PRESS RELEASE

SEGRO
WHERE BUSINESS WORKS

**28 JULY 2015**

**SEGRO plc**

**RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015**

SEGRO plc ('SEGRO' / 'Company' / 'Group') today announces its results for the six months ended 30 June 2015.

- **IFRS profit before tax increased to £330.0 million** (H1 2014: £226.5 million) and Adjusted profit before tax[1] increased to £69.2 million (H1 2014: £66.7 million).
- **8.3 per cent increase in EPRA NAV per share to 416 pence** reflecting improving asset values driven by strong investor demand for the asset class, asset management initiatives and development gains and, increasingly, by rental growth.

  Investor demand for warehousing continues to strengthen across Europe. The Group's portfolio increased in value by 6.0 per cent to £5.2 billion, including a 6.9 per cent increase in the completed UK portfolio, reflecting SEGRO's strong weighting in London, the South East and the Midlands logistics 'golden triangle'. The completed Continental Europe portfolio increased in value by 2.3 per cent, with positive momentum in all of our major markets.
- **Adjusted EPS of 9.2 pence** (H1 2014: 8.9 pence) supported by 4.3 per cent growth in like-for-like rental income, development completions and lower financing and operating costs. We are taking advantage of the improving economic environment across our markets and the lack of supply of quality industrial space, particularly in the UK.
- **Development programme and well-located land bank to drive further growth.** The current construction programme, which is strategically focused on areas with limited supply of Grade A space and strong occupier demand, will deliver 332,400 sq m of new space (equating to £22 million of new rent). The remaining land bank has potential to deliver an additional 2.0 million sq m in the medium term (£73 million of new rent).
- **Interim dividend increased by 2.0 per cent to 5.0 pence** (2014 interim dividend of 4.9 pence).

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

"2015 is shaping up to be another good year for SEGRO with strong operating metrics and portfolio performance, as the benefits of the portfolio re-shaping programme continue to be felt. We have experienced particularly strong demand from parcel delivery companies, third party logistics operators and retailers as economic conditions in our major markets continue to improve.

"The limited supply of high quality industrial and logistics space in our main markets, together with the impact of powerful structural drivers of demand for our products and sustained investor appetite for high quality assets, should be supportive of property returns for some time to come. As it becomes increasingly difficult to secure acquisition opportunities which meet our return targets, we are focusing investment activity on our development programme, approving new construction and adding to our land bank in our core markets. We remain optimistic about our future operating performance as well as portfolio values."

1 A reconciliation between Adjusted profit before tax and IFRS profit before tax is shown in note 2 to the condensed financial information.

## FINANCIAL AND OPERATING HIGHLIGHTS[1]

### Strong operating performance across the Group

- **4.3 per cent like-for-like rental growth**, including 5.8 per cent in the UK.
- **£15.0 million of new rent contracted** (H1 2014: £15.9 million); £1.3 million net absorption of standing stock (H1 2014: £1.2 million). Encouraging pipeline of leasing deals under negotiation.
- **Completed developments added £3.2 million of annualised rental income** (£5.2 million when fully leased). Committed development pipeline is expected to deliver a further £22.4 million of annualised rental income when completed and fully leased (50 per cent pre-let at 30 June 2015).
- **Vacancy rate:** Increased to 7.4 per cent from 6.3 per cent at 31 December 2014, largely due to the impact of speculative development completions (0.4 per cent) and acquisitions and disposals (0.4 per cent). Approximately a quarter of all vacant space is in developments completed in the last 18 months and we expect much of this to be let in the near future.

### Positive asset revaluations across all of our main markets

- **EPRA NAV per share increased by 8.3 per cent** to 416 pence (31 December 2014: 384 pence), primarily the result of a 6.0 per cent improvement in the value of our portfolio, with positive movement in completed asset values recorded across all of our main markets, and in UK land values.
- **UK completed portfolio capital growth of 6.9 per cent** (outperforming the IPD UK All Industrial Monthly Index capital return of 4.8 per cent) combining a c25bp reduction in yields, development completions, asset management initiatives and rental value growth of 2.2 per cent.
- **Continental Europe completed portfolio capital growth of 2.3 per cent**, a function of c40bp yield compression relatively consistently across our three main markets of France, Germany and Poland.

### Investing for growth

- **£153 million of net investment in our portfolio**, focused on developing new assets and adding to the land bank in our core markets, as well as our acquisition of a 90 per cent stake in Vailog, securing a high quality warehouse platform in northern Italy. Investments were funded mainly through disposals of non-core assets (including the office campus at Energy Park outside Milan) and the transfer of newly completed big box logistics warehouses and development land in Continental Europe into the SEGRO European Logistics Partnership joint venture (SELP).
- **Look-through loan to value ratio at 39 per cent** (31 December 2014: 40 per cent), reflecting the portfolio value increase and investment activity during the period. We expect the LTV to fall further in due course as we dispose of assets into the strong investment market.

### Outlook

- **Occupational market conditions are strengthening** as the economies of our major markets continue to improve and the changing nature of consumer demand challenges retailer supply chains. The shortage of modern industrial space is now driving rental growth in our Greater London and Thames Valley markets and for modern big box logistics warehouses in the Midlands.
- **Investment market appetite exceeds available stock,** resulting in continuing upward pressure on asset values which are increasingly supported by rental growth prospects, particularly in the UK.
- **Group's focus to remain on disciplined capital allocation and operational excellence.** We will continue to take advantage of favourable operating conditions by growing rental income and by focusing investment activity on our development pipeline, delivering modern industrial and logistics properties into supply-constrained markets.

[1] All figures quoted refer to SEGRO's share, except for land (hectares) and space (square metres) which are quoted at 100 per cent, unless otherwise stated.

## FINANCIAL SUMMARY

| Income statement metrics | 6 months to 30 June 2015 | 6 months to 30 June 2014 | Change per cent |
|---|---|---|---|
| Adjusted profit before tax[1] (£m) | 69.2 | 66.7 | +3.7 |
| IFRS profit before tax (£m) | 330.0 | 226.5 | +45.7 |
| Adjusted earnings per share[2] (pence) | 9.2 | 8.9 | +3.4 |
| IFRS basic and diluted earnings per share (pence) | 44.4 | 29.4 | +51.0 |
| Interim dividend per share (pence) | 5.0 | 4.9 | +2.0 |

| Balance sheet metrics | 30 June 2015 | 31 December 2014 | Change per cent |
|---|---|---|---|
| Portfolio valuation (SEGRO share, £m) | 5,165 | 4,801 | +5.8[5] |
| EPRA[3 4] net asset value per share (pence) | 416 | 384 | +8.3 |
| IFRS net asset value per share (pence) | 424 | 390 | +8.7 |
| Group net borrowings (£m) | 1,777 | 1,679 | +5.8 |
| Loan to value ratio (including joint ventures at share)[6] (per cent) | 39 | 40 | – |

1 A reconciliation between Adjusted profit before tax and IFRS profit before tax is shown in note 2 to the condensed financial information.

2 A reconciliation between Adjusted earnings per share and IFRS earnings per share is shown in note 11(i) to the condensed financial information.

3 A reconciliation between EPRA net asset value per share and IFRS net asset value per share is shown in note 11(ii) to the condensed financial information.

4 Calculations for EPRA performance measures are shown in the supplementary notes to the condensed financial information.

5 Percentage valuation movement during the period based on the difference between opening and closing valuations for completed properties, adjusting for capital expenditure, acquisitions and disposals.

6 LTV ratio stated net of £110 million deferred consideration receivable in relation to the creation of the SEGRO European Logistics Partnership joint venture.

## WEBCAST/CONFERENCE CALL FOR INVESTORS AND ANALYSTS

**A live webcast of the results presentation will be available from 09.00 (UK time) at:**

http://www.segro.com/investors/Results-Reporting/2015-hy-webcast/

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

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

| | |
|---|---|
| Dial-in: | +44 (0) 20 3059 8125 |
| Access code: | SEGRO plc |

An audio recording of the conference call will be available until 4 August 2015 on:

| | |
|---|---|
| UK & International: | +44 (0) 121 260 4861 |
| USA: | +1 866 268 1947 |
| Access code: | 1130829# |

A video interview with David Sleath, Chief Executive, discussing the results is now available to view on www.segro.com, together with this announcement, the H1 2015 Property Analysis Report and other information about SEGRO.

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

| | | |
|---|---|---|
| SEGRO | Justin Read | Mob: +44 (0) 7831 165 537 |
| | (Group Finance Director) | Tel: + 44 (0) 20 7451 9110 (after 11am) |
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| FTI Consulting | Richard Sunderland / Claire Turvey | Tel: +44 (0) 20 3727 1000 |

**FINANCIAL CALENDAR**

| | |
|---|---|
| 2015 interim dividend record date | 21 August 2015 |
| 2015 interim dividend Scrip dividend price announced | 27 August 2015 |
| Last date for Scrip dividend elections | 11 September 2015 |
| 2015 interim dividend payment date | 2 October 2015 |
| Third Quarter Trading Update | 22 October 2015 |
| Full year 2015 results | 19 February 2016 |

**ABOUT SEGRO**

SEGRO is a UK Real Estate Investment Trust (REIT), and a leading owner, asset manager and developer of modern warehousing and light industrial property. It owns or manages 5.9 million square metres of space in £6.4 billion of assets (at 30 June 2015, SEGRO's share of which totals £5.2 billion), serving 1,200 customers from a wide range of industry sectors. Its properties are located around major conurbations and at key transportation hubs across eight European countries, principally in the UK, France, Germany and Poland.

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

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

## CHIEF EXECUTIVE'S REVIEW

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

To that end, our strategy is to create a portfolio of modern big box, light industrial and urban logistics warehouses in locations which we believe have good growth prospects, limited supply availability, and where we already have, or can achieve, critical mass. Such a portfolio should deliver attractive, low-risk, income-led returns with above-average rental and capital growth when market conditions are positive, and show resilience in a downturn.

Fundamental to the delivery of our strategy are two key pillars of activity:

**Disciplined Capital Allocation** — picking the right geographical markets and assets, creating the right portfolio shape and actively managing the portfolio composition; and

**Operational Excellence** — optimising performance from the portfolio through customer service, expert asset management, development and operational efficiency.

For these to be successful, it is equally important to maintain an efficient and sound capital structure and a lean cost base.

### DISCIPLINED CAPITAL ALLOCATION: SOURCING ASSETS AT ATTRACTIVE PRICING BECOMING MORE CHALLENGING

In the first half, we invested £311 million (SEGRO share) in acquiring new land and assets, predominantly in off-market transactions, in an increasingly competitive investment market. At the time of the full year results, we reiterated our intention to take a disciplined approach to deploying our capital and that our acquisition focus would shift more towards acquiring land for future development. Excluding the effect of the dissolution of the Heathrow Big Box portfolio, we invested £238 million in new acquisitions, of which £102 million was in standing assets at an average topped-up initial yield of 6.1 per cent.

Acquisitions on our own behalf were primarily land purchases in our core light industrial and urban logistics markets as explained in the following section. We also purchased a vacant, newly-developed warehouse in north London where we already have a significant presence and have good visibility of levels of occupier demand.

The SELP joint venture acquired two big box warehouses in Germany for €104 million (£76 million), helping us to build scale in logistics hubs with which we are already familiar, such as at Krefeld where the acquisition of the newly-completed DSV campus is adjacent to our existing logistics park. In addition, SELP acquired €67 million of land and recently completed big box warehouses from SEGRO which are excluded from the table below and discussed in more detail later in this statement.

At the end of June, we completed the acquisition of a 90 per cent stake in Vailog, one of Italy's leading logistics developers, for €39.6 million (£28.9 million). The company contains £73 million of standing assets and land (including options over land), primarily in northern Italy and France. The transaction allows us to establish immediately a strategic big box warehouse presence and operating platform in the important northern Italy logistics market with opportunities to grow additional scale through development.

<u>Acquisitions completed in H1 2015</u>

| Asset location / type | Purchase price[1] (£m, SEGRO share) | Net initial yield (%) | Topped-up net initial yield (%) |
|---|---|---|---|
| UK: Light industrial | 12.8 | 0.0 | 0.0 |
| UK: Big box logistics | 72.4 | 5.0 | 5.0 |
| UK: Land | 73.4 | n/a | n/a |
| Continental Europe: Light Industrial | 12.4 | 8.3 | 8.3 |
| Continental Europe: Big box logistics | 66.2 | 6.3 | 6.9 |
| Continental Europe: Other[3] | 10.5 | n/a | n/a |
| Continental Europe: Land | 63.1 | n/a | n/a |
| **Acquisitions during H1 2015** | **310.8** | **5.4** | **5.6[2]** |

*1 Excluding acquisition costs.*
*2 Yield excludes land acquisitions.*
*3 Vailog photovoltaic business.*

**DISCIPLINED CAPITAL ALLOCATION AND OPERATIONAL EXCELLENCE: ENHANCING GROWTH THROUGH DEVELOPMENT**

As investor demand has picked up, the risk-adjusted returns from developing new assets compared to acquiring existing assets has shifted firmly in favour of development. SEGRO's share of investment in current projects and land acquisitions to replenish our future pipeline totalled £183 million in the first half, compared to £102 million in buying standing assets (excluding the effect of the dissolution of Heathrow Big Box joint venture; £223 million of asset acquisitions in H1 2014). In particular, we are keen to capture the benefit of occupier demand in our light industrial and urban logistics locations on the edge of major cities.

As competition in the investment market grows, the returns we can generate from developments are increasingly attractive. We invested £46 million (SEGRO share) in new developments during the first half of 2015, lower than in the prior year, although we expect the pace of expenditure to accelerate in the second half. We are seeing evidence of construction cost inflation in the UK at around 5 per cent, depending on the market, which is being at least matched by rental growth in our development projects and mainly impacts our future pipeline as construction costs have been fixed for our current pipeline. There are few signs of rising construction costs in our Continental European markets.

<u>Development projects completed</u>

We completed eight projects during the first half, totalling 125,200 sq m of new space, of which 62 per cent was let prior to completion. The projects will add £5.2 million (SEGRO share) of gross passing rent when fully let. This translates into a yield on total development cost (including land, construction and finance costs) of 9.8 per cent when fully let, substantially higher than yields accessible through acquisitions.

Three of the development completions were of big box logistics warehouses in our Continental European portfolio and were pre-let to ASICS in Krefeld, Zabka in Gdansk and Volkswagen in Poznan. The ASICS development was undertaken within SELP while the other two warehouses were sold to the joint venture on completion.

We also completed 30,500 sq m of light industrial and urban logistics warehouses, including a 4,600 sq m parcel delivery centre for Deutsche Post in Nuremberg and two speculative schemes totalling 12,100 sq m on the Slough Trading Estate, of which 1,400 sq m has already been let.

<u>Active development projects</u>

At 30 June 2015, we had 26 development projects approved, contracted or under construction totalling 332,400 sq m, representing £134 million of future capital expenditure and £22 million of annualised rental income (SEGRO share) when fully let. The projects are due to complete in 2015 and 2016. They are 50 per cent pre-let and should generate a yield on total development cost of 7.9 per cent when fully let.

The pipeline contains a 92,900 sq m warehouse pre-let to Leroy Merlin outside Milan, which we bought as part of the Vailog acquisition and the first phases of our new light industrial development in Cologne totalling 21,700 sq m of warehouse space. Both are new markets to SEGRO but the property types are not. The development in Cologne will transform a centrally-located brownfield site into a modern, multi-let estate, following the successful schemes we have recently completed at CityPark and RhinePark in Düsseldorf.

In the UK, construction of the 9,900 sq m warehouse pre-let to the John Lewis Partnership is underway at Origin in Park Royal. This will be used for delivering heavier and larger goods to customers in London. Simultaneously, we started the construction of speculative units to complete the estate totalling 9,200 sq m, of which two thirds have already been let to Wasabi for food preparation and distribution. The modern facilities and proximity to London were crucial for Wasabi, which relies on rapid distribution of its fresh produce to its London stores.

In addition to the projects referred to above, discussions are advanced in respect of a further 100,000 sq m of pre-let developments, reflecting the shortage of high quality available space and strengthening demand from occupiers in our major markets.

<u>Future development projects</u>

Much of our acquisition activity in the first half has focused on securing additional land on the edge of major cities. We added 153 hectares (£136 million) to our land bank in Greater London, the Thames Valley, Düsseldorf, Cologne, Paris and northern Italy, reflecting our confidence in being able to generate more attractive returns through development than through buying standing assets. As with all our land acquisitions, a key element of the appraisal process is confidence that the site can be developed within three to five years to avoid over-burdening ourselves with non-income producing assets.

Most of the land acquisitions have been of brownfield sites previously used for manufacturing activities and often in relatively central locations. In Cologne, for example, we acquired the former campus of AkzoNobel to create our first light industrial estate in the city and the first three phases of development are already underway. In Düsseldorf, we have agreed to acquire, on a phased basis, a plot of land which neighbours our RhinePark development and will allow us to expand this successful estate. In Paris, we bought an 18 hectare plot of land in the prime logistics hub of Garonor which was formerly a PSA Peugeot Citroën manufacturing facility. We also purchased a land bank located mainly in Italy as part of our acquisition of Vailog and we already have an encouraging number of pre-let discussions under way.

In the UK, our largest acquisition was of the former Nestlé production facility at Hayes which is adjacent to a new Crossrail station and less than a mile from junction 3 of the M4 motorway making it ideally suited to a combination of residential and industrial uses. We are currently working on a master plan with the local authority.

Most of this land has been added to our future development pipeline which now totals £209 million and 445 hectares, and we expect to build out the majority over the next three to five years. Approximately 70 per cent of the land bank is intended for development of big box logistics warehouses, much of the remainder being suitable for light industrial development. The prospective capital expenditure associated with these projects is £617 million. We estimate that these developments could generate £73 million of gross rental income (SEGRO share), representing a yield on total development cost of 8.8 per cent (reflecting the weighting towards higher yielding, Continental Europe big box logistics warehouse developments), or £95 million of potential rent when the currently active pipeline is added.

Further detail on our completed and active development projects is available in our H1 2015 Property Analysis Report, which is available to download at www.segro.com/investors.

## OPERATIONAL EXCELLENCE: IMPROVING RETURNS FROM OUR EXISTING ASSETS

Improving levels of occupier demand have been reflected in our operating metrics, most notably in the like-for-like net rental income growth of 4.3 per cent. Our vacancy rate has increased to 7.4 per cent (within our target range of 6 to 8 per cent) due to the completion of speculative development projects in the period, particularly on the Slough Trading Estate. We have already let 12 per cent of this space post completion and levels of interest give us confidence that further lettings will follow in the near term. We have continued to see net absorption of existing space and discussions on pre-let agreements are very encouraging for the rest of the year.

### Improving occupier demand

Our light industrial and urban logistics assets are located mainly on the edges of London, Paris, Düsseldorf, Berlin and Warsaw, where there is a lack of quality warehouse space and competing uses for land, particularly from residential development. This situation is creating conditions where lease terms are improving and rents are increasing, particularly in the UK. Our Heathrow portfolio, for example, has become increasingly attractive to occupiers needing rapid access to Central London as space in Park Royal becomes less available. This location has the potential to become even more attractive if the UK Government accepts the recommendations of the Airports Commission and allows a third runway to be built at Heathrow Airport.

Our big box logistics warehouses are primarily focused on the major logistics hubs and corridors in the UK, Germany, France and Poland. In the UK, there are clear signs of rental growth in the logistics “golden triangle” and South East England where our portfolio is concentrated, and where demand for space substantially exceeds the available supply. In Continental Europe, rents in the best logistics markets are broadly stable and the supply of Grade A space is tight. The exception to this is in Central Europe where the availability of land and competition between developers for pre-let agreements means that rental values have fallen during the first half.

### Strong letting activity

During H1 2015, we secured new leases totalling 327,000 sq m and generated £15.0 million of annualised rental income. We generated £9.5 million of annualised rent from letting existing space, slightly higher than last year, compared to £8.2 million of rent from existing space returned to us, retaining 79 per cent of leases on expiry or break. The net take-up of £1.3 million is broadly in line with the first half of 2014.

Like-for-like net rental income improved by 4.3 per cent (4.5 per cent including allocated central costs) for the portfolio as a whole. Strong momentum in our UK portfolio (+5.8 per cent) was partly offset by Continental Europe where like-for-like net rental income fell by 0.5 per cent.

| Summary of key leasing data for the half year to 30 June 2015[1] | | H1 2015 | H1 2014 |
|---|---|---|---|
| Take-up of existing space[2] (A) | £m | 9.5 | 9.0 |
| Space returned[3] (B) | £m | (8.2) | (7.8) |
| **NET ABSORPTION OF EXISTING SPACE (A-B)** | **£m** | **1.3** | **1.2** |
| Other rental movements (rent reviews, renewals, indexation)[2] (C) | £m | 0.2 | 0.3 |
| **RENT ROLL GROWTH FROM EXISTING SPACE** | **£m** | **1.5** | **1.5** |
| Take-up of developments completed in the period – pre-let space[2] (D) | £m | 2.9 | 3.7 |
| Take-up of developments completed in the period – speculative space[2] (D) | £m | 0.6 | 1.3 |
| **TOTAL TAKE UP[2] (A+C+D)** | **£m** | **13.2** | **14.3** |
| Less take-up of pre-lets signed in prior periods[2] | £m | (3.0) | (4.1) |
| Pre-lets signed in the period for delivery in later periods [2] | £m | 4.8 | 5.7 |
| **RENTAL INCOME CONTRACTED IN THE PERIOD[2]** | **£m** | **15.0** | **15.9** |
| Take-back of space for redevelopment[3] | £m | (0.7) | (4.1) |
| Retention rate[4] | % | 79 | 72 |

*1 All figures reflect exchange rates at 30 June and include joint ventures at share.*
*2 Annualised rental income, after the expiry of any rent-free periods.*
*3 Annualised rental income, excluding space taken back for redevelopment.*
*4 Headline rent retained as a percentage of total headline rent at risk from break or expiry during the period.*

Two thirds of lettings during the period were to customers related to air cargo, manufacturing and distribution. We had particular success at the Heathrow Cargo Centre, letting 22,400 sq m to Worldwide Flight Services, while demand from the manufacturing sector was concentrated in Continental Europe, including the occupation by Volkswagen of its newly-developed premises in Poznan. Lettings to customers in the transport and distribution field included Deutsche Post DHL in Germany and Federal Express in the UK.

Last year, the level of pre-let activity was split fairly evenly between the first and second halves. This year, we expect it to be biased towards the second half based on the heightened levels of pre-let discussions currently underway. The majority of the rent secured from pre-lets in the first half was from the John Lewis warehouse at Origin, a 13,800 sq m warehouse pre-let to DHL near Heathrow and two retail units on the Slough Trading Estate pre-let to food retailers B&M and Iceland.

**Vacancy rate rise reflects speculative development completions and asset recycling**

The vacancy rate at 30 June 2015 increased to 7.4 per cent from 6.3 per cent at 31 December 2014 (excluding short term lets, the vacancy rate is 8.4 per cent, from 7.7 per cent at 31 December 2014).

Despite the rise, the vacancy rate remains within our target range of between 6 and 8 per cent. Apart from day-to-day take-up and take-backs of properties, the vacancy rate will fluctuate with the pace of speculative development completions. We only build speculatively where we are confident of the right level of demand compared to supply and expect newly-developed units to be filled over a period of 12 to 18 months after completion. Speculative developments completed during 2014 and H1 2015 were 76 per cent let at 30 June 2015. Excluding the unlet space in these assets, the vacancy rate would be 5.6 per cent.

The portfolio's average lease length remained stable at 6.7 years to first break (8.5 years to expiry) at 30 June 2015, compared to 6.7 years to first break (8.6 years to expiry) at 31 December 2014, reflecting both leasing progress and transactional activity during the year.

**DISCIPLINED CAPITAL ALLOCATION: IMPROVING THE QUALITY OF OUR ASSET BASE**

We disposed of £204 million of assets in the first half, at an average 3 per cent premium to 31 December 2014 book values. The proceeds of the asset disposals reflect an average topped-up initial yield of 7.2 per cent.

Our disposal programme continued to focus on non-core assets during the first half, including the last of the large, non-strategic assets identified in 2011: the office campus at Energy Park, near Milan. We have retained a plot of land adjacent to the campus and we are considering options for this land, including redevelopment of the site or early disposal.

We also agreed the dissolution of the Heathrow Big Box joint venture in a transaction which comprised the sale of Heathrow Corporate Park from the JV and the wholly-owned HCH House to M&G, in exchange for SEGRO buying Axis Park from the JV.

The transaction allows us to make further progress on our objective of reducing the number of non-strategic joint ventures in which the Company is involved, after taking full control of the Logistics Property Partnership joint venture one year ago.

Towards the end of June, we transferred €67 million (£49 million) of recently-completed big box assets and development land from our wholly-owned Continental European portfolio into the SELP joint venture. The assets transferred include warehouses built for Volkswagen and Zabka in Poland, and for Ikea in the Czech Republic, along with some land adjacent to these assets, and a development site near Charles de Gaulle Airport in Paris.

Disposals completed in H1 2015

| **Asset location / type** | **Gross proceeds (£m, SEGRO share)** | **Net initial yield (%)** | **Topped-up net initial yield (%)** |
|---|---|---|---|
| UK: Light industrial | 15.0 | 5.6 | 5.6 |
| UK: Big box logistics | 59.3 | 5.5 | 5.5 |
| Continental Europe: Industrial | 14.6 | 14.1 | 14.1 |
| Continental Europe: Offices | 86.6 | 7.3 | 7.3 |
| Continental Europe: Land | 3.5 | n/a | n/a |
| Continental Europe: SELP asset transfer | 17.9 | 6.5 | 7.6 |
| Continental Europe: SELP land transfer | 6.6 | n/a | n/a |
| **Total disposals during H1 2015** | **203.5** | **7.1**[1] | **7.2**[1] |

*1 Yield excludes land disposals.*

## PROPERTY VALUES CONTINUE TO IMPROVE

As expected at the time of our full year 2014 results, property yields have continued to compress and were again the main component of value appreciation in both our UK and Continental European portfolios. Rental value growth also exerted a greater influence on UK asset values, enhancing the impact of yield compression. The macro drivers of real estate pricing — GDP growth across all of our markets and ‘lower for longer’ interest rates — and the structural drivers — the accelerating pace of online and convenience retailing — are favourable. The combination of these and our well-located, high quality portfolio reinforces our expectations for further improvements in valuations in the second half of the year, albeit at a more moderate pace.

The strong investor demand for European prime warehouse and logistics assets we identified in 2014 has continued into 2015, but the lack of available product is limiting investment volumes, which fell by around 10 per cent in the first half compared to the prior year, according to CBRE. Demand for good quality secondary product has been increasing in the UK, but in Continental Europe it remains focused on prime assets.

Investment demand has caused prime yields to fall across almost all of our markets during the first half by up to 40 basis points. We believe that demand is sufficient to compress yields further in our Continental European portfolio, particularly among our light industrial and urban logistics assets. The emergence of sustained rental growth in our UK portfolio may cause further yield compression in the near term, although we expect the pace to slow, leaving rental growth as the primary driver of improving values.

The total value of the Group’s property portfolio, comprising completed properties, land and development (including our share of joint venture assets), increased by £292.9 million (H1 2014: £183.5 million), or 6.0 per cent to £5.2 billion. This mainly reflects a 5.8 per cent increase in the value of our completed properties on a like-for-like basis, assisted by an increase in the value of properties under development in the UK and Continental Europe, and our UK land bank.

The UK completed portfolio was the strongest component of performance, delivering a 6.9 per cent valuation uplift on a like-for-like basis, outperforming the IPD UK Industrial Monthly Index which increased by 4.8 per cent. The capital return on our UK portfolio was driven by the combination of a reduction in the equivalent yield to 6.0 per cent (31 December 2014: 6.3 per cent) and a 2.2 per cent improvement in valuers’ estimated rental values.

In Continental Europe, the completed portfolio value increased by 2.3 per cent on a like-for-like basis, equivalent to the full year increase experienced in 2014. Valuation growth was fairly consistent across our three main markets and driven by falling yields. Our wholly-owned light industrial and urban logistics assets increased in value by 2.1 per cent, a function of improving yields and stable overall rental values.

The SELP portfolio, comprising big box logistics assets, increased in value by 2.9 per cent reflecting improving yields, marginally offset by a modest fall in rental values, the latter being concentrated in Poland where greater competition for pre-let agreements from trader-developers has been reflected in lower rents.

| | | Portfolio value, £m | | | Yield[2], % | | | |
|---|---|---|---|---|---|---|---|---|
| | Lettable area (100%) sq m | Completed | Land & dvpt | Combined property portfolio | Net initial | Net true equivalent | Valuation movement[1 2] % | Vacancy[3] (ERV) % |
| **BY GEOGRAPHY** | | | | | | | | |
| **UK** | | | | | | | | |
| Greater London | 1,230,263 | 1,908.0 | 166.3 | 2,074.3 | 4.3 | 5.8 | 7.8 | 9.2 |
| Thames Valley & National Logistics | 1,019,257 | 1,711.8 | 96.5 | 1,808.3 | 5.2 | 6.3 | 5.8 | 6.7 |
| **UK TOTAL** | **2,249,520** | **3,619.8** | **262.8** | **3,882.6** | **4.7** | **6.0** | **6.9** | **8.0** |
| **CONTINENTAL EUROPE** | | | | | | | | |
| Germany | 1,137,011 | 363.9 | 58.8 | 422.7 | 5.5 | 6.8 | 2.5 | 9.8 |
| Belgium/Netherlands | 183,710 | 55.0 | 16.9 | 71.9 | 8.1 | 7.8 | 0.5 | 11.8 |
| France | 1,060,952 | 349.2 | 32.3 | 381.5 | 6.9 | 7.6 | 2.8 | 2.9 |
| Italy | 65,302 | 27.9 | 46.8 | 74.7 | 3.3 | 9.1 | (1.8) | 1.5 |
| Poland | 1,051,128 | 260.5 | 27.9 | 288.4 | 7.1 | 7.5 | 2.3 | 4.6 |
| Czech Republic/Hungary | 105,341 | 24.7 | 18.4 | 43.1 | 7.0 | 7.5 | 0.4 | 0.7 |
| **CONTINENTAL EUROPE TOTAL** | **3,603,444** | **1,081.2** | **201.1** | **1,282.3** | **6.4** | **7.4** | **2.3** | **6.0** |
| **GROUP TOTAL** | **5,852,964** | **4,701.0** | **463.9** | **5,164.9** | **5.1** | **6.3** | **5.8** | **7.4** |
| **BY OWNERSHIP** | | | | | | | | |
| Wholly-owned | 2,699,448 | 3,589.5 | 385.8 | 3,975.3 | 5.0 | 6.2 | 6.2 | 8.6 |
| Joint ventures | 3,153,516 | 1,111.5 | 78.1 | 1,189.6 | 5.5 | 6.7 | 4.3 | 4.0 |
| **GROUP TOTAL** | **5,852,964** | **4,701.0** | **463.9** | **5,164.9** | **5.1** | **6.3** | **5.8** | **7.4** |

*1 Capital return is based on the difference between the opening and closing valuations for completed properties, allowing for capital expenditure, acquisitions and disposals.*
*2 In relation to completed properties only.*
*3 Vacancy rate excluding short term lettings for the Group at 30 June 2015 is 8.4 per cent.*

## STRONG AND RESILIENT CAPITAL BASE

Net debt, including our share of joint venture net debt, increased by £77 million to £2.1 billion, mainly reflecting net investment activity of £153 million. The 6.0 per cent valuation gain on our overall portfolio was the main driver behind the improvement of the look-through LTV (including our share of assets and liabilities in joint ventures) to 39 per cent, from 40 per cent at 31 December 2014.

The higher net debt level is a function of £357 million of investment (SEGRO share) in developments and acquisitions, offset by £204 million of disposals. We also received £33.6 million net refund of tax associated with the 2007 sale of Slough Estates USA to which we referred at the time of the full year results.

We acquired €104 million (SEGRO share: €52 million) of big box logistics warehouses in Germany within SELP, allowing us to build scale in this market without over-burdening our balance sheet. The joint venture now contains €1.9 billion of assets, from €1.7 billion at 31 December 2014, reflecting the combination of investment and 2.9 per cent capital value growth of its completed assets.

Although the euro weakened by 8.5 per cent against sterling during the first half, we have a high degree of hedging in place to protect our balance sheet and earnings from the impact of future volatility. Our net assets are 88 per cent hedged and our euro earnings are 63 per cent hedged against movements in the euro-sterling exchange rate. Further details can be found in the Financial Review.

We expect to invest approximately a further £130 million (SEGRO share) in development and refurbishment capex during the remainder of 2015. We indicated at the time of the full year results that we intend to fund our investment activity with disposal proceeds and this continues to be the case. We expect the LTV to fall further in due course as we dispose of assets into a strong investment market.

## INTERIM DIVIDEND OF 5.0 PENCE PER SHARE

Consistent with its previous guidance that the interim dividend would normally be set at one third of the previous year's total dividend, the Board has declared an increase in the interim dividend per share of 0.1 pence to 5.0 pence (H1 2014: 4.9 pence). This will be paid as an ordinary dividend on 2 October 2015 to shareholders on the register at the close of business on 21 August 2015.

The Board will offer a scrip dividend option for the 2015 interim dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares.

## OUTLOOK

The main drivers of our business continue to provide grounds for optimism: economic growth is improving in both the UK and Continental Europe; supply of high quality big box warehouse, urban logistics and light industrial space is tight in our key markets with little sign of imminent over-supply; and there is healthy demand from logistics operators, parcel delivery companies and retailers for space both in major distribution hubs and near large cities to cater for e-commerce and convenience customers. In addition, the weight of money chasing real estate in Europe continues to drive the value of industrial and logistics warehouses higher.

In this environment, it is important to maintain the discipline we have instigated over the past four years when assessing acquisitions and development opportunities. The level of investor demand, particularly for big box logistics properties, has driven yields down to levels where we believe the risk-adjusted return of investing in our development pipeline comfortably exceeds the returns from most of the acquisitions we review. This has been our experience in the first half of the year and is likely to remain so for some time.

The favourable supply-demand dynamics in our major markets and the attractive returns from development mean that we will continue to approve carefully selected speculative and pre-let projects, as evidenced by our early start on the site we recently purchased in Cologne. Indeed, encouraging discussions with potential customers are underway across our markets both for new pre-let buildings and for speculative developments both completed and under construction.

Over the medium term, we are confident that rental value growth will become a more important driver of valuation increases, especially in the UK. This should translate into improving operating metrics and, therefore, overall profitability, helping us to reach our goal of becoming the best European owner-manager and developer of warehouse and industrial properties and a leading income-focused REIT.

## STATEMENT OF PRINCIPAL RISKS

The Group recognises that its ability to manage risk effectively across the organisation is central to its success. Risk management ensures a structured approach to decision making that aims to reduce the uncertainty surrounding expected outcomes, balanced against the objective of creating value for our shareholders.

The Group's risk appetite and its process for identifying, assessing and reviewing risks faced by the Group are described in the Principal Risks section of the 2014 Annual Report on pages 38 to 40.

There are no significant changes to the risks presented in the 2014 Annual Report on pages 41 to 43, which includes more information about the risks and mitigating activity.

A summary of the principal risks and uncertainties for the second half of 2015 is provided below.

## PROPERTY RISKS

These are risks to achieving above average rental and capital growth from our portfolio, including external market and competitive conditions, portfolio strategy, and execution of acquisitions and disposals.

We recognise that, in seeking outperformance from our portfolio, the Group must accept a balanced level of property risk in order to provide opportunities for superior returns.

**Market cycle.** The property market is cyclical and there is an inherent continuous risk that the Group could either misinterpret the market or fail to react appropriately to changing market conditions, which could result in capital being invested or disposals taking place at the wrong price or time in the cycle.

**Portfolio strategy.** The Group's Total Property and/or Shareholder Returns could underperform in absolute or relative terms as a result of an inappropriate portfolio strategy.

**Execution of investment plans.** Decisions to buy, hold, sell or develop assets could be flawed due to uncertainty in analysis and assumptions, poor due diligence or unexpected changes in the economic or operating environment.

## FINANCIAL RISKS

These are risks to the revenues, costs, cash flows, equity capital and solvency of the Group resulting from the capital structure of the Group and changes in external factors such as interest rates, foreign exchange rates and the creditworthiness of the Group's major financial counterparties.

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

**Solvency and covenant breach.** A substantial fall in the Group's property asset values or rental income levels could lead to a breach of financial covenants within its debt funding arrangements. This could lead to a cancellation of debt funding which could, in turn, leave the Group without sufficient long-term resources (solvency) to meet its commitments.

**European economic environment.** The risk of a significant adverse impact to the Group's earnings, net asset value, financial covenants or investor confidence arising from the exit of an economy from the Eurozone, a UK exit from the EU, or sustained poor economic performance in the Eurozone.

**Financial leverage.** The Group could maintain an inappropriate capital structure. Financial leverage (usually expressed as the LTV ratio, but in financial covenants defined as gearing) needs to be managed depending on the direction of the economic and property market cycle. If gearing is too high when property valuations are falling, net asset value movements can be exacerbated and financial covenants put at risk. Equally, if gearing is too conservative, there is a risk that attractive growth opportunities could be missed and the benefits of leverage not maximised.

**Interest rates.** A significant adverse movement in interest rates could have an unacceptable impact on the Group's earnings, on investment market conditions or on tenant covenant strength.

**Counterparty default.** A bank or other counterparty could default while holding SEGRO deposits or derivative assets, resulting in a significant financial loss to the Group. This could also include the loss of solvency headroom from lost undrawn committed bank facilities.

## CORPORATE RISKS

These are risks to business performance, legal and regulatory compliance, health and safety, environmental impact, reputation and business continuity arising from external factors or inadequate internal processes, people or systems.

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

**Operational delivery and compliance.** The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: environmental damage; failing to attract, retain and motivate key staff; a breach of anti-bribery and corruption or other legislation; major customer default or supply chain failure. Compliance failures, such as breaches of joint venture shareholders' agreements, secured loan agreements or tax legislation could also damage reputation, revenue and shareholder value.

**Health and safety.** Health and safety management processes could fail, leading to a loss of life, litigation, fines and serious reputational damage to the Group.

**Regulatory environment.** The Group could fail to anticipate legal or regulatory changes, leading to a significant unforecasted financial or reputational impact.

## FINANCIAL REVIEW

### HIGHLIGHTS

| | **30 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| Total property return (%) | **8.7** | 7.6 | 19.4 |
| IFRS net asset value (NAV) per share (p) | **424** | 335 | 390 |
| EPRA[1] NAV per share (p) | **416** | 333 | 384 |
| Realised and unrealised property gain[2] | **285.0** | 183.0 | 518.0 |
| IFRS profit before tax (£m) | **330.0** | 226.5 | 654.4 |
| Adjusted[3] profit before tax (£m) | **69.2** | 66.7 | 129.7 |
| IFRS earnings per share (EPS) (p) | **44.4** | 29.4 | 92.0 |
| Adjusted[3] EPS (p) | **9.2** | 8.9 | 17.2 |

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

*2 Includes the realised and unrealised property profit of £233.9 million for the wholly owned portfolio (see note 7 to the financial information) and the realised and unrealised property profit of £51.1 million from our share of joint ventures (see note 6 to the financial information).*

*3 A reconciliation between IFRS profit before tax/EPS and Adjusted profit before tax/EPS is shown in note 2 and 11 and a reconciliation between Adjusted profit before tax/Adjusted EPS and their EPRA equivalents are shown in supplementary note 2.*

### TOTAL PROPERTY RETURN

Total property return for the period was 8.7 per cent, a significant improvement on the 7.6 per cent return for the same period in 2014. This reflects an income return of 2.7 per cent (H1 2014: 3.1 per cent), and a 6.0 per cent capital return compared to a 4.5 per cent capital return in the first half of 2014.

### NAV AND EPRA NAV PER SHARE

A reconciliation of EPRA net assets to total net assets attributable to ordinary shareholders and the corresponding NAV and EPRA NAV per share calculations is provided in note 11.

| | **£m** | **Number of shares (m)** | **Pence per share** |
|---|---|---|---|
| **EPRA net assets attributable to ordinary shareholders at 31 December 2014** | **2,844.7** | **741.1** | **384** |
| Realised and unrealised property gain | 285.0 | | |
| Adjusted profit after tax | 68.7 | | |
| Dividend (final – net of scrip shares issued) | (54.7) | | |
| Early close out of interest rate swaps | (24.8) | | |
| Exchange rate movement (net of hedging) | (12.2) | | |
| Pension settlement costs | (4.8) | | |
| Other | (1.2) | | |
| **EPRA net assets attributable to ordinary shareholders at 30 June 2015** | **3,100.7** | **746.0** | **416** |

EPRA NAV per share at 30 June 2015 was 416 pence, compared with 384 pence at 31 December 2014, primarily as a result of the property gains in the period. The table above highlights the other principal factors behind the increase. Adjusted profit after tax generated during the period covered the final dividend (which was paid net of 4.9 million scrip shares issued). During the period the Group restructured and extended its euro interest rate swap portfolio resulting in a cash close out cost of £24.8 million, as discussed further in the Interest Rate Exposure section below.

The exchange rate movement of £12.2 million recognised in the first six months to 30 June 2015 is discussed in the Foreign Currency Translation Exposure section below.

The £4.8 million pension settlement costs relate predominantly to an agreement reached with an insurance company to commit to a process which will result in the buy-out to secure all member benefits of the Bilton Group pension scheme, one of the Group's legacy defined benefit pension schemes. Following the transaction, which will be funded predominantly from the assets of the scheme, the insurance company will take on all the risks associated with paying the members' benefits together with all administrative and governance responsibilities. The transaction will also remove the obligation for ongoing cash contributions by the Group into the scheme (£0.5 million p.a. of contributions were previously committed until 2018). The most significant element of the £4.8 million charge is the write-off of the asset (£3.5 million) in respect of the scheme, calculated in accordance with IAS19, at the date that agreement was reached. The remaining element of the charge relates mainly to professional fees associated with the transaction.

**REALISED AND UNREALISED PROPERTY GAIN**

A total realised and unrealised gain on property of £285.0 million (H1 2014: £183.0 million gain) has been recognised. For the wholly owned portfolio a surplus of £233.9 million (H1 2014: £137.4 million surplus) has been recognised during the period, which includes an unrealised valuation surplus on investment properties of £230.0 million (H1 2014: £142.8 million surplus), a profit of £4.5 million on the disposal of investment properties (H1 2014: £0.4 million loss) and a loss of £0.2 million on disposal of trading properties (H1 2014: £0.3 million loss). Impairment provisions of £0.4 million (H1 2014: £4.7 million) were recorded against remaining trading properties as their fair values are deemed to be less than their original cost. The total realised and unrealised loss on property for the period is further analysed in note 7.

Our share of the realised and unrealised gain on property generated from joint ventures was £51.1 million (H1 2014: £45.6 million gain) and is primarily due to an investment property valuation surplus of £49.4 million, which is further analysed in note 6.

The Group's trading property portfolio (including its share of joint ventures) has an unrealised valuation surplus of £5.6 million at 30 June 2015, which has not been recognised in the financial statements (H1 2014: £5.0 million surplus) as these properties are recorded at the lower of cost or fair value. This valuation uplift is however recognised in the EPRA NAV per share calculation.

**EPS and ADJUSTED EPS**

EPS is 44.4 pence for the six months to 30 June 2015, compared with 29.4 pence in the six months to 30 June 2014 largely as a result of the increase in realised and unrealised property gain discussed above, together with a net fair value loss on interest rate swaps and other derivatives of £9.1 million (H1 2014: £17.7 million loss) and a tax credit of £0.1 million compared to a loss of £8.3 million in the six months to 30 June 2014.

Adjusted EPS of 9.2 pence per share is higher than the same period in 2014 (8.9 pence per share) reflecting a £2.9 million increase in Adjusted profit after tax, which is analysed in further detail in the Adjusted Profit and following sections.

**ADJUSTED PROFIT**

Adjusted profit after tax in the period increased by £2.9 million to £68.7 million compared to the six months to 30 June 2014.

| | **Six months to 30 June 2015 £m** | Six months to 30 June 2014 £m |
|---|---|---|
| Gross rental income | **101.2** | 107.5 |
| Property operating expenses | **(15.8)** | (20.0) |
| **Net rental income** | **85.4** | 87.5 |
| Joint venture management fee income | **6.7** | 5.4 |
| Administration expenses | **(13.0)** | (11.7) |
| Share of joint ventures' Adjusted profit after tax[1] | **23.6** | 22.6 |
| **Adjusted operating profit before interest and tax** | **102.7** | 103.8 |
| Net finance costs | **(33.5)** | (37.1) |
| **Adjusted profit before tax** | **69.2** | 66.7 |
| Tax on adjusted profit | **(0.5)** | (0.9) |
| **Adjusted profit after tax[2]** | **68.7** | 65.8 |

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

*2 A detailed reconciliation between Adjusted profit after tax and IFRS profit after tax is provided in note 2 to the financial information.*

Adjusted profit is the Group's new measure of underlying profit. It is based on the Best Practices Recommendations of EPRA. The Directors may also exclude additional items considered to be non-recurring, not in the ordinary course of business, and significant by virtue of size and nature. See note 2 of the financial information for further information on these adjustments, including the adjustment made in the period to 30 June 2015.

**NET RENTAL INCOME**

Like-for-like net rental income is presented on a "look-through" basis (with joint ventures included at share). Since the Logistics Property Partnership joint venture became wholly owned on 30 July 2014, the 50 per cent of its assets owned throughout the six months to 30 June 2015 and 30 June 2014 respectively are included in the like-for like calculation, with the balance shown as acquisitions. Similar adjustments were made in respect of the assets formerly owned by the Heathrow Big Box joint venture.

Overall, net rental income has decreased by £2.3 million. Like-for-like net rental income before other items is up £3.9 million compared to the six months to 30 June 2014. This is mainly due to letting activity in the UK since 30 June 2014.

Other items include costs not allocated to business units which were £1.2 million in the six months to 30 June 2015 (H1 2014: £1.3 million).

Net rental income lost due to disposals (£13.0 million), the negative impact on net rental income of a weaker euro against sterling in 2015 (£4.5 million) and a reduction in the net impact of lease surrenders and other income (£6.0 million) were partially offset by the impact of acquisitions (£11.8 million) and developments (£5.4 million). Rent lost from lease surrenders and other items includes out of period credits which are £2.2 million higher in H1 2015 than in H1 2014. Also included, in the 6 months to 30 June 2014, is a one-off cash receipt of £3.1 million from the administrator of Neckermann in respect of a longstanding claim for unpaid rent.

The key drivers of the movement in net rental income are set out in the table below:

| **Like-for-like net rental income** | **Six months to 30 June 2015 £m** | Six months to 30 June 2014 £m | Change % |
|---|---|---|---|
| UK | **73.2** | 69.2 | 5.8 |
| Continental Europe | **21.7** | 21.8 | (0.5) |
| **Like-for-like net rental income before other items** | **94.9** | 91.0 | 4.3 |
| Other[1] | **(1.2)** | (1.3) | |
| **Like-for-like net rental income** | **93.7** | 89.7 | 4.5 |
| Development lettings | **6.0** | 0.1 | |
| Properties taken back for development | **0.1** | 0.6 | |
| **Like-for-like net rental income plus developments** | **99.8** | 90.4 | |
| Properties acquired | **12.1** | 0.3 | |
| Properties sold | **3.6** | 16.6 | |
| **Net rental income before surrenders, dilapidations and exchange** | **115.5** | 107.3 | |
| Lease surrender premiums and dilapidations income | **0.3** | 3.6 | |
| Rent lost from lease surrenders and other items | **0.8** | 3.5 | |
| Impact of exchange rate difference between periods | **-** | 4.5 | |
| **Net rental income per income statement** | **116.6** | 118.9 | |

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

**JOINT VENTURES**

Joint venture management fee income has increased by £1.3 million, largely due to an increase in performance fees from APP. SEGRO's share of joint ventures' Adjusted profit is £23.6 million, an increase of £1.0 million compared to the prior period, mainly due to an increase in the Group's share of adjusted profit from SELP of £4.9 million driven by the increase in the SELP portfolio, partially offset by a reduction in the Group's share of Adjusted profit from LPP of £4.0 million. LPP became a subsidiary of SEGRO on 30 July 2014 and therefore in the six months to 30 June 2015 income from these properties is included within Group net rental income and not within share of Adjusted profit from joint ventures.

**TOTAL COSTS**

The Group is focused on carefully managing its cost base and uses the cost ratio as a key measure of cost management. The cost ratio (including vacant property costs and adjusted for pension settlement costs) for the six months ended 30 June 2015 was 20.5 per cent compared to 22.0 per cent for the six months ended 30 June 2014, as set out in Table 6 of the supplementary notes. Whilst disposals have slightly reduced the gross rental income (the denominator in this calculation), total costs used in the calculation have reduced by £3.4 million due to lower property operating costs.

Group vacant property costs have decreased by £3.2 million to £0.9 million due largely to an increase in out of period credits of £2.2 million together with the lower level of vacancy in in the first half of 2015 compared to the prior period. Additionally, joint venture vacant property costs have decreased by £0.9 million. The cost ratio (excluding vacant property costs and adjusted for pension settlement costs) provides an indicator of the opportunity to reduce costs through vacancy reduction and for the six months ended 30 June 2015 was 19.2 per cent (H1 2014: 17.9 per cent).

**NET FINANCE COSTS**

Net finance costs of £42.6 million have been recognised for the six months to 30 June 2015 (H1 2014: £54.8 million) being £33.5 million included within Adjusted profit (H1 2014: £37.1 million) and the net fair value loss on derivatives of £9.1 million (H1 2014: £17.7 million loss) as detailed in note 8 to the condensed financial information.

Net finance costs included within Adjusted profit were £3.6 million lower than the £37.1 million incurred for the six months ended 30 June 2014. This is largely due to lower euro interest rates and a weaker euro in the current period compared to the six months to 30 June 2014, partially offset by the impact of higher average net debt in the current period.

The net fair value loss on interest rate swaps and other derivatives of £9.1 million for the six months ended 30 June 2015 (H1 2014: £17.7 million loss) was mainly as a result of an increase in sterling medium-term interest rates which reduced the fair value of the Group's receive fixed, pay floating sterling interest rate swap portfolio.

## TAX

A tax credit of £0.1 million has been recognised for the six months to 30 June 2015 (H1 2014: £8.3 million charge) as detailed in note 9 to the condensed financial information, with a £0.5 million tax charge attributable to Adjusted profit (H1 2014: £0.9 million charge) and a £0.6 million tax credit in relation to non-adjusted profit items (H1 2014: £7.4 million charge) primarily arising on property basis differences and the disposal of assets. The underlying tax rate at 30 June 2015 on an Adjusted profit basis was 0.7 per cent, broadly in line with the prior period (H1 2014: 1.3 per cent) and consistent with a target tax rate of less than 3 per cent.

## CASH FLOW AND NET DEBT RECONCILIATION

A summary of the cash flows for the period are set out in the table below:

| | **Six months to 30 June 2015 £m** | Six months to 30 June 2014 £m |
|---|---|---|
| **Opening net debt** | **(1,679.2)** | (1,459.1) |
| Cash flow from operations | **76.3** | 60.6 |
| Finance costs (net) | **(36.4)** | (38.9) |
| Early close out of interest rate swaps | **(24.8)** | - |
| Dividends received | **12.8** | 10.9 |
| Tax received/(paid) | **33.6** | (1.1) |
| **Free cash flow** | **61.5** | 31.5 |
| Dividends paid | **(44.7)** | (63.3) |
| Acquisitions and development of investment properties | **(167.8)** | (61.6) |
| Investment property sales (including joint ventures) | **150.5** | 26.9 |
| Acquisition of Vailog Srl | **(23.1)** | - |
| Net settlement of foreign exchange derivatives | **39.8** | 31.4 |
| Net investment in joint ventures | **(61.0)** | (178.1) |
| Other items | **(6.5)** | 2.9 |
| **Net funds flow** | **(51.3)** | (210.3) |
| Non-cash movements | **(1.8)** | (2.7) |
| Debt acquired with Vailog Srl | **(44.8)** | - |
| Exchange rate movements | **(0.1)** | 2.2 |
| **Closing net debt** | **(1,777.2)** | (1,669.9) |

Free cash flow for the period was £61.5 million, a £30.0 million increase from the first six months to 30 June 2014 (£31.5 million) largely due to the receipt of a US tax refund which was recognised in income in 2014. A cash outflow of £24.8 million arose on the early close out of interest rate swaps which is discussed further in the Interest Rate Exposure section below, offset by an increase in cash flow from operations arising from an increase in Adjusted profit and favourable working capital movements over the period.

The largest cash outflow for the period was £167.8 million on acquiring land and property and developing the investment property portfolio which is higher than the spend in the same period last year (H1 2014: £61.6 million). This excludes the acquisition of the Axis Park asset which was obtained on the dissolution of the Heathrow Big Box joint venture. The acquisition of Vailog resulted in a net cash outflow of £23.1 million, being £25.2 million consideration paid (excluding £2.8 million contingent consideration) and costs of £1.1 million (excluding £0.5 million accruals) net of £3.2 million cash acquired. Furthermore, £44.8 million Vailog debt was repaid following the acquisition. Overall net investment in property (including Vailog) is £40.4 million compared to £34.7 million in H1 2014. The investment in joint ventures has fallen by £117.1 million, primarily as a result of a large portfolio acquisition in the SELP joint venture in 2014.

Other significant cash flows include the dividends paid of £44.7 million (in addition, £10.0 million relating to the tax withheld in respect of the PID, was paid post period end), which is lower than the prior period, as an element was satisfied by issue of scrip shares. Furthermore, £39.8 million was received to settle foreign exchange derivatives (H1 2014: £31.4 million). The foreign exchange derivatives movement reflects the settlement of short dated cross currency swaps used to hedge euro denominated assets; with the euro weakening during the period, a net cash inflow occurred on settlement of those swaps.

As a result of these factors there was a net cash outflow of £51.3 million during the period (H1 2014: £210.3 million outflow).

## CAPITAL EXPENDITURE (CAPEX)

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

| | **Six months to 30 June 2015** | | | Six months to 30 June 2014 | | |
|---|---|---|---|---|---|---|
| | **Wholly owned £m** | **Joint ventures £m** | **Total £m** | Wholly owned £m | Joint ventures £m | Total £m |
| Acquisitions | **349.0[1]** | **74.9** | **423.9** | 38.8[1] | 194.2 | 233.0 |
| Development[4] | **41.9[2]** | **4.2** | **46.1** | 63.2[2] | 14.0 | 77.2 |
| Completed properties[4] | **12.9[3]** | **3.9** | **16.8** | 9.6[3] | 3.0 | 12.6 |
| Other[5] | **5.7** | **1.2** | **6.9** | 4.3 | 2.9 | 7.2 |
| **Total** | **409.5** | **84.2** | **493.7** | 115.9 | 214.1 | 330.0 |

*1 Being £349.0 million investment property and £nil trading property (2014: £38.8 million and £nil million respectively) see Note 12.*

*2 Being £41.8 million investment property and £0.1 million trading property (2014: £52.3 million and £10.9 million respectively) see Note 12.*

*3 Being £12.9 million investment property and £nil million trading property (2014: £8.7 million and £0.9 million respectively) see Note 12.*

*4 Includes wholly owned capitalised interest of £1.2 million (2014: £2.1 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.1 million (2014: £0.3 million).*

*5 Tenant incentives, letting fees and rental guarantees.*

Total spend for the period to 30 June 2015 is £493.7 million, an increase of £163.7 million on the comparative period (H1 2014: £330.0 million). Acquisitions include a £145 million asset acquired through dissolving the Heathrow Big Box joint venture and £73 million acquired through the Vailog acquisition. Joint venture acquisitions primarily relate to activity in SELP.

Development capex has decreased by £31.1 million in 2015 to £46.1 million reflecting temporarily decreased activity, particularly in Germany and the Thames Valley and National Logistics business units. Development spend incorporates interest capitalised, including joint ventures at share, of £1.3 million (H1 2014: £2.4 million).

Spend on completed properties during the period was £16.8 million, or around 3 per cent of total capex.

## FINANCIAL POSITION AND FUNDING

At 30 June 2015, the Group's net borrowings were £1,777.2 million, comprising gross borrowings of £1,802.1 million and cash balances of £24.9 million. Including joint ventures at share, the Group's net borrowings were £2,117.4 million (31 December 2014: £2,040.4 million). The movement in net debt is explained further in the Cashflow and Net Debt Reconciliation section above.

The Group has maintained a strong liquidity position to enable it to meet its liabilities as they fall due. At 30 June 2015 funds availability was £298.6 million, comprising £24.9 million of cash and £273.7 million of undrawn facilities, of which £5 million was uncommitted. Subsequent to the period end, the Group has also put in place an additional c.£150 million of committed bank facilities. In addition to this, £109.7 million of deferred consideration is due to be received in October 2015.

At 30 June 2015 total debt maturities (bonds, notes and bank facilities) falling due within 12 months were £208.1 million and the weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 6.3 years.

## GEARING AND FINANCIAL COVENANTS

The interest cover covenant in our banking facilities requires that net interest before capitalisation be covered at least 1.25 times by property rental income in the prior twelve month period. The Group comfortably met this ratio at 30 June 2015 at 2.3 times.

On a look-through basis, the loan to value ratio, including the Group's share of borrowings and property assets from joint ventures, was 39 per cent at 30 June 2015 (31 December 2014: 40 per cent).

The gearing ratio at 30 June 2015 within the principal debt financing arrangements of the Group (i.e. excluding debt funding arrangements within joint ventures) was 56 per cent, significantly lower than the Group's tightest financial gearing covenant within these debt facilities of 160 per cent. Property valuations (including joint ventures at share) would need to fall by more than 40 per cent from their 30 June 2015 values to reach the gearing covenant threshold of 160 per cent.

## INTEREST RATE EXPOSURE

The Group's interest rate risk policy is that between 50 and 100 per cent of net borrowings should be at fixed or capped rates, both at a Group level and by major borrowing currency (euro and sterling), including the impact of derivative financial instruments.

At 30 June 2015, including the impact of derivative instruments, 67 per cent of the net borrowings of the Group (excluding borrowings in joint ventures) were at fixed rates. By currency, 68 per cent of euro denominated net borrowings of the Group and 65 per cent of the remaining net borrowings (predominantly sterling) were at fixed rates.

Including borrowings in joint ventures at share, approximately 73 per cent of the net borrowings of the Group were at fixed rates and the weighted average maturity of fixed cover was 7.0 years.

Including the impact of derivative financial instruments, the weighted average interest rate (including margin) for gross borrowings at 30 June 2015, before commitment fees and amortised costs, was 4.0 per cent (31 December 2014: 4.4 per cent) or 4.3 per cent (31 December 2014: 4.7 per cent) after allowing for such items. The weighted average interest rate before commitment fees and amortised costs, including the Group's share of gross borrowings and finance costs from joint ventures, was 3.9 per cent (31 December 2014: 4.2 per cent), or 4.2 per cent after allowing for such items (31 December 2014: 4.6 per cent). The reduction in average interest rates since 31 December 2014 is principally due to increased euro denominated bank borrowings and the restructuring and extension of €970 million of interest rate swaps which lowered the fixed rate paid on these swaps.

Under its existing committed bank facilities and assuming current LIBOR / EURIBOR, the Group currently has a marginal floating rate cost of borrowing in sterling of around 1.9% and in euros of around 1.3% (excluding the benefit of saved commitment fees).

## FOREIGN CURRENCY TRANSLATION EXPOSURE

The Group has limited transactional foreign currency exposure, but, before the impact of related hedging, it does have a potentially significant currency translation exposure arising on the conversion of its substantial foreign currency denominated net assets (almost entirely in euros) into sterling in the Group consolidated accounts.

The Group's policy is to hedge between 50 per cent and 100 per cent of foreign currency denominated assets with liabilities of the same currency to protect the Group's reported consolidated net asset value, earnings, cash flows and financial gearing covenant.

As at 30 June 2015, the foreign currency assets of the Group were 88 per cent hedged by foreign currency denominated liabilities.

Between 31 December 2014 and 30 June 2015 the euro weakened from €1.29:£1 to €1.41:£1. Due to the high level of translation hedging in place, the impact on the EPRA net assets of the Group was largely mitigated and amounted to £12.2 million (compared to a potential loss of more than £100 million had we not hedged the position), as shown in the table in the NAV and EPRA NAV per share section above.

A 5 per cent strengthening against sterling in the value of the other currencies in which the Group operates at 30 June 2015, including the impact of forward foreign exchange and currency swap contracts used to hedge foreign currency denominated net assets, would have increased the gearing ratio by 1.5 percentage points and the LTV ratio on a look-through basis by 0.8 percentage points.

The average exchange rate used to translate euro denominated earnings generated during the period into sterling within the consolidated income statement of the Group was €1.37:£1. Based on the hedging position at 30 June 2015, and assuming that this position had applied throughout the six months to June 2015, if the euro had been 5 per cent stronger than it was against sterling throughout the period (€1.31:£1), Adjusted profits after tax for the period would have been approximately £0.6 million (1.0 per cent) higher than those reported.

A 5 per cent weakening of the euro against sterling would broadly have an equal and opposite effect, in respect of gearing, LTV and Adjusted profit.

## GOING CONCERN

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

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

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related parties' transactions and changes therein).

By order of the Board,

| | |
|---|---|
| David Sleath | Justin Read |
| Chief Executive | Group Finance Director |

## INDEPENDENT REVIEW REPORT TO SEGRO PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the condensed Group income statement, the condensed Group statement of comprehensive income, the condensed Group balance sheet, the condensed Group statement of changes in equity, the condensed Group cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

**Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

**Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, UK
27 July 2015

## CONDENSED GROUP INCOME STATEMENT

### For the six months ended 30 June 2015

| | Notes | **Half year to 30 June 2015 (unaudited) £m** | Half year to 30 June 2014 (unaudited) £m | Year to 31 December 2014 (audited) £m |
|---|---|---|---|---|
| **Revenue** | 4 | **117.4** | 137.6 | 290.0 |
| Gross rental income | 4 | **101.2** | 107.5 | 215.1 |
| Property operating expenses | 5 | **(15.8)** | (20.0) | (40.5) |
| **Net rental income** | | **85.4** | 87.5 | 174.6 |
| Joint venture management fee income | | **6.7** | 5.4 | 11.8 |
| Administration expenses | | **(13.0)** | (11.7) | (28.3) |
| Pension settlement costs | 2 | **(4.8)** | – | – |
| Share of profit from joint ventures after tax | 6 | **71.3** | 61.0 | 151.4 |
| Realised and unrealised property gain | 7 | **233.9** | 137.4 | 408.6 |
| Other investment (loss)/income | | **(2.3)** | 1.8 | 1.9 |
| Goodwill and other amounts written off on acquisitions | | **(4.6)** | (0.1) | (0.2) |
| **Operating profit** | | **372.6** | 281.3 | 719.8 |
| Finance income | 8 | **60.9** | 30.4 | 84.3 |
| Finance costs | 8 | **(103.5)** | (85.2) | (149.7) |
| **Profit before tax** | | **330.0** | 226.5 | 654.4 |
| Tax | 9 | **0.1** | (8.3) | 27.6 |
| **Profit after tax** | | **330.1** | 218.2 | 682.0 |
| Attributable to equity shareholders | | **330.1** | 218.3 | 682.0 |
| Attributable to non-controlling interests | | **–** | (0.1) | – |
| | | **330.1** | 218.2 | 682.0 |
| **Earnings per share** | | | | |
| Basic and diluted earnings per share (pence) | 11 | **44.4** | 29.4 | 92.0 |

## CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

### For the six months ended 30 June 2015

| | Notes | **Half year to 30 June 2015 (unaudited) £m** | Half year to 30 June 2014 (unaudited) £m | Year to 31 December 2014 (audited) £m |
|---|---|---|---|---|
| **Profit for the period** | | **330.1** | 218.2 | 682.0 |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Actuarial gain/(loss) on defined benefit pension schemes | | **9.6** | 0.5 | (13.7) |
| | | **9.6** | 0.5 | (13.7) |
| **Items that may be reclassified subsequently to profit or loss** | | | | |
| Foreign exchange movement arising on translation of international operations | | **(44.9)** | (19.5) | (34.2) |
| Increase/(decrease) in value of available-for-sale investments | | **1.1** | 0.3 | (0.7) |
| Fair value movements on derivatives in effective hedge relationships | | **33.4** | 11.5 | 22.0 |
| | | **(10.4)** | (7.7) | (12.9) |
| Tax on components of other comprehensive income | | **–** | – | – |
| **Other comprehensive loss before transfers** | | **(0.8)** | (7.2) | (26.6) |
| Transfer to income statement on sale and impairment of available-for-sale investments | | **2.6** | (2.9) | (2.2) |
| **Total comprehensive profit for the period** | | **331.9** | 208.1 | 653.2 |
| Attributable to – equity shareholders | | **331.9** | 208.2 | 653.2 |
| – non-controlling interests | | **–** | (0.1) | – |
| **Total comprehensive profit for the period** | | **331.9** | 208.1 | 653.2 |

## CONDENSED GROUP BALANCE SHEET

**As at 30 June 2015**

| | Notes | **30 June 2015 (unaudited) £m** | 30 June 2014 (unaudited) £m | 31 December 2014 (audited) £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Goodwill and other intangibles | | **2.3** | 2.9 | 3.3 |
| Investment properties | 12 | **3,905.1** | 3,069.9 | 3,477.0 |
| Owner occupied properties | | **–** | 1.3 | – |
| Plant and equipment | | **17.9** | 6.3 | 6.6 |
| Investments in joint ventures | 6 | **803.9** | 854.0 | 855.5 |
| Available-for-sale investments | | **6.8** | 6.1 | 5.8 |
| Trade and other receivables | | **92.9** | 39.4 | 52.0 |
| | | **4,828.9** | 3,979.9 | 4,400.2 |
| **Current assets** | | | | |
| Trading properties | 12 | **67.3** | 125.7 | 77.8 |
| Trade and other receivables | | **262.0** | 266.4 | 311.8 |
| Cash and cash equivalents | 13 | **24.9** | 23.7 | 23.8 |
| | | **354.2** | 415.8 | 413.4 |
| **Total assets** | | **5,183.1** | 4,395.7 | 4,813.6 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | 13 | **1,594.0** | 1,691.2 | 1,495.4 |
| Deferred tax provision | 9 | **9.1** | 18.1 | 10.3 |
| Provisions | | **2.7** | 1.8 | 12.3 |
| Trade and other payables | | **4.5** | 22.3 | 29.8 |
| | | **1,610.3** | 1,733.4 | 1,547.8 |
| **Current liabilities** | | | | |
| Trade and other payables | | **197.2** | 176.3 | 166.8 |
| Borrowings | 13 | **208.1** | 2.4 | 207.6 |
| Tax liabilities | | **7.4** | 2.9 | 2.6 |
| | | **412.7** | 181.6 | 377.0 |
| **Total liabilities** | | **2,023.0** | 1,915.0 | 1,924.8 |
| **Net assets** | | **3,160.1** | 2,480.7 | 2,888.8 |
| **Equity** | | | | |
| Share capital | | **74.7** | 74.2 | 74.2 |
| Share premium | | **1,090.5** | 1,070.0 | 1,070.0 |
| Capital redemption reserve | | **113.9** | 113.9 | 113.9 |
| Own shares held | | **(6.4)** | (4.2) | (6.1) |
| Other reserves | | **162.1** | 172.2 | 169.5 |
| Retained earnings | | **1,727.4** | 1,054.5 | 1,467.3 |
| **Total shareholders' equity** | | **3,162.2** | 2,480.6 | 2,888.8 |
| Non-controlling interests | | **(2.1)** | 0.1 | – |
| **Total equity** | | **3,160.1** | 2,480.7 | 2,888.8 |
| **Net assets per ordinary share** | | | | |
| Basic and diluted (pence) | 11 | **424** | 335 | 390 |

## CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

### For the six months ended 30 June 2015

| (unaudited) | Balance 1 January 2015 £m | Exchange movement £m | Retained profit £m | Items taken directly to reserves £m | Shares issued £m | Other £m | Dividends £m | Transfers £m | Balance 30 June 2015 £m |
|---|---|---|---|---|---|---|---|---|---|
| Ordinary share capital | **74.2** | **–** | **–** | **–** | **0.5** | **–** | **–** | **–** | **74.7** |
| Share premium | **1,070.0** | **–** | **–** | **–** | **20.5** | **–** | **–** | **–** | **1,090.5** |
| Capital redemption reserve | **113.9** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **113.9** |
| Own shares held | **(6.1)** | **–** | **–** | **–** | **–** | **(6.2)** | **–** | **5.9** | **(6.4)** |
| **Other reserves:** | | | | | | | | | |
| Share based payments reserve | **7.5** | **–** | **–** | **–** | **–** | **2.4** | **–** | **(2.0)** | **7.9** |
| Fair value reserve for AFS[1] | **0.4** | **–** | **–** | **1.1** | **–** | **2.6** | **–** | **–** | **4.1** |
| Translation and other reserves | **(7.5)** | **(44.9)** | **–** | **33.4** | **–** | **–** | **–** | **–** | **(19.0)** |
| Merger reserve | **169.1** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **169.1** |
| **Total other reserves** | **169.5** | **(44.9)** | **–** | **34.5** | **–** | **5.0** | **–** | **(2.0)** | **162.1** |
| Retained earnings | **1,467.3** | **–** | **330.1** | **9.6** | **–** | **–** | **(75.7)** | **(3.9)** | **1,727.4** |
| **Total equity attributable to equity shareholders** | **2,888.8** | **(44.9)** | **330.1** | **44.1** | **21.0** | **(1.2)** | **(75.7)** | **–** | **3,162.2** |
| Non-controlling interests[2] | **–** | **–** | **–** | **–** | **–** | **(2.1)** | **–** | **–** | **(2.1)** |
| **Total equity** | **2,888.8** | **(44.9)** | **330.1** | **44.1** | **21.0** | **(3.3)** | **(75.7)** | **–** | **3,160.1** |

### For the six months ended 30 June 2014

| (unaudited) | Balance 1 January 2014 £m | Exchange movement £m | Retained profit £m | Items taken directly to reserves £m | Shares issued £m | Other £m | Dividends £m | Transfers £m | Balance 30 June 2014 £m |
|---|---|---|---|---|---|---|---|---|---|
| Ordinary share capital | 74.2 | – | – | – | – | – | – | – | 74.2 |
| Share premium | 1,069.9 | – | – | – | 0.1 | – | – | – | 1,070.0 |
| Capital redemption reserve | 113.9 | – | – | – | – | – | – | – | 113.9 |
| Own shares held | (5.3) | – | – | – | – | – | – | 1.1 | (4.2) |
| Revaluation reserve | (3.2) | – | – | – | – | – | – | 3.2 | – |
| **Other reserves:** | | | | | | | | | |
| Share based payments reserve | 5.4 | – | – | – | – | 1.0 | – | (0.7) | 5.7 |
| Fair value reserve for AFS[1] | 3.3 | – | – | 0.3 | – | (2.9) | – | – | 0.7 |
| Translation and other reserves | 4.7 | (19.5) | – | 11.5 | – | – | – | – | (3.3) |
| Merger reserve | 169.1 | – | – | – | – | – | – | – | 169.1 |
| **Total other reserves** | 182.5 | (19.5) | – | 11.8 | – | (1.9) | – | (0.7) | 172.2 |
| Retained earnings | 912.7 | – | 218.3 | 0.5 | – | – | (73.4) | (3.6) | 1,054.5 |
| **Total equity attributable to equity shareholders** | 2,344.7 | (19.5) | 218.3 | 12.3 | 0.1 | (1.9) | (73.4) | – | 2,480.6 |
| Non-controlling interests | 0.2 | – | (0.1) | – | – | – | – | – | 0.1 |
| **Total equity** | 2,344.9 | (19.5) | 218.2 | 12.3 | 0.1 | (1.9) | (73.4) | – | 2,480.7 |

### For the year ended 31 December 2014

| (audited) | Balance 1 January 2014 £m | Exchange movement £m | Retained profit £m | Items taken directly to reserves £m | Shares issued £m | Other £m | Dividends £m | Transfers £m | Balance 31 December 2014 £m |
|---|---|---|---|---|---|---|---|---|---|
| Ordinary share capital | 74.2 | – | – | – | – | – | – | – | 74.2 |
| Share premium | 1,069.9 | – | – | – | 0.1 | – | – | – | 1,070.0 |
| Capital redemption reserve | 113.9 | – | – | – | – | – | – | – | 113.9 |
| Own shares held | (5.3) | – | – | – | – | (2.1) | – | 1.3 | (6.1) |
| Revaluation reserve | (3.2) | – | – | – | – | – | – | 3.2 | – |
| **Other reserves:** | | | | | | | | | |
| Share based payments reserve | 5.4 | – | – | – | – | 2.7 | – | (0.6) | 7.5 |
| Fair value reserve for AFS[1] | 3.3 | – | – | (0.7) | – | (2.2) | – | – | 0.4 |
| Translation and other reserves | 4.7 | (34.2) | – | 22.0 | – | – | – | – | (7.5) |
| Merger reserve | 169.1 | – | – | – | – | – | – | – | 169.1 |
| **Total other reserves** | 182.5 | (34.2) | – | 21.3 | – | 0.5 | – | (0.6) | 169.5 |
| Retained earnings | 912.7 | – | 682.0 | (13.7) | – | – | (109.8) | (3.9) | 1,467.3 |
| **Total equity attributable to equity shareholders** | 2,344.7 | (34.2) | 682.0 | 7.6 | 0.1 | (1.6) | (109.8) | – | 2,888.8 |
| Non-controlling interests | 0.2 | – | – | – | – | (0.2) | – | – | – |
| **Total equity** | 2,344.9 | (34.2) | 682.0 | 7.6 | 0.1 | (1.8) | (109.8) | – | 2,888.8 |

*1 AFS is the term used for "Available-for-sale investments" and is shown net of deferred tax.*

*2 Non-controlling interests in 2015 relate to Vailog Sarl acquired in the period (see note 14) and is shown net of the estimated gross settlement amount of a put option held by the minority shareholder.*

## CONDENSED GROUP CASH FLOW STATEMENT

**For the six months ended 30 June 2015**

| | Notes | **Half year to 30 June 2015 (unaudited) £m** | Half year to 30 June 2014 (unaudited) £m | Year to 31 December 2014 (audited) £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | 14 | **76.3** | 60.6 | 176.1 |
| Interest received | | **43.2** | 39.2 | 83.3 |
| Dividends received | | **12.8** | 10.9 | 22.2 |
| Interest paid | | **(79.6)** | (78.1) | (155.8) |
| Early close out of interest rate swaps | | **(24.8)** | – | – |
| Tax received/(paid) | | **33.6** | (1.1) | (2.8) |
| **Net cash received from operating activities** | | **61.5** | 31.5 | 123.0 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Purchase and development of investment properties | | **(167.8)** | (61.6) | (247.9) |
| Sale of investment properties | | **150.5** | 26.9 | 408.7 |
| Purchase of plant and equipment | | **(0.9)** | (2.2) | (4.2) |
| Sale of available-for-sale investments | | **0.3** | 5.1 | 5.6 |
| Acquisition of Vailog | 14 | **(23.1)** | – | – |
| Acquisition of LPP | | **–** | – | (95.6) |
| Sale of SELP portfolio | | **–** | – | 4.8 |
| Investment in joint ventures | | **(61.0)** | (178.1) | (201.7) |
| **Net cash used in investing activities** | | **(102.0)** | (209.9) | (130.3) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Dividends paid to ordinary shareholders | | **(44.7)** | (63.3) | (109.8) |
| Net increase/(decrease) in other borrowings | | **97.3** | (1.9) | (148.3) |
| Close out of Vailog debt | | **(44.8)** | – | – |
| Net costs to close out debt | | **–** | – | (1.6) |
| Net settlement of foreign exchange derivatives | | **39.8** | 31.4 | 59.2 |
| Proceeds from issue of ordinary shares | | **0.3** | – | 0.1 |
| Purchase of ordinary shares | | **(6.2)** | – | (2.1) |
| **Net cash received from/(used in) financing activities** | | **41.7** | (33.8) | (202.5) |
| | | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **1.2** | (212.2) | (209.8) |
| Cash and cash equivalents at the beginning of the period | | **23.8** | 233.8 | 233.8 |
| Effect of foreign exchange rate changes | | **(0.1)** | 2.1 | (0.2) |
| **Cash and cash equivalents at the end of the period** | **13** | **24.9** | 23.7 | 23.8 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements for the six months ended 30 June 2015 were approved by the Board of Directors on 27 July 2015.

The condensed set of financial statements for the six months ended 30 June 2015 is unaudited and does not constitute statutory accounts within the meaning of S434 of the Companies Act 2006. The financial information contained in this report for the year ended 31 December 2014 does not constitute statutory accounts within the meaning of S434 of the Companies Act 2006 and has been extracted from the statutory accounts, which were prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRSs) and were delivered to the Registrar of Companies. The auditor's opinion on these accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under S498(2) or S498(3) of the Companies Act 2006. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest financial statements apart from the underlying profit measure which is now Adjusted profit rather than EPRA profit, as detailed in Note 2. In the current financial period the Group has applied, for the first time, IFRIC21 "Levies". There have been no changes to the basis of accounting on the adoption of this Interpretation.

The condensed set of financial statements has been prepared on a going concern basis. This is discussed in the Financial Review.

The principal exchange rates used to translate foreign currency denominated amounts are:
Balance sheet: £1 = €1.41 (30 June 2014: £1 = €1.25; 31 December 2014: £1 = €1.29)
Income statement: £1 = €1.37 (30 June 2014: £1 = €1.22; 31 December 2014: £1 = €1.24)

The Group's business is not seasonal and the results relate to continuing operations unless otherwise stated.

## 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 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. 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, not in the ordinary course of business and significant by virtue of size and nature. In the period to 30 June 2015, £4.8 million of pension settlement costs incurred in rationalising pension schemes, primarily the buying out of the Bilton Group Pension Scheme, were so excluded from the calculation of Adjusted profit. There is no tax effect of this item in the period to 30 June 2015. No non-EPRA adjustments to underlying profit were made in 2014.

The following table provides a reconciliation of Adjusted profit to IFRS profit:

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Gross rental income | **101.2** | 107.5 | 215.1 |
| Property operating expenses | **(15.8)** | (20.0) | (40.5) |
| **Net rental income** | **85.4** | 87.5 | 174.6 |
| Joint venture management fee income | **6.7** | 5.4 | 11.8 |
| Administration expenses | **(13.0)** | (11.7) | (28.3) |
| Share of joint ventures' adjusted profit after tax | **23.6** | 22.6 | 46.3 |
| **Adjusted operating profit before interest and tax** | **102.7** | 103.8 | 204.4 |
| Net finance costs | **(33.5)** | (37.1) | (74.7) |
| **Adjusted profit before tax** | **69.2** | 66.7 | 129.7 |
| | | | |
| **Adjustments to reconcile to IFRS:** | | | |
| Adjustments to the share of profit from joint ventures after tax[1] | **47.7** | 38.4 | 105.1 |
| Profit/(loss) on sale of investment properties | **4.5** | (0.4) | 25.0 |
| Valuation surplus on investment properties | **230.0** | 142.8 | 385.6 |
| Loss on sale of trading properties | **(0.2)** | (0.3) | (0.3) |
| Increase in provision for impairment of trading properties | **(0.4)** | (4.7) | (1.7) |
| Other investment (loss)/income | **(2.3)** | 1.8 | 1.9 |
| Goodwill and other amounts written off on acquisitions | **(4.6)** | (0.1) | (0.2) |
| Cost of early close out of bank debt | **–** | – | (1.6) |
| Net fair value loss on interest rate swaps and other derivatives | **(9.1)** | (17.7) | 10.9 |
| Pension settlement costs[2] | **(4.8)** | – | – |
| **Total adjustments** | **260.8** | 159.8 | 524.7 |
| **Profit before tax** | **330.0** | 226.5 | 654.4 |
| **Tax** | | | |
| On Adjusted profits | **(0.5)** | (0.9) | (1.9) |
| In respect of adjustments | **0.6** | (7.4) | (4.1) |
| US tax refund | **–** | – | 33.6 |
| | **0.1** | (8.3) | 27.6 |
| **Profit after tax** | | | |
| Adjusted profit after tax | **68.7** | 65.8 | 127.8 |
| Adjustments | **261.4** | 152.4 | 554.2 |
| **Profit after tax** | **330.1** | 218.2 | 682.0 |

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

*2 Non-EPRA related adjustment referred to in the third paragraph above.*

## 3. SEGMENTAL REPORTING

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

| | Gross rental income £m | Net rental income £m | Share of joint ventures' Adjusted profit £m | Adjusted operating PBIT £m | Total directly owned property assets £m | Investments in joint ventures £m | Capital expenditure[2] £m |
|---|---|---|---|---|---|---|---|
| | | | | **30 June 2015** | | | |
| **Greater London** | **32.3** | **30.7** | **8.4** | **42.0** | **1,585.3** | **309.2** | **235.7** |
| **Thames Valley and National Logistics** | **49.4** | **45.9** | **–** | **45.9** | **1,792.3** | **14.6** | **35.0** |
| **Germany and Northern Europe** | **6.8** | **4.3** | **5.5** | **10.4** | **219.2** | **205.4** | **29.7** |
| **France and Southern Europe** | **9.8** | **7.4** | **4.6** | **12.4** | **282.3** | **114.3** | **98.4** |
| **Poland and Central Europe** | **2.9** | **1.8** | **5.5** | **8.2** | **93.3** | **153.4** | **5.0** |
| **Other[1]** | **–** | **(4.7)** | **(0.4)** | **(16.2)** | **–** | **7.0** | **1.4** |
| **Total** | **101.2** | **85.4** | **23.6** | **102.7** | **3,972.4** | **803.9** | **405.2** |
| | | | | 30 June 2014 | | | |
| Greater London | 33.2 | 28.6 | 8.2 | 38.1 | 1,165.5 | 313.3 | 18.1 |
| Thames Valley and National Logistics | 39.9 | 36.1 | 4.0 | 40.4 | 1,281.4 | 94.4 | 60.9 |
| Germany and Northern Europe | 20.2 | 16.6 | 2.4 | 19.8 | 331.8 | 196.5 | 19.5 |
| France and Southern Europe | 11.7 | 9.8 | 3.8 | 14.0 | 288.0 | 98.4 | 3.4 |
| Poland and Central Europe | 2.5 | 1.5 | 4.2 | 6.5 | 130.2 | 148.0 | 9.7 |
| Other[1] | – | (5.1) | – | (15.0) | – | 3.4 | 1.7 |
| Total | 107.5 | 87.5 | 22.6 | 103.8 | 3,196.9 | 854.0 | 113.3 |
| | | | | 31 December 2014 | | | |
| Greater London | 65.7 | 57.6 | 16.5 | 77.3 | 1,242.5 | 410.4 | 41.8 |
| Thames Valley and National Logistics | 90.0 | 82.3 | 4.4 | 86.8 | 1,653.4 | 12.5 | 486.7 |
| Germany and Northern Europe | 31.3 | 23.1 | 7.9 | 32.8 | 223.4 | 166.4 | 30.6 |
| France and Southern Europe | 23.0 | 18.6 | 8.4 | 27.7 | 288.4 | 122.8 | 9.7 |
| Poland and Central Europe | 5.1 | 3.0 | 9.5 | 14.2 | 147.1 | 139.9 | 26.3 |
| Other[1] | – | (10.0) | (0.4) | (34.4) | – | 3.5 | 3.4 |
| Total | 215.1 | 174.6 | 46.3 | 204.4 | 3,554.8 | 855.5 | 598.5 |

*1 Other includes the corporate centre as well as costs relating to the operational business which are not specifically allocated to a geographical business unit*

*2 Capital expenditure includes additions and acquisitions of investment and trading properties but does not include tenant incentives, letting fees and rental guarantees. The "Other" category includes non-property related spend, primarily IT.*

## 4. REVENUE

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Rental income from investment properties | **95.3** | 98.4 | 200.3 |
| Rental income from trading properties | **2.9** | 4.2 | 7.8 |
| Rent averaging | **3.0** | 1.8 | 3.9 |
| Surrender premiums | **–** | 3.1 | 3.1 |
| **Gross rental income** | **101.2** | 107.5 | 215.1 |
| Joint venture management fee - property management | **5.8** | 5.8 | 12.2 |
| - performance and other fees | **0.9** | (0.4) | (0.4) |
| Service charge income | **8.5** | 10.1 | 19.7 |
| Proceeds from sale of trading properties | **1.0** | 14.6 | 43.4 |
| **Total revenue** | **117.4** | 137.6 | 290.0 |

## 5. PROPERTY OPERATING EXPENSES

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Vacant property costs | **0.9** | 4.1 | 7.5 |
| Letting, marketing, legal and professional fees | **3.4** | 3.3 | 6.9 |
| Bad debt expense | **0.2** | (0.1) | 0.2 |
| Other expenses, net of service charge income | **3.2** | 4.5 | 8.5 |
| Property management expenses | **7.7** | 11.8 | 23.1 |
| Property administration expenses[1] | **9.4** | 9.3 | 19.9 |
| Costs capitalised[2] | **(1.3)** | (1.1) | (2.5) |
| **Total property operating expenses** | **15.8** | 20.0 | 40.5 |

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

*2 Costs capitalised relate to staff costs of those internal employees directly involved in developing the property portfolio.*

## 6. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

### 6(i) Share of profit from joint ventures after tax

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Gross rental income | **73.9** | 73.6 | 149.1 |
| **Property operating expenses** | | | |
| -underlying property operating expenses | **(1.7)** | (2.0) | (4.6) |
| -vacant property costs | **(1.5)** | (3.4) | (6.2) |
| -property management fees | **(6.6)** | (5.8) | (12.2) |
| -performance and other fees | **(1.7)** | 0.4 | 0.7 |
| **Net rental income** | **62.4** | 62.8 | 126.8 |
| Administration expenses | **(0.9)** | (0.4) | (1.5) |
| Net finance costs | **(13.0)** | (16.4) | (31.5) |
| **Adjusted profit before tax** | **48.5** | 46.0 | 93.8 |
| Tax | **(1.3)** | (0.8) | (1.2) |
| **Adjusted profit after tax** | **47.2** | 45.2 | 92.6 |
| ***At share*** | ***23.6*** | *22.6* | *46.3* |
| | | | |
| **Adjustments:** | | | |
| Profit on sale of investment properties | **–** | 0.4 | 1.4 |
| Valuation surplus on investment properties | **98.8** | 95.6 | 219.0 |
| Decrease/(increase) in provision for impairment of trading properties | **3.3** | (4.8) | (1.6) |
| Net fair value gain on interest rate swaps and other derivatives | **–** | 0.4 | 0.4 |
| Goodwill and other amounts written off on acquisitions | **(0.5)** | (8.4) | **–** |
| Other investment income | **1.6** | – | 3.6 |
| Tax in respect of adjustments | **(7.9)** | (6.4) | (12.7) |
| **Total adjustments** | **95.3** | 76.8 | 210.1 |
| ***At share*** | ***47.7*** | *38.4* | *105.1* |
| **Profit after tax** | **142.5** | 122.0 | 302.7 |
| ***At share*** | ***71.3*** | *61.0* | *151.4* |
| **Other comprehensive income** | **1.4** | 1.4 | (0.8) |
| ***At share*** | ***0.7*** | *0.7* | *(0.4)* |
| **Total comprehensive income for the year** | **143.9** | 123.4 | 301.9 |
| ***At share*** | ***72.0*** | *61.7* | *151.0* |

### 6(ii) Summarised balance sheet information of the Group's share of joint ventures

| | **As at 30 June 2015 £m** | As at 30 June 2014 £m | As at 31 December 2014 £m |
|---|---|---|---|
| Investment properties | **2,347.2** | 2,604.0 | 2,461.6 |
| Other investments | **0.3** | 17.2 | 20.1 |
| **Total non-current assets** | **2,347.5** | 2,621.2 | 2,481.7 |
| | | | |
| Trading properties | **26.6** | 22.4 | 26.2 |
| Other receivables | **38.8** | 28.0 | 37.8 |
| Cash | **70.8** | 104.8 | 59.5 |
| **Total current assets** | **136.2** | 155.2 | 123.5 |
| **Total assets** | **2,483.7** | 2,776.4 | 2,605.2 |
| | | | |
| Borrowings | **(751.1)** | (855.2) | (781.9) |
| Deferred tax | **(35.4)** | (30.0) | (34.3) |
| Other liabilities | **(0.4)** | (0.2) | (0.2) |
| **Total non-current liabilities** | **(786.9)** | (885.4) | (816.4) |
| | | | |
| Borrowings | **–** | (90.0) | – |
| Other liabilities | **(89.0)** | (93.0) | (77.9) |
| **Total current liabilities** | **(89.0)** | (183.0) | (77.9) |
| **Total liabilities** | **(875.9)** | (1,068.4) | (894.3) |
| **Net assets** | **1,607.8** | 1,708.0 | 1,710.9 |
| ***At share*** | ***803.9*** | *854.0* | *855.5* |

### 7. REALISED AND UNREALISED PROPERTY GAIN

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Profit/(loss) on sale of investment properties | **4.5** | (0.4) | 25.0 |
| Valuation surplus on investment properties | **230.0** | 142.8 | 385.6 |
| Loss on sale of trading properties | **(0.2)** | (0.3) | (0.3) |
| Increase in provision for impairment of trading properties | **(0.4)** | (4.7) | (1.7) |
| **Total realised and unrealised property gain** | **233.9** | 137.4 | 408.6 |

### 8. NET FINANCE COSTS

| **Finance income** | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Interest received on bank deposits and related derivatives | **21.0** | 21.9 | 41.5 |
| Fair value gain on interest rate swaps and other derivatives | **39.5** | 8.5 | 42.8 |
| Exchange differences | **0.4** | – | – |
| **Total finance income** | **60.9** | 30.4 | 84.3 |

| **Finance costs** | | | |
|---|---|---|---|
| Interest on overdrafts, loans and related derivatives | **(54.2)** | (57.6) | (115.3) |
| Amortisation of issue costs | **(1.8)** | (2.7) | (5.1) |
| Net interest expense on defined benefit obligations | **(0.1)** | – | (0.1) |
| Cost of early close out of debt | **–** | – | (1.6) |
| Total borrowing costs | **(56.1)** | (60.3) | (122.1) |
| Less amount capitalised on the development of properties | **1.2** | 2.1 | 4.4 |
| **Net borrowing costs** | **(54.9)** | (58.2) | (117.7) |
| Fair value loss on interest rate swaps and other derivatives | **(48.6)** | (26.2) | (31.9) |
| Exchange differences | **–** | (0.8) | (0.1) |
| **Total finance costs** | **(103.5)** | (85.2) | (149.7) |
| | | | |
| **Net finance costs** | **(42.6)** | (54.8) | (65.4) |

## 9. TAX

### 9(i) Tax on profit

| | Half year to 30 June 2015 £m | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| **Tax on:** | | | |
| Adjusted profits | **(0.5)** | (0.9) | (1.9) |
| In respect of adjustments | **0.6** | (7.4) | (4.1) |
| US tax refund | **–** | – | 33.6 |
| **Total tax credit/(charge)** | **0.1** | (8.3) | 27.6 |
| | | | |
| **Current tax** | | | |
| Current tax charge | **(4.9)** | (1.0) | (4.1) |
| Adjustments in respect of earlier years | **–** | – | 1.8 |
| US tax refund | – | – | 33.6 |
| **Total current tax (charge)/credit** | **(4.9)** | (1.0) | 31.3 |
| | | | |
| **Deferred tax** | | | |
| Origination and reversal of temporary differences | **(0.2)** | (5.2) | (2.7) |
| Released in respect of property disposals in the year | **5.7** | – | 2.9 |
| On valuation movements | **(0.6)** | (1.5) | (3.0) |
| Total deferred tax in respect of investment properties | **4.9** | (6.7) | (2.8) |
| Other deferred tax | **0.1** | (0.6) | (0.9) |
| **Total deferred tax** | **5.0** | (7.3) | (3.7) |
| **Total tax credit/(charge) on profit on ordinary activities** | **0.1** | (8.3) | 27.6 |

### 9(ii) Deferred tax provision

Movement in deferred tax was as follows:

| | Balance 1 January 2015 £m | Exchange movement £m | Recognised in income £m | Acquisitions/ (disposals) £m | Balance 30 June 2015 £m | Balance 30 June 2014 £m |
|---|---|---|---|---|---|---|
| Valuation | **(18.6)** | **0.7** | **7.2** | **1.5** | **(9.2)** | (39.0) |
| Accelerated tax allowances | **29.1** | **(1.6)** | **(11.4)** | **3.3** | **19.4** | 59.9 |
| Deferred tax asset on revenue losses | **(1.0)** | **–** | **(0.1)** | **–** | **(1.1)** | (2.8) |
| Others | **0.8** | **(0.1)** | **(0.7)** | **–** | – | – |
| **Total deferred tax provision** | **10.3** | **(1.0)** | **(5.0)** | **4.8** | **9.1** | 18.1 |

## 10. DIVIDENDS

| | Half year to 30 June 2015 £m | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| **Ordinary dividends paid** | | | |
| Final dividend for 2014 @ 10.2 pence per share | **75.7** | – | – |
| Interim dividend for 2014 @ 4.9 pence per share | – | – | 36.4 |
| Final dividend for 2013 @ 9.9 pence per share | – | 73.4 | 73.4 |
| | **75.7** | 73.4 | 109.8 |

The Board has declared an interim dividend of 5.0 pence per ordinary share (2014: 4.9 pence). This dividend has not been recognised in the condensed financial statements.

## 11. EARNINGS AND NET ASSETS PER ORDINARY SHARE

The earnings per share calculations use the weighted average number of shares during the period and the net assets per share calculations use the number of shares in issue at the period end. Earnings per share calculations exclude 1.1 million shares (1.4 million for the full year 2014 and 0.9 million for half year 2014) being the average number of shares held on trust during the period for employee share schemes and net assets per share exclude 1.6 million shares (1.1 million for the full year 2014 and 0.9 million for the half year 2014) being the actual number of shares held on trust for employee share schemes at period end.

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

| | **Half year to June 2015** | | | Half year to June 2014 | | | Year to December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Earnings £m** | **Shares million** | **Pence per share** | Earnings £m | Shares million | Pence per share | Earnings £m | Shares million | Pence per share |
| **Basic EPS** | **330.1** | **742.7** | **44.4** | 218.3 | 741.3 | 29.4 | 682.0 | 741.2 | 92.0 |
| Dilution adjustments: | | | | | | | | | |
| Share options and save as you earn schemes | **–** | **0.1** | **–** | – | 0.1 | – | – | 0.1 | – |
| **Diluted EPS** | **330.1** | **742.8** | **44.4** | 218.3 | 741.4 | 29.4 | 682.0 | 741.3 | 92.0 |
| Adjustments to profit before tax[1] | **(260.8)** | | **(35.1)** | (159.8) | | (21.5) | (524.7) | | (70.8) |
| Deferred tax on investment property which does not crystallise unless sold | **(4.2)** | | **(0.6)** | 6.7 | | 0.9 | 2.8 | | 0.3 |
| Other tax | **3.6** | | **0.5** | 0.7 | | 0.1 | 1.3 | | 0.2 |
| US tax refund | **–** | | **–** | – | | – | (33.6) | | (4.5) |
| Minority interest on adjustments | **–** | | **–** | (0.1) | | – | – | | – |
| **Adjusted EPS** | **68.7** | **742.7** | **9.2** | 65.8 | 741.3 | 8.9 | 127.8 | 741.2 | 17.2 |

*1 Details of adjustments are included in note 2.*

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

| | **As at June 2015** | | | As at June 2014 | | | As at December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Equity attributable to ordinary shareholders £m** | **Shares million** | **Pence per share** | Equity attributable to ordinary shareholders £m | Shares million | Pence per share | Equity attributable to ordinary shareholders £m | Shares million | Pence per share |
| Basic NAV | **3,162.2** | **745.9** | **424** | 2,480.6 | 741.5 | 335 | 2,888.8 | 741.0 | 390 |
| Dilution adjustments: | | | | | | | | | |
| Share options and save as you earn schemes | **–** | **0.1** | **–** | – | 0.1 | – | – | 0.1 | |
| **Diluted NAV** | **3,162.2** | **746.0** | **424** | 2,480.6 | 741.6 | 335 | 2,888.8 | 741.1 | 390 |
| Fair value adjustment in respect of debt – Group | **(322.9)** | | **(43)** | (285.0) | | (38) | (365.3) | | (49) |
| Fair value adjustment in respect of debt – Joint ventures | **(8.6)** | | **(1)** | (5.2) | | (1) | (11.2) | | (2) |
| Fair value adjustment in respect of trading properties - Group | **2.4** | | **–** | 5.0 | | – | 2.3 | | – |
| Fair value adjustment in respect of trading properties – Joint ventures | **3.2** | | **–** | – | | – | – | | – |
| **EPRA triple net NAV (NNNAV)** | **2,836.3** | **746.0** | **380** | 2,195.4 | 741.6 | 296 | 2,514.6 | 741.1 | 339 |
| Fair value adjustment in respect of debt – Group | **322.9** | | **43** | 285.0 | | 38 | 365.3 | | 49 |
| Fair value adjustment in respect of debt – Joint ventures | **8.6** | | **1** | 5.2 | | 1 | 11.2 | | 2 |
| Fair value adjustment in respect of interest rate swap derivatives – Group | **(98.0)** | | **(12)** | (54.0) | | (7) | (78.5) | | (10) |
| Fair value adjustment in respect of interest rate swap derivatives – Joint ventures | **2.2** | | **–** | 1.9 | | – | 2.9 | | – |
| Deferred tax in respect of depreciation and valuation surpluses – Group | **10.2** | | **1** | 20.9 | | 3 | 10.5 | | 1 |
| Deferred tax in respect of depreciation and valuation surpluses – Joint ventures | **18.5** | | **3** | 15.9 | | 2 | 18.7 | | 3 |
| **EPRA NAV** | **3,100.7** | **746.0** | **416** | 2,470.3 | 741.6 | 333 | 2,844.7 | 741.1 | 384 |

## 12. PROPERTIES

### 12(i) Investment properties

| | Completed £m | Development £m | Total £m |
|---|---|---|---|
| **At 1 January 2015** | **3,181.0** | **223.9** | **3,404.9** |
| Exchange movement | **(37.1)** | **(11.4)** | **(48.5)** |
| Property acquisitions | **201.0** | **148.0** | **349.0** |
| Additions to existing investment properties | **12.9** | **41.8** | **54.7** |
| Disposals | **(143.1)** | **(17.0)** | **(160.1)** |
| Transfers between completed and development properties | **47.9** | **(47.9)** | **–** |
| Transfers between investment and trading properties | **–** | **2.5** | **2.5** |
| Revaluation surplus during the period | **206.4** | **23.6** | **230.0** |
| **At 30 June 2015** | **3,469.0** | **363.5** | **3,832.5** |
| Add tenant lease incentives, letting fees and rental guarantees | **72.6** | **–** | **72.6** |
| **Total investment properties at 30 June 2015** | **3,541.6** | **363.5** | **3,905.1** |
| Total investment properties at 30 June 2014 | 2,797.2 | 272.7 | 3,069.9 |

Investment properties are stated at fair value as at 30 June 2015 based on external valuations performed by professionally qualified valuers. The Group's wholly owned property portfolio is valued at 30 June 2015 by CBRE Ltd. Valuations for the joint venture properties within the UK were performed by Jones Lang LaSalle (APP, and LPP in 2014) and CBRE Ltd (Big Box in 2014). Valuations for the joint venture properties within Continental Europe were performed by CBRE Ltd with BNP Paribas Real Estate acting as joint valuers for SELP in France. The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties.

CBRE Ltd, Jones Lang LaSalle and BNP Paribas Real Estate also undertake some professional and agency work on behalf of the Group, although this is limited in relation to the activities of the Group as a whole. Both firms advise us that the total fees paid by the Group represent less than 5 per cent of their total revenue in any year.

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

### 12(ii) Trading properties

| | Completed £m | Development £m | Total £m |
|---|---|---|---|
| **At 1 January 2015** | **51.1** | **26.6** | **77.7** |
| Exchange movement | **(4.2)** | **(2.2)** | **(6.4)** |
| Additions | **–** | **0.1** | **0.1** |
| Disposals | **(1.3)** | **–** | **(1.3)** |
| Transfers between investment and trading properties | **–** | **(2.5)** | **(2.5)** |
| (Increase)/decrease in provision for impairment in the period | **(0.5)** | **0.1** | **(0.4)** |
| **At 30 June 2015** | **45.1** | **22.1** | **67.2** |
| Add tenant lease incentives, letting fees and rental guarantees | **0.1** | **–** | **0.1** |
| **Total trading properties at 30 June 2015** | **45.2** | **22.1** | **67.3** |
| Total trading properties at 30 June 2014 | 76.1 | 49.6 | 125.7 |

Trading properties were externally valued resulting in a net increase in the provision for impairment of £0.4 million (30 June 2014: £4.7 million). Based on the fair value at 30 June 2015, the portfolio has an unrecognised surplus of £2.4 million (30 June 2014: £5.0 million).

### 13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

| | **30 June 2015 £m** | 30 June 2014 £m | 31 December 2014 £m |
|---|---|---|---|
| In one year or less | **208.1** | 2.4 | 207.6 |
| In more than one year but less than two | **–** | 205.8 | – |
| In more than two years but less than five | **478.4** | 198.5 | 380.2 |
| In more than five years but less than ten | **917.4** | 1,088.8 | 917.0 |
| In more than ten years | **198.2** | 198.1 | 198.2 |
| In more than one year | **1,594.0** | 1,691.2 | 1,495.4 |
| **Total borrowings** | **1,802.1** | 1,693.6 | 1,703.0 |
| Cash and cash equivalents | **(24.9)** | (23.7) | (23.8) |
| **Net borrowings** | **1,777.2** | 1,669.9 | 1,679.2 |
| | | | |
| **Total borrowings is split between secured and unsecured as follows:** | | | |
| Secured (on land and buildings) | **–** | 2.5 | – |
| Unsecured | **1,802.1** | 1,691.1 | 1,703.0 |
| **Total borrowings** | **1,802.1** | 1,693.6 | 1,703.0 |
| | | | |
| **Currency profile of total borrowings after derivative instruments** | | | |
| Sterling | **788.8** | 587.1 | 624.7 |
| Euros | **1,013.9** | 1,106.5 | 1,078.6 |
| US dollars | **(0.6)** | - | (0.3) |
| **Total borrowings** | **1,802.1** | 1,693.6 | 1,703.0 |
| | | | |
| **Maturity profile of undrawn borrowing facilities** | | | |
| In one year or less | **5.0** | 34.8 | 5.0 |
| In more than two years | **268.7** | 424.4 | 399.9 |
| **Total available undrawn facilities** | **273.7** | 459.2 | 404.9 |
| | | | |
| **Fair value of financial instruments** | | | |
| Book value of debt | **1,802.1** | 1,693.6 | 1,703.0 |
| Interest rate derivatives | **(98.0)** | (54.0) | (78.5) |
| Foreign exchange derivatives | **(70.3)** | (19.3) | (24.0) |
| Book value of debt including derivatives | **1,633.8** | 1,620.3 | 1,600.5 |
| Net fair market value | **1,956.7** | 1,905.3 | 1,965.8 |
| **Mark to market adjustment (pre-tax)** | **322.9** | 285.0 | 365.3 |

Subsequent to the period end, the Group has put in place additional committed bank facilities of €210 million (£148.9 million) as detailed more fully in the Financial Position and Funding section of the Finance Review.

**Fair value measurements recognised in the Balance Sheet**

The financial instruments that are measured subsequent to initial recognition at fair value are available-for-sale investments, forward exchange and currency swap contracts and interest rate swaps. All of these financial instruments would be classified as Level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices (included in Level 1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There were no transfers between categories in the current or prior year.

The fair values of financial assets and financial liabilities are determined as follows:

- Forward foreign exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Interest rate swaps and currency swap contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and the appropriate exchange rate at the balance sheet date.
- The fair value of non-derivative financial assets and financial liabilities traded on active liquid markets are determined with reference to the quoted market prices. Unlisted investments, such as those classified as available-for-sale investments, are typically valued by the Fund Manager based on the amount at which the asset would be exchanged between knowledgeable, willing parties in an arm's length transaction. The methodology used to estimate fair value will depend on the nature and facts and circumstances of the investment but use one of the following bases: transaction value, earnings multiple, net assets, price of recent investment and sale price. Where appropriate a marketability discount will be applied.

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

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

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| **Operating profit** | **372.6** | 281.3 | 719.8 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | **0.8** | 1.2 | 2.3 |
| Share of profit from joint ventures after tax | **(71.3)** | (61.0) | (151.4) |
| (Profit)/loss on sale of investment properties | **(4.5)** | 0.4 | (25.0) |
| Amounts written off on acquisitions | **4.6** | 0.1 | 0.2 |
| Revaluation surplus on investment and owner occupied properties | **(230.0)** | (142.8) | (385.6) |
| Loss/(gain) on sale of available-for-sale investments | **2.3** | (1.8) | (1.9) |
| Pension settlement costs | **4.8** | – | – |
| Pensions and other provisions | **(2.1)** | (5.4) | (8.4) |
| | **77.2** | 72.0 | 150.0 |
| **Changes in working capital:** | | | |
| Decrease in trading properties | **1.6** | 7.7 | 29.6 |
| Decrease/(increase) in debtors | **6.6** | (9.7) | 7.1 |
| Decrease in creditors | **(9.1)** | (9.4) | (10.6) |
| **Net cash inflow generated from operations** | **76.3** | 60.6 | 176.1 |

### 14(ii) Analysis of net debt

| | At 1 January 2015 £m | Exchange movement £m | Acquired[1] £m | Cash flow[2] £m | Non-cash Adjustment[3] £m | **At 30 June 2015 £m** |
|---|---|---|---|---|---|---|
| Bank loans and loan capital | 1,720.6 | – | 44.8 | 52.5 | – | **1,817.9** |
| Capitalised finance costs | (17.6) | – | – | – | 1.8 | **(15.8)** |
| **Total borrowings** | 1,703.0 | – | 44.8 | 52.5 | 1.8 | **1,802.1** |
| Cash in hand and at bank | (23.8) | 0.1 | (3.2) | 2.0 | – | **(24.9)** |
| **Net debt** | 1,679.2 | 0.1 | 41.6 | 54.5 | 1.8 | **1,777.2** |

*1 Acquired represents cash and debt from the Vailog acquisition as detailed in Note 14 (iii).*

*2 The £52.5 million bank loans comprise £97.3 million of net increase in other borrowings less £44.8 million of debt settled following the acquisition of Vailog. The £2.0 million cash in hand and at bank comprises an increase in cash on acquisition of Vailog of £3.2 million and a net decrease in cash and cash equivalents of £1.2 million as detailed in the Cash Flow Statement.*

*3 The non-cash adjustment relates to the amortisation of issue costs offset against borrowings.*

### 14(iii) Vailog acquisition

On 23 June 2015, the Group acquired 90 per cent of the voting equity in Vailog Srl ("Vailog"), a privately owned Italian development business, for consideration of £28.0 million including £2.8 million contingent consideration. The contingent consideration is assumed to be paid in full and is subject both to a pre-let development becoming unconditional and to a tenant not exercising a right to purchase the property that they occupy. The benefits of the transaction are discussed more fully in the Chief Executive's Review.

The acquisition has been accounted for in accordance with IFRS 3 'Business Combinations'. Transaction costs arising on acquisition of £1.6 million have been immediately charged to the Income Statement and shown within "Goodwill and other amounts written off on acquisitions". Goodwill of £2.0 million primarily arose due to the difference between the value of the acquired investment properties as assessed by our external valuer and the consideration paid. The Group has considered whether this amount is recoverable and has also considered the amount in the context of the Group's asset base. As a consequence, the £2.0 million has also been written off to the "Goodwill and other amounts written off on acquisitions" line in the Income Statement. Given the proximity of the transaction to the interim reporting date, the completion accounts for the transaction have yet to be finalised. The accounting at 30 June 2015 has therefore been based on provisional estimates and will be adjusted, if necessary, in the preparation of the year-end financial statements.

Details of the provisional recognised amounts of identifiable assets acquired and liabilities assumed at the date of the acquisition are summarised as follows:

| | Fair value total £m |
|---|---|
| **Non-current assets** | |
| Investment properties | 72.7 |
| Plant and equipment | 10.3 |
| **Current assets** | |
| Trade and other receivables | 14.0 |
| Cash and cash equivalents | 3.2 |
| **Total assets** | **100.2** |
| | |
| **Liabilities** | |
| **Non-current liabilities** | |
| Borrowings | (44.8) |
| Deferred tax provision | (5.3) |
| Other payables | (0.7) |
| **Current liabilities** | |
| Trade and other payables | (20.5) |
| **Total liabilities** | **(71.3)** |
| | |
| **Net assets at date of acquisition** | **28.9** |
| Less 10% non-controlling interest | (2.9) |
| **Net assets acquired** | **26.0** |
| | |
| **Total consideration for net assets acquired** | **28.0** |
| | |
| Goodwill arising | 2.0 |
| Cost of acquisition | 1.6 |
| **Total (included in Goodwill and other amounts written off on acquisitions)** | **3.6** |

The enterprise value of the acquisition is £70.8 million and is calculated by adding back net debt to net assets acquired. Had Vailog been owned since 1 January 2015 total revenue would have been £1.9 million higher and profit before tax £0.2 million higher. No income has been recognised in respect of Vailog post acquisition due to the proximity of the transaction to 30 June 2015.

Consideration is made up as follows:

| | £m |
|---|---|
| **Consideration** | |
| Consideration for net assets acquired | 28.0 |
| Less contingent consideration | (2.8) |
| | **25.2** |
| Cost of acquisition | 1.6 |
| Less costs accrued | (0.5) |
| Less cash and cash equivalents acquired | (3.2) |
| **Cash flow for acquisition of Vailog** | **23.1** |

In addition, following the acquisition, Vailog's debt (£44.8 million) was repaid.

The non-controlling interest arising on the acquisition of Vailog represents the carrying value of the 10% interest not acquired by the Group. As part of the transaction, the minority shareholder retains an option ('put option') to sell his 10% interest to the Group from 3 years after the transaction ('exercise date'). The gross settlement amount ('exercise price') of the put option has been estimated at €7.0 million (£5.0 million). The exercise price has been calculated using the estimated future cash flows of Vailog. The exercise price is 10% of the net asset value of Vailog at the exercise date, subject to a floor of 10% of net asset value at the acquisition date.

The non-controlling interest recognised in the Group's balance sheet represents the 10% shareholding (£2.9 million), net of the estimated gross settlement amount of the put option (£5.0 million). Any subsequent adjustments to the value of the put option will be recognised in the Group's Income Statement in the period in which they arise. In the period to 30 June 2015, there have been no such adjustments.

## 15. RELATED PARTY TRANSACTIONS

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

## SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

### TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

| | | **Half year to June 2015** | | Half year to June 2014 | | Year to December 2014 | |
|---|---|---|---|---|---|---|---|
| | Notes | **£m** | **Pence per share** | £m | Pence per share | £m | Pence per share |
| EPRA Earnings | Table 2 | **63.9** | **8.6** | 65.8 | 8.9 | 127.8 | 17.2 |
| EPRA NAV | Table 3 | **3,100.7** | **416** | 2,470.3 | 333 | 2,844.7 | 384 |
| EPRA NNNAV | 11 | **2,836.3** | **380** | 2,195.4 | 296 | 2,514.6 | 339 |
| EPRA net initial yield | Table 4 | | **5.1%** | | 5.9% | | 5.4% |
| EPRA 'topped up' net initial yield | Table 4 | | **5.5%** | | 6.3% | | 6.0% |
| EPRA vacancy rate | Table 5 | | **7.4%** | | 8.3% | | 6.3% |
| Total EPRA cost ratio (including vacant property costs) | Table 6 | | **23.9%** | | 22.0% | | 23.7% |
| Total EPRA cost ratio (excluding vacant property costs) | Table 6 | | **22.7%** | | 17.9% | | 20.1% |

### TABLE 2: EPRA INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

| | | **Half year to June 2015** | | | Half year to June 2014 | | | Year to December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | **Group £m** | **JV £m** | **Total £m** | Group £m | JV £m | Total £m | Group £m | JV £m | Total £m |
| Gross rental income | 2, 6 | **101.2** | **37.0** | **138.2** | 107.5 | 36.8 | 144.3 | 215.1 | 74.6 | 289.7 |
| Property operating expenses | 2, 6 | **(15.8)** | **(5.8)** | **(21.6)** | (20.0) | (5.4) | (25.4) | (40.5) | (11.2) | (51.7) |
| **Net rental income** | | **85.4** | **31.2** | **116.6** | 87.5 | 31.4 | 118.9 | 174.6 | 63.4 | 238.0 |
| Joint venture management fee income | 2 | **6.7** | **–** | **6.7** | 5.4 | – | 5.4 | 11.8 | – | 11.8 |
| Administration expenses | 2 | **(13.0)** | **(0.4)** | **(13.4)** | (11.7) | (0.2) | (11.9) | (28.3) | (0.7) | (29.0) |
| Pension settlement costs | 2 | **(4.8)** | **–** | **(4.8)** | – | – | – | – | – | – |
| **EPRA operating PBIT** | | **74.3** | **30.8** | **105.1** | 81.2 | 31.2 | 112.4 | 158.1 | 62.7 | 220.8 |
| Net finance costs | 2, 6 | **(33.5)** | **(6.5)** | **(40.0)** | (37.1) | (8.2) | (45.3) | (74.7) | (15.8) | (90.5) |
| **EPRA PBT** | | **40.8** | **24.3** | **65.1** | 44.1 | 23.0 | 67.1 | 83.4 | 46.9 | 130.3 |
| Tax on EPRA profit | 2, 6 | **(0.5)** | **(0.7)** | **(1.2)** | (0.9) | (0.4) | (1.3) | (1.9) | (0.6) | (2.5) |
| **EPRA profit after tax** | | **40.3** | **23.6** | **63.9** | 43.2 | 22.6 | 65.8 | 81.5 | 46.3 | 127.8 |
| Number of shares | | | | **742.7** | | | 741.3 | | | 741.2 |
| **EPRA EPS, pence per share** | | | | **8.6** | | | 8.9 | | | 17.2 |
| ***Company adjustment:*** | | | | | | | | | | |
| *Exclude pension settlement costs* | *2* | *4.8* | *–* | *4.8* | *–* | *–* | *–* | *–* | *–* | *–* |
| ***Adjusted profit after tax*** | | ***45.1*** | ***23.6*** | ***68.7*** | *43.2* | *22.6* | *65.8* | *81.5* | *46.3* | *127.8* |
| *Number of shares* | | | | *742.7* | | | *741.3* | | | *741.2* |
| ***Adjusted EPS, pence per share*** | | | | ***9.2*** | | | *8.9* | | | *17.2* |

## TABLE 3: BALANCE SHEET, PROPORTIONAL CONSOLIDATION

| | Notes | **Half year to June 2015** Group £m | JV £m | Total £m | Half year to June 2014 Group £m | JV £m | Total £m | Year to December 2014 Group £m | JV £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Investment properties | 12, 6 | **3,905.1** | **1,173.6** | **5,078.7** | 3,069.9 | 1,302.0 | 4,371.9 | 3,477.0 | 1,230.8 | 4,707.8 |
| Trading properties | 12, 6 | **67.3** | **13.3** | **80.6** | 125.7 | 11.2 | 136.9 | 77.8 | 13.1 | 90.9 |
| Owner occupied properties | | **–** | – | – | 1.3 | – | 1.3 | – | – | – |
| **Total properties** | | **3,972.4** | **1,186.9** | **5,159.3** | 3,196.9 | 1,313.2 | 4,510.1 | 3,554.8 | 1,243.9 | 4,798.7 |
| Investment in joint ventures | 6 | **803.9** | **(803.9)** | **–** | 854.0 | (854.0) | – | 855.5 | (855.5) | – |
| Other net assets/(liabilities) | | **163.1** | **(42.8)** | **120.3** | 99.6 | (39.0) | 60.6 | 157.7 | (27.2) | 130.5 |
| Net debt | 13, 6 | **(1,777.2)** | **(340.2)** | **(2,117.4)** | (1,669.9) | (420.2) | (2,090.1) | (1,679.2) | (361.2) | (2,040.4) |
| **Net asset value** | | **3,162.2** | **–** | **3,162.2** | 2,480.6 | – | 2,480.6 | 2,888.8 | – | 2,888.8 |
| EPRA adjustments | 11 | | | **(61.5)** | | | (10.3) | | | (44.1) |
| **EPRA net asset value** | | | | **3,100.7** | | | 2,470.3 | | | 2,844.7 |
| Number of shares | | | | **746.0** | | | 741.6 | | | 741.1 |
| **EPRA NAV, pence per share** | | | | **416** | | | 333 | | | 384 |

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

| **Combined property portfolio – 30 June 2015** | Notes | **UK £m** | **Continental Europe £m** | **Total £m** |
|---|---|---|---|---|
| **Total properties per financial statements** | Table 3 | **3,879.4** | **1,279.9** | **5,159.3** |
| Add valuation surplus not recognised on trading properties[1] | | 3.2 | 2.4 | 5.6 |
| **Combined property portfolio per external valuers' report** | | **3,882.6** | **1,282.3** | **5,164.9** |
| Less development properties (investment, trading and joint venture) | | (262.8) | (201.1) | (463.9) |
| **Net valuation of completed properties** | | **3,619.8** | **1,081.2** | **4,701.0** |
| Add notional purchasers' costs | | 202.8 | 54.5 | 257.3 |
| **Gross valuation of completed properties including notional purchasers' costs** | A | **3,822.6** | **1,135.7** | **4,958.3** |
| | | | | |
| **Income** | | | | |
| Gross passing rents[2] | | 181.9 | 79.1 | 261.0 |
| Less irrecoverable property costs | | (1.5) | (6.1) | (7.6) |
| Net passing rents | B | 180.4 | 73.0 | 253.4 |
| Adjustment for notional rent in respect of rent frees | | 16.7 | 5.0 | 21.7 |
| Topped up net rent | C | 197.1 | 78.0 | 275.1 |
| Including fixed/minimum uplifts[4] | | 8.5 | 0.6 | 9.1 |
| Total topped up net rent | | 205.6 | 78.6 | 284.2 |
| | | | | |
| **Yields** | | % | % | % |
| Net initial yield[3] | B/A | 4.7 | 6.4 | 5.1 |
| Topped up net initial yield[3] | C/A | 5.2 | 6.9 | 5.5 |
| True net equivalent yield | | 6.0 | 7.4 | 6.3 |

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

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

*3 In accordance with the Best Practices Recommendations of EPRA.*

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

## TABLE 5: EPRA VACANCY RATE

| | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|
| Annualised potential rental value of vacant premises | **23.1** | 25.8 | 19.8 |
| Annualised potential rental value for the completed property portfolio | **310.9** | 312.4 | 313.3 |
| **EPRA vacancy rate** | **7.4%** | 8.3% | 6.3% |

## TABLE: 6 EPRA COST RATIO

| | Notes | **Half year to 30 June 2015 £m** | Half year to 30 June 2014 £m | Year to 31 December 2014 £m |
|---|---|---|---|---|
| **Costs** | | | | |
| Property operating expenses[1] | 5 | **15.8** | 20.0 | 40.5 |
| Administration expenses | | **13.0** | 11.7 | 28.3 |
| Pension settlement costs | 2 | **4.8** | – | – |
| Share of joint venture property operating and administration expenses[2] | 6 | **5.3** | 5.8 | 12.2 |
| Less: | | | | |
| Joint venture property management income fee | 4 | **(5.8)** | (5.8) | (12.2) |
| **Total costs (A)** | | **33.1** | 31.7 | 68.8 |
| | | | | |
| Group vacant property costs | 5 | **(0.9)** | (4.1) | (7.5) |
| Share of joint venture vacant property costs | 6 | **(0.8)** | (1.7) | (3.1) |
| **Total costs excluding vacant property costs (B)** | | **31.4** | 25.9 | 58.2 |
| | | | | |
| **Gross rental income** | | | | |
| Gross rental income | 4 | **101.2** | 107.5 | 215.1 |
| Share of joint venture property gross rental income | 6 | **37.0** | 36.8 | 74.6 |
| **Total gross rental income (C)** | | **138.2** | 144.3 | 289.7 |
| | | | | |
| | | **%** | % | % |
| **Total EPRA cost ratio (including vacant property costs) (A)/(C)** | | **23.9** | 22.0 | 23.7 |
| **Total EPRA cost ratio (excluding vacant property costs) (B)/(C)** | | **22.7** | 17.9 | 20.1 |

| | | | | |
|---|---|---|---|---|
| **Total costs (A)** | | **33.1** | 31.7 | 68.8 |
| Pension settlement costs | 2 | **(4.8)** | – | – |
| **Total costs after non-EPRA adjustments (D)** | | **28.3** | 31.7 | 68.8 |
| Group vacant property costs | 5 | **(0.9)** | (4.1) | (7.5) |
| Share of joint venture vacant property costs | 6 | **(0.8)** | (1.7) | (3.1) |
| **Total costs excluding vacant property costs (E)** | | **26.6** | 25.9 | 58.2 |
| | | | | |
| **Total gross rental income (C)** | | **138.2** | 144.3 | 289.7 |
| | | | | |
| | | **%** | % | % |
| **Total cost ratio[3] (including vacant property costs) (D)/(C)** | | **20.5** | 22.0 | 23.7 |
| **Total cost ratio[3] (excluding vacant property costs) (E)/(C)** | | **19.2** | 17.9 | 20.1 |

*1 Property operating expenses are net of costs capitalised in accordance with IFRS of £1.3 million (H1 2014: £1.1 million, FY 2014: £2.5 million) (see note 5 for further detail on the nature of costs capitalised).*

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

*3 Adjusted for pension settlement costs.*

## GLOSSARY OF TERMS

**APP**

Airport Property Partnership, a 50-50 joint venture between SEGRO and Aviva Investors.

**Adjusted profit/EPS**

IFRS profit/EPS excluding capital and other one-off items. It is the measure that is used internally to assess the Group's income performance. See notes 2 and 11(i) to the condensed financial statements for details of these adjustments.

**Completed portfolio**

The completed investment and trading properties and the Group's share of joint ventures' completed investment and trading properties.

**Development pipeline**

The Group's current programme of developments authorised or in the course of construction at the balance sheet date, together with potential schemes not yet commenced on land owned or controlled by the Group.

**EPRA**

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

**Estimated cost to completion**

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

**Estimated rental value (ERV)**

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

**Gearing**

Net borrowings divided by total shareholders' equity excluding intangible assets and deferred tax provision.

**Gross rental income**

Contracted rental income recognised in the period, in the income statement, including surrender premiums and interest receivable on finance leases. Lease incentives, initial costs and any contracted future rental increases are amortised on a straight line basis over the lease term.

**Hectares (Ha)**

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

**Investment property**

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

**IPD**

Investment Property Databank is a provider of real estate performance and risk analysis.

**Joint Venture**

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

**Loan to Value (LTV)**

Net borrowings divided by the carrying value of total property assets (investment, owner occupied and trading properties). This is measured either on a look-through basis (including joint ventures at share) or wholly owned (which excludes joint ventures).

**Net 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.

**Net initial yield**

Annualised current 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**

Net Equivalent Yield assuming 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 completion of a development.

**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 elected for REIT status with effect from 1 January 2007.

**Rent roll**

See Passing Rent.

**SELP**

SEGRO European Logistics Partnership, a 50-50 joint venture between SEGRO and Public Sector Pension Investment Board (PSP Investments).

**Speculative development**

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

**Square metres (sq m)**

The area of buildings measurements used in this analysis. The conversion factor used, where appropriate, is 1 square metre = 10.7639 square feet.

**Take-back**

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

**Topped up net initial yield**

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

**Total Property Return (TPR)**

A measure of the ungeared return for the portfolio and is calculated as the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period concerned, as calculated by IPD 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**

Yield on cost is 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.