	300	61	361
Tax on adjusted profit	2, 6	(11)	(8)	(19)	(8)	(5)	(13)
<b>Adjusted/EPRA earnings before non-controlling interests</b>		<b>304</b>	<b>71</b>	<b>375</b>	292	56	348
Non-controlling interest on adjusted profit	2	(1)	-	(1)	-	-	-
<b>Adjusted/EPRA earnings after tax and non-controlling interests</b>		<b>303</b>	<b>71</b>	<b>374</b>	292	56	348
Number of shares, million	11			1,206.6			1,197.7
<b>Adjusted/EPRA EPS, pence per share</b>				<b>31.0</b>			29.1
Number of shares, million	11			1,210.0			1,201.0
<b>Adjusted/EPRA EPS, pence per share – diluted</b>				<b>30.9</b>			29.0

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

2 The composition of gross and net rental income has changed in 2022 to give a better measure of the underlying rental income from the property portfolio. Management and development fee income; service charge income and expense; and solar energy income and expense are now presented outside of gross and net rental income. Details of the change is disclosed further in Notes 4, 5 and 6. Service charge income is netted against the equal and opposite service charge expense and are not shown as separate line items in the table above. There is no impact on Adjusted operating profit before interest and tax from this change and the prior year comparatives in the table above have been represented to reflect this change.

As discussed in Note 2 there were no non-EPRA adjustments to underlying profit made in the current or prior period, therefore Adjusted earnings is equal to EPRA earnings in the table above.

**TABLE 3: BALANCE SHEET, PROPORTIONAL CONSOLIDATION**

	Notes	2022			2021 (restated) <sup>2</sup>		
		Group £m	JV and associates £m	Total £m	Group £m	JV and associates £m	Total £m
Investment properties	12, 6	14,939	3,022	17,961	15,492	2,909	18,401
Trading properties	12	35	-	35	45	-	45
<b>Total properties</b>		<b>14,974</b>	<b>3,022</b>	<b>17,996</b>	15,537	2,909	18,446
Investment in joint ventures and associates	6	1,768	(1,768)	-	1,795	(1,795)	-
Other net liabilities		(647)	(283)	(930)	(575)	(274)	(849)
Net borrowings	13,6	(4,722)	(971)	(5,693)	(3,321)	(840)	(4,161)
<b>Total shareholders' equity<sup>1</sup></b>		<b>11,373</b>	<b>-</b>	<b>11,373</b>	13,436	-	13,436
EPRA adjustments	11			344			268
<b>Adjusted NAV</b>	11			<b>11,717</b>			13,704
Number of shares, million	11			1,212.5			1,205.5
<b>Adjusted NAV, pence per share</b>	11			<b>966</b>			1,137

1 After non-controlling interests.

2 Group Cash and cash equivalents and Trade and other receivables have been restated as at 31 December 2021 following IFRIC's agenda decision in respect of Demand Deposits with Restrictions on Use arising from a Contract with a Third Party. See Note 1 for further details.

The portfolio valuation deficit of 11.0 per cent shown in the Performance Review section cannot be directly derived from the condensed financial statements and is calculated to be comparable with published MSCI Real Estate indices against which SEGRO is measured. Based on the condensed financial statements there is a valuation deficit of £2,191 million (see Note 7) and property value of £17,925 million (see Table 7) giving a valuation deficit of 10.9 per cent. The primary differences are that the deficit excludes the impact of rent free incentives (£23 million, +0.1 per cent) and other movements (-£32 million, -0.2 per cent) primarily due to foreign exchange based on closing rate as opposed to average used in the condensed financial statements.

Total assets under management of £20,947 million (2021: £21,286 million) includes Group total properties of £14,903 million (2021: £15,468 million) (which excludes head lease ROU asset of £73 million and includes valuation surplus not recognised on trading properties of £2 million) and 100 per cent of total properties owned by joint ventures and associates of £6,044 million (2021: £5,818 million) (see Note 6(ii)).

Total disposals completed in 2022 of £367 million shown in the Investment Update includes: Carrying value of investment properties disposed by SEGRO Group of £315 million (see Note 12) and profit generated on disposal of £9 million (see Note 7); proceeds from the sale of trading properties by SEGRO Group of £100 million (see Note 4); share of joint venture and associates disposal proceeds of £50 million; carrying value of lease incentives, letting fees and rental guarantees disposed by SEGRO Group and joint ventures and associates (at share) of £2 million; and excludes 50 per cent of the disposal proceeds for assets sold by SEGRO to SELP JV of £109 million.

**TABLE 4: EPRA EARNINGS**

	Notes	2022 £m	2021 £m
<b>Equity shareholder earnings per IFRS income statement</b>		<b>(1,927)</b>	4,060
<b>Adjustments to calculate EPRA Earnings, exclude:</b>			
Valuation deficit/(surplus) on investment properties	7	<b>1,970</b>	(3,617)
Profit on sale of investment properties	7	<b>(9)</b>	(53)
Profit on sale trading properties	12	<b>(7)</b>	(7)
(Decrease)/increase in provision for impairment of trading properties	7	<b>(15)</b>	1
Tax on profits on disposals <sup>1</sup>		<b>15</b>	10
Net fair value loss on interest rate swaps and other derivatives	8	<b>199</b>	82
Deferred tax (credit)/charge in respect of EPRA adjustments <sup>1</sup>		<b>(63)</b>	232
SIIC entry tax charge <sup>1</sup>	9	<b>-</b>	38
Adjustments to the share of loss/(profit) from joint ventures and associates after tax	6	<b>215</b>	(405)
Non-controlling interests in respect of the above	2	<b>(4)</b>	7
<b>EPRA earnings</b>		<b>374</b>	348
Basic number of shares, million	11	<b>1,206.6</b>	1,197.7
EPRA Earnings per Share (EPS) (pence)		<b>31.0</b>	29.1
<b>Company specific adjustments:</b>			
Non-EPRA adjustments	2	<b>-</b>	-
<b>Adjusted earnings</b>		<b>374</b>	<b>348</b>
Adjusted EPS (pence)	11	<b>31.0</b>	<b>29.1</b>

<sup>1</sup> Total tax credit in respect of adjustments per Note 2 of £48 million (2021: £280 million charge) comprises tax charge on profits on disposals of £15 million (2021: £10 million) and deferred tax credit of £63 million (2021: £232 million charge) and SIIC entry charge of £nil (2021: £38 million).

**TABLE 5: EPRA NET ASSET MEASURES**

The European Public Real Estate Association ('EPRA') best practice recommendations (BPR) for financial disclosures by public real estate companies sets out three net asset value measures: EPRA net tangible assets (NTA), EPRA net reinstatement value (NRV) and EPRA net disposal value (NDV).

The EPRA Net Tangible Assets (NTA) metric is considered to be most consistent with the nature of SEGRO's business as a UK REIT providing long-term progressive and sustainable returns. EPRA NTA acts as the primary measure of net asset value and is also referred to as Adjusted Net Asset Value (or Adjusted NAV).

A reconciliation of the three EPRA NAV metrics from IFRS NAV is shown in the table below.

As at 31 December 2022	EPRA measures		
	EPRA NTA	EPRA NRV	EPRA NDV
	£m	£m	£m
<b>Equity attributable to ordinary shareholders</b>	<b>11,373</b>	<b>11,373</b>	<b>11,373</b>
Fair value adjustment in respect of interest rate derivatives – Group	131	131	-
Fair value adjustment in respect of trading properties – Group	2	2	2
Deferred tax in respect of depreciation and valuation surpluses – Group <sup>1</sup>	104	208	-
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures and associates <sup>1</sup>	119	238	-
Intangible assets	(12)	-	-
Fair value adjustment in respect of debt – Group	-	-	672
Fair value adjustment in respect of debt – Joint ventures and associates	-	-	123
Real estate transfer tax <sup>2</sup>	-	927	-
<b>Net assets</b>	<b>11,717</b>	<b>12,879</b>	<b>12,170</b>
<b>Diluted shares (million)</b>	<b>1,212.5</b>	<b>1,212.5</b>	<b>1,212.5</b>
<b>Diluted net assets per share</b>	<b>966</b>	<b>1,062</b>	<b>1,004</b>

1 50 per cent of deferred tax in respect of depreciation and valuation surpluses has been excluded in calculating EPRA NTA in line with option 3 of EPRA BPR guidelines.

2 EPRA NTA and EPRA NDV reflect IFRS values which are net of purchasers' costs. Purchasers' costs are added back when calculating EPRA NRV.

As at 31 December 2021	EPRA measures		
	EPRA NTA	EPRA NRV	EPRA NDV
	£m	£m	£m
<b>Equity attributable to ordinary shareholders</b>	<b>13,436</b>	<b>13,436</b>	<b>13,436</b>
Fair value adjustment in respect of interest rate derivatives – Group	24	24	-
Fair value adjustment in respect of trading properties – Group	1	1	1
Deferred tax in respect of depreciation and valuation surpluses – Group <sup>1</sup>	129	259	-
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures and associates <sup>1</sup>	123	245	-
Intangible assets	(9)	-	-
Fair value adjustment in respect of debt – Group	-	-	(260)
Fair value adjustment in respect of debt – Joint ventures	-	-	(22)
Real estate transfer tax <sup>2</sup>	-	1,021	-
<b>Net assets</b>	<b>13,704</b>	<b>14,986</b>	<b>13,155</b>
<b>Diluted shares (million)</b>	<b>1,205.5</b>	<b>1,205.5</b>	<b>1,205.5</b>
<b>Diluted net assets per share</b>	<b>1,137</b>	<b>1,243</b>	<b>1,091</b>

1 50 per cent of deferred tax in respect of depreciation and valuation surpluses has been excluded in calculating EPRA NTA in line with option 3 of EPRA BPR guidelines.

2 EPRA NTA and EPRA NDV reflect IFRS values which are net of purchasers' costs. Purchasers' costs are added back when calculating EPRA NRV.

**TABLE 6: EPRA LTV, Proportional consolidation**

	Notes	2022			2021		
		Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Borrowings <sup>1,2</sup>		2,085	15	2,100	1,976	28	2,004
Bonds <sup>1,2</sup>		2,843	996	3,839	1,453	840	2,293
Exclude:							
Cash and cash equivalents	13	(162)	(32)	(194)	(85)	(22)	(107)
<b>Net Debt (before capitalised finance costs) (a)</b>		<b>4,766</b>	<b>979</b>	<b>5,745</b>	<b>3,344</b>	<b>846</b>	<b>4,190</b>
Foreign currency derivatives		2	–	2	(32)	–	(32)
Net payables <sup>3</sup>		362	57	419	369	22	391
<b>Adjusted Net Debt (b)</b>		<b>5,130</b>	<b>1,036</b>	<b>6,166</b>	<b>3,681</b>	<b>868</b>	<b>4,549</b>
Investment properties at fair value (excluding head lease ROU asset)	12	14,866	3,022	17,888	15,422	2,909	18,331
Trading properties	12	35	–	35	45	–	45
<b>Trading Property Value (c)</b>		<b>14,901</b>	<b>3,022</b>	<b>17,923</b>	<b>15,467</b>	<b>2,909</b>	<b>18,376</b>
Head lease ROU asset	12	73	–	73	70	–	70
Unrecognised valuation surplus on trading properties	12	2	–	2	1	–	1
Other interest in property		30	–	30	24	–	24
Intangibles		12	–	12	9	–	9
<b>Adjusted Total Property Value (d)</b>		<b>15,018</b>	<b>3,022</b>	<b>18,040</b>	<b>15,571</b>	<b>2,909</b>	<b>18,480</b>
<b>LTV (a/c)</b>		<b>32.0%</b>		<b>32.1%</b>	21.6%		22.8%
<b>EPRA LTV (b/d)</b>		<b>34.2%</b>		<b>34.2%</b>	23.6%		24.6%

1 Total Group borrowings as at 31 December 2022 per Note 13 of £4,884 million (2021: £3,406 million) consists of: Nominal value of borrowings from financial institutions of £2,085 million (2021: £1,976 million) less unamortised finance costs of £14 million (2021: £10 million) and nominal value of bond loans of £2,843 million (2021: £1,453 million) less unamortised finance costs of £30 million (2021: £13 million).

2 Joint ventures and associates borrowings as at 31 December 2022 per Note 6 of £1,003 million at share (2021: £862 million) consists of: Nominal value of borrowings from financial institutions of £15 million (2021: £28 million) less unamortised finance costs of £2 million (2021: £nil) and nominal value of bond loans of £996 million (2021: £840 million) less unamortised finance costs of £6 million (2021: £6 million).

3 Net payables is calculated as the net position of the following line items shown on the Balance Sheet: Non-current other receivables, current trade and other receivables, tax asset, non-current trade and other payables, non-current tax liabilities, current trade and other payables and current tax liabilities.

**TABLE 7: EPRA NET INITIAL YIELD AND TOPPED-UP NET INITIAL YIELD**

Combined property portfolio including joint ventures and associates at share – 2022	Notes	UK £m	Continental Europe £m	Total £m
<b>Total properties per financial statements</b>	<b>Table 3</b>	<b>11,142</b>	<b>6,854</b>	<b>17,996</b>
Add valuation surplus not recognised on trading properties <sup>1</sup>	12	2	–	2
Less head lease ROU assets	12	–	(73)	(73)
<b>Combined property portfolio per external valuers' report</b>		<b>11,144</b>	<b>6,781</b>	<b>17,925</b>
Less development properties (investment, trading, joint ventures and associates)		(1,587)	(1,147)	(2,734)
<b>Net valuation of completed properties</b>		<b>9,557</b>	<b>5,634</b>	<b>15,191</b>
Add notional purchasers' costs		649	278	927
<b>Gross valuation of completed properties including notional purchasers' costs</b>	<b>A</b>	<b>10,206</b>	<b>5,912</b>	<b>16,118</b>
<b>Income</b>				
Gross passing rents <sup>2</sup>		357	242	599
Less irrecoverable property costs		(2)	(8)	(10)
<b>Net passing rents</b>	<b>B</b>	<b>355</b>	<b>234</b>	<b>589</b>
Adjustment for notional rent in respect of rent frees		21	25	46
<b>Topped up net rent</b>	<b>C</b>	<b>376</b>	<b>259</b>	<b>635</b>
Including fixed/minimum uplifts <sup>4</sup>		10	1	11
<b>Total topped up net rent</b>		<b>386</b>	<b>260</b>	<b>646</b>
<b>Yields – 2022</b>		<b>%</b>	<b>%</b>	<b>%</b>
EPRA net initial yield <sup>3</sup>	<b>B/A</b>	<b>3.5</b>	<b>4.0</b>	<b>3.7</b>
EPRA topped up net initial yield <sup>3</sup>	<b>C/A</b>	<b>3.7</b>	<b>4.4</b>	<b>3.9</b>
Net true equivalent yield		<b>4.8</b>	<b>4.8</b>	<b>4.8</b>

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

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

3 In accordance with the Best Practices Recommendations of EPRA.

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

**TABLE 8: EPRA VACANCY RATE**

	2022 £m	2021 £m
Annualised estimated rental value of vacant premises	32	22
Annualised estimated rental value for the completed property portfolio	797	693
<b>EPRA vacancy rate<sup>1,2</sup></b>	<b>4.0%</b>	<b>3.2%</b>

1 Vacancy rate percentages have been calculated using the figures presented in the table above in millions accurate to one decimal place.

2 There are no significant or distorting factors influencing the EPRA vacancy rate.

**TABLE 9: TOTAL COST RATIO/EPRA COST RATIO**

	Notes	2022 £m	2021 <sup>5</sup> £m
<b>Costs</b>			
Property operating expenses <sup>1</sup>	5	76	57
Administrative expenses		59	59
Share of joint venture and associates property operating and administrative expenses <sup>2</sup>	6	25	20
Less:			
Joint venture management fees income, management fees and other costs recovered through rents but not separately invoiced <sup>3</sup>		(37)	(34)
<b>Total costs (A)</b>		<b>123</b>	<b>102</b>
<b>Gross rental income</b>			
Gross rental income	4	488	398
Share of joint venture and associates gross rental income	6	119	105
Less:			
Other costs recovered through rents but not separately invoiced <sup>3</sup>		(3)	(3)
<b>Total gross rental income (B)</b>		<b>604</b>	<b>500</b>
<b>Total cost ratio (A)/(B)<sup>4</sup></b>		<b>20.3%</b>	<b>20.2%</b>
<b>Total costs (A)</b>		<b>123</b>	<b>102</b>
Share based payments		(9)	(13)
<b>Total costs after share based payments (C)</b>		<b>114</b>	<b>89</b>
<b>Total cost ratio after share based payments (C)/(B)<sup>4</sup></b>		<b>18.8%</b>	<b>17.6%</b>
<b>EPRA cost ratio</b>			
<b>Total costs (A)</b>		<b>123</b>	<b>102</b>
Non-EPRA adjustments		–	–
<b>EPRA total costs including vacant property costs (D)</b>		<b>123</b>	<b>102</b>
Group vacant property costs		(10)	(5)
Share of joint venture and associates vacant property costs		(1)	(1)
<b>EPRA total costs excluding vacant property costs (E)</b>		<b>112</b>	<b>96</b>
<b>Total gross rental income (B)</b>		<b>604</b>	<b>500</b>
<b>Total EPRA cost ratio (including vacant property costs) (D)/(B)<sup>4</sup></b>		<b>20.3%</b>	<b>20.2%</b>
<b>Total EPRA cost ratio (excluding vacant property costs) (E)/(B)<sup>4</sup></b>		<b>18.5%</b>	<b>19.0%</b>

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £11 million (2021: £9 million) (see Note 5 for further detail on the nature of costs capitalised).

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

3 Total deduction of £37 million (2021: £34 million) from costs includes: joint venture management fees income of £30 million (2021: £26 million) and management fees and other costs recovered through rents but not separately invoiced, including joint ventures and associates, of £7 million (2021: £8 million). These items have been represented as an offset against costs rather than a component of income in accordance with EPRA BPR Guidelines as they are reimbursing the Group for costs incurred. Gross rental income of £488 million (2021: £398 million) does not include joint venture management fees income of £30 million (2021: £26 million) and management fee income of £4 million (2021: £5 million). These fees are not required to be included in the total deduction to income of £3 million (2021: £3 million).

4 Cost ratio percentages have been calculated using the figures presented in the table above in millions accurate to one decimal place.

5 As detailed in Note 4 and 5, the composition of Gross rental income and Property operating expenses have changed in 2022. The prior year comparatives have been represented in the table above to reflect the impact on the cost ratio calculation. This change resulted in Total gross rental income decreasing by £4 million for 2021 to exclude Solar energy income and Development fee income which is no longer included within Gross rental income. Total Costs decreased by £1 million for 2021 to exclude Solar energy expenses. This had nil impact on the cost ratio percentage when calculating using the represented figures presented in the table above in millions accurate to one decimal place.

## GLOSSARY OF TERMS

**Associates:** An entity in which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20 per cent and 50 per cent of the voting rights.

**BREEAM:** BREEAM provides sustainability assessment and certification for real estate assets.

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

**Covered land:** Income-producing assets acquired with the explicit intention to redevelop them in the short to medium term.

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

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

**ESG:** Environmental, Social and Governance issues.

**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.

**GRESB:** An organisation which provides independent benchmarking of ESG metrics for the property industry.

**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.

**IAS:** International Accounting Standards, the standards under which SEGRO reports its financial statements.

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

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

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

**Life cycle assessments:** Life cycle assessment (LCA) is a methodology for assessing the environmental impacts associated with all the stages of the life cycle of a building.

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

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

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

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

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

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

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

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

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

**Rent roll:** See Passing Rent.

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

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

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

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

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

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

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

**Total accounting return (TAR):** A measure of the Group's return, calculated as the change in adjusted NAV per share during the period adding back dividends paid during the period expressed as a percentage of adjusted NAV per share at the beginning of the period.

**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.