PRESS RELEASE

SEGRO
100 YEARS OF THE EXTRAORDINARY

14 FEBRUARY 2020

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Earnings momentum continues, driven by rental growth and a record year of development completions

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

> “2019 was another successful year for SEGRO, with our clear strategy delivering excellent financial and operational results. Our high-quality, well-located portfolio of urban and big box warehouses continues to attract a broad range of customers, benefitting from the structural drivers of e-commerce and urbanisation. As anticipated, these trends are now having an increasing impact on the Continent as well as in the UK.
>
> “We have started 2020 in a strong position. Our substantial, mostly pre-leased development pipeline, along with the ongoing results from the active asset management of our existing portfolio, should enable us to drive further sustainable, compound growth in rental income, earnings and dividends over the coming years.
>
> “This year SEGRO celebrates its one hundred year anniversary. We will continue to take a long-term view, reflecting the interests of our financial stakeholders and our wider responsibilities, as we look to position the business for further success in its next century.”

Highlights:

- **Adjusted pre-tax profit, up 10.8 per cent,** reflecting a record year of development completions, high customer retention rates, like-for-like rental growth and a low vacancy rate.
- **Adjusted EPS of 24.4 pence,** an increase of 4.3 per cent compared to 2018 (23.4 pence) or 9.9 per cent excluding the impact of the SELP performance fee received in 2018 (payable every five years). **IFRS EPS of 79.3 pence** (2018: 105.4 pence) reflects the 7.5 per cent increase in the value of our portfolio (2018: 10.7 per cent increase).
- **EPRA NAV per share up 8.9 per cent to 708 pence** (31 December 2018: 650 pence). **IFRS NAV per share was 697 pence** (31 December 2018: 644 pence).
- **Future earnings prospects underpinned by 1.2 million sq m of development projects under construction or in advanced pre-let discussions.** This equates to an additional 15 per cent of space and £70 million of potential rent, 71 per cent of which relates to pre-lets and lettings prior to completion.
- **2019 full year dividend increased by 10.1 per cent to 20.7 pence** (2018: 18.8 pence). Final dividend increased by 8.7 per cent to 14.4 pence (2018: 13.25 pence).

FINANCIAL AND OPERATING HIGHLIGHTS[1]

Valuation gains and rental growth across the portfolio with Continental Europe outperforming the UK

- **Portfolio capital valuation surplus of 7.5 per cent** driven by a 2.5 per cent increase in the like-for-like value of our UK portfolio (2018: 12.0 per cent) and 13.5 per cent in Continental Europe (2018: 5.1 per cent). Valuation gains were driven mainly by asset management, rental value growth (UK: 2.6 per cent, Continental Europe: 3.0 per cent), development gains and further yield compression in Continental Europe.

Operational metrics at record levels thanks to active asset management and strong occupier demand

- **£65.8 million in annualised new rent commitments in the period (2018: £66.4 million)**, of which £33.2 million (2018: £41.5 million) is from new development.
- **4.7 per cent like-for-like net rental income growth** (5.7 per cent in the UK, 3.1 percent in Continental Europe) aided by an average 17.8 per cent uplift on rent reviews and renewals. The UK figures include the significant impact of lease re-gears and renewals at the Heathrow Cargo Centre.
- **Vacancy rate remains low at 4.0 per cent** (31 December 2018: 5.2 per cent) reflecting strong lettings of recently completed speculative developments and some vacant asset disposals. Our continued focus on customer service has kept customer retention high at 88 per cent (2018: 89 per cent).

Capital allocation focused on funding further development-led growth

- **£692 million of investment in our portfolio,** including £556 million invested in development capex, infrastructure and land as well as £136 million of asset acquisitions. This was partially offset by £442 million of asset and land disposals (including sales of assets to our SELP joint venture).
- **Total development capex for 2020, including infrastructure and land acquisitions, expected to exceed £600 million.**
- **£50 million of potential rent from current development pipeline**, 60 per cent of which has been secured. This includes £10 million of potential rent from speculative urban warehouse developments in the very attractive London market.
- **£20 million of potential rent from further 'near-term' pre-let projects** which are in advanced stages of negotiation. Our land bank and additional land under our control through option agreements provide significant potential for further growth.

Balance sheet

- **SEGRO continues to be appropriately and efficiently financed**. The average cost of debt remains attractive at 1.7 per cent (2018: 1.9 per cent), the long average debt maturity has been maintained at 10.0 years (2018: 10.2 years) and look-through LTV ratio has reduced to 24 per cent (31 December 2018: 29 per cent).
- Equity placing of £451 million completed in February 2019, providing capacity to continue to invest for growth.
- **SEGRO has almost £1.4 billion of cash and available facilities at its disposal**.

[1] Figures quoted on pages 1 to 16 refer to SEGRO's share, except for land (hectares) and space (square metres) which are quoted at 100 per cent, unless otherwise stated. Please refer to the Presentation of Financial Information statement in the Financial Review for further details.

FINANCIAL SUMMARY

Income statement metrics	2019	2018	Change per cent
Adjusted[1] profit before tax (£m)	267.5	241.5	10.8
IFRS profit before tax (£m)	902.0	1,099.1	(17.9)
Adjusted[2] earnings per share (pence)	24.4	23.4	4.3
IFRS earnings per share (pence)	79.3	105.4	(24.8)
Dividend per share (pence)	20.7	18.8	10.1

Balance sheet metrics	31 December 2019	31 December 2018	Change per cent
Portfolio valuation (SEGRO share, £m)	10,251	9,425	7.5[5]
EPRA[3 4] net asset value per share (pence, diluted)	708	650	8.9
IFRS net asset value per share (pence, diluted)	697	644	8.2
Group net borrowings (£m)	1,811	2,177	–
Loan to value ratio including joint ventures at share (per cent)	24	29	–

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

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

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

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

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

WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

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

https://edge.media-server.com/mmc/p/9shzjdax

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 08:30 (UK time) on the following number:

Dial-in: +44 (0)2071 928000
Access code: 4534627

An audio recording of the conference call will be available until 21 February 2020 on:

UK & International: +44 (0) 3333 009785
Access code: 4534627

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 Full Year 2019 Property Analysis Report and other information about SEGRO.

CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

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FINANCIAL CALENDAR

2019 final dividend ex-div date	19 March 2020
2019 final dividend record date	20 March 2020
2019 final dividend scrip dividend price announced	26 March 2020
2019 final dividend payment date	1 May 2020
2020 First Quarter Trading Update	21 April 2020
Half Year 2020 Results	30 July 2020

ABOUT SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), and a leading owner, manager and developer of modern warehouses and light industrial property. It owns or manages 8 million square metres of space (86 million square feet) valued at £12.2 billion serving customers from a wide range of industry sectors. Its properties are located in and around major cities and at key transportation hubs in the UK and in eight other European countries.

See www.SEGRO.com for further information.

CHIEF EXECUTIVE'S REVIEW

2019 was another year of strong financial and operational performance by SEGRO. Earnings growth has been supported by rental growth in our standing assets and the additional income generated from our active development pipeline. As a result we are recommending an increased dividend to shareholders.

Our portfolio of prime, modern warehouses in key strategic markets, with more than half located in Europe's most supply-constrained urban areas, continues to position us well for sustainable success and delivers on our purpose of creating the space to enable extraordinary things to happen.

This year, on 19 May, SEGRO will celebrate its centenary. Over the past one hundred years, not only has our business changed significantly, but so has the world around us and expectations of listed companies now go much further than simply returning a profit for shareholders.

Generating attractive financial returns from our business, based on a strong balance sheet, continues to be vital for the long-term sustainability of SEGRO as a company. It has always been part of our DNA to take into consideration the interests of our stakeholders and wider society in the way that we do business. We aim to minimise our impact on the environment in which we operate, work in harmony with the communities of which we are part, and to have a positive impact on the customers, shareholders and other stakeholders which we serve. As we celebrate our centenary in 2020 the balance between our financial and social returns continues to be central to our strategy as we look to position ourselves for the years ahead.

Looking back on 2019, the main highlights included:

- A strong performance in securing new rent. £65.8 million was signed in the period. This included a particularly strong performance from increased rent on existing space, helped by successful re-gears in our Heathrow portfolio.
- Continued growth and modernisation of our portfolio with the addition of prime, sustainable warehouses through our development programme. 2019 was another record year of development with the completion of 871,800 sq m of space, of which 92 per cent is already let, generating over £40 million of new income. 94 per cent of the eligible certified development completions were rated BREEAM "Very Good" or "Excellent" (or equivalent).
- Creating opportunities to add to our portfolio with targeted acquisitions of both assets and land in some of our key urban markets, including completed assets and land in the supply-constrained London market.
- A 38 per cent increase in our renewable energy capacity bringing it to 18.5 MW. On-site renewable energy generation remains a core part of SEGRO's sustainability strategy to transition towards a low carbon future.
- A successful £451 million equity placing in February 2019 which has given us the capacity to continue to add to our development pipeline and help us to grow our rental income organically.

This activity has been reflected in a strong set of results: adjusted profit before tax is up 10.8 per cent to £267.5 million (IFRS: £902.0 million) and adjusted earnings per share are up 4.3 per cent to 24.4 pence (IFRS: 79.3 pence), or 9.9 per cent excluding the impact of the SELP performance fee received in 2018. Our EPRA NAV per share is up 8.9 per cent to 708 pence (IFRS: 697 pence) driven substantially by a 7.5 per cent increase in our portfolio value, which now totals £10.3 billion (reflecting our share of £12.2 billion of assets under management).

Our balance sheet is also in good shape. Our average cost of debt remains low at 1.7 per cent (31 December 2018: 1.9 per cent) with an average duration of 10.0 years (31 December 2018: 10.2 years). SEGRO remains appropriately and efficiently funded with a loan-to-value ratio of 24 per cent (31 December 2018: 29 per cent) and we have £1.4 billion of cash and available facilities at our disposal, providing significant financing flexibility.

The combination of a strong set of financial results in 2019 and our confident outlook for 2020 and beyond means that we are recommending an 8.7 per cent increase in final dividend to 14.4 pence per share, resulting in a total distribution of 20.7 pence for 2019 as a whole (2018: 18.8 pence).

OUR MARKETS

SEGRO has continued to thrive, despite heightened levels of geopolitical and macro-economic uncertainty. The structural trends of urbanisation and technology remain strong tailwinds for our business and the impact of these can be seen at its greatest where the two combine, most notably in our urban markets, in which more than two-thirds of our assets are located.

Whilst these trends have been evident in the UK for some time and have driven strong rental growth across both our big box and urban portfolios, on the Continent the impact is only now beginning to be realised in a more meaningful way. E-commerce penetration in both France and Germany is now nearing the level at which retailers start to adapt their supply chains for an omni-channel delivery model. In the UK this has resulted in a requirement for more warehouse space with a combination of larger centrally located fulfilment centres, complemented by smaller urban distribution centres, and we are starting to see a similar pattern emerge in Continental Europe.

Businesses linked to e-commerce (retailers, third party logistics operators and parcel delivery companies) continue to make up just over half of our rent roll but beyond this a very wide range of other companies use our space to manufacture goods (for example food, electrical components, pharmaceuticals) as well as to provide services (for example car servicing, laundry, data centres) to urban populations.

As European cities become more densely populated, demand for goods and services rapidly increases and at the same time consumers want these delivered faster than ever before. It is therefore important for even non e-commerce related businesses to be close to their end users (as well as to their workforce), driving further demand for urban warehouse space.

Our portfolio of well-located, modern warehousing is highly desirable to all of these different types of businesses and at the same time the supply response continues to be controlled. Within our urban markets, industrial land is in short supply and is frequently converted into other high value alternative uses (primarily residential), putting upward pressure on rental values. We have seen strong rental growth throughout 2019 in our UK, French and German urban warehouse portfolios.

In the big box market supply tends to keep up with demand, with most being built on a pre-let basis, and as a result rental growth is more moderate. The recent increase in speculative development in the UK is being absorbed by take-up levels that continue to be higher than the long-term average. Demand for our prime logistics parks is strong with two further large pre-lets signed during the year. We continue to take a low risk approach to development, particularly in big box warehouses, and have already pre-let 60 per cent of our current pipeline.

Industrial asset values remain supported by continued demand from investors wanting to increase their exposure to industrial and warehouse properties. As a result we have seen further improvements in valuation yields in the Continental European portfolio, whilst yields in the UK have held steady at their historically low levels.

OUR PORTFOLIO

Our portfolio of modern warehouses, with an overweight position in urban markets, continues to produce good operational results thanks to our active approach to asset management and the strong fundamentals. The vacancy remains low, retention high and lease lengths continue to increase as customers invest more in automation and fit-out and seek to secure space close to urban centres for the longer term.

We added to our portfolio in 2019 with targeted acquisitions of completed assets as well as continuing to invest in land to provide future development opportunities. Particularly pleasing were some of the off-market transactions in urban markets such as London and Paris, which were only possible thanks to the expertise of our local teams as well as our strong customer relationships.

2019 was another record period of development completions with 871,800 sq m of new space for a diverse range of occupiers across our markets. This elevated level of development allows us to constantly upgrade our portfolio and all new developments of 5,000 sq m or more are designed to achieve BREEAM ‘Very Good’ or ‘Excellent’. We continue to focus on the environmental sustainability of our assets and are now working towards our SEGRO 2025 targets. These are focused on reducing the embodied carbon within our developments and using the latest technology to help our customers to reduce energy consumption in our standing assets.

Our development pipeline is an important source of growth and we have 826,200 sq m of new space under construction, capable of generating £50 million of new rent, of which 60 per cent has been secured through pre-lets.

We continue to take a disciplined approach to capital allocation and regularly review our portfolio, taking opportunities to dispose of assets where we feel we have maximised our potential returns.

OUR STAKEHOLDERS

We are both a developer and a long-term owner of industrial assets which provides us with a unique opportunity. Land zoned for industrial use is crucial to the proper functioning of cities and we work closely with local authorities to help ensure the right space is retained to support cities' needs. In our urban markets this usually involves the regeneration of neglected industrial sites, replacing old or disused facilities with modern warehouse space with high sustainability credentials which attracts new businesses to the area and creates employment opportunities.

Once our warehouses are completed, we attempt to connect our customers that choose to locate their business inside them with the surrounding communities, helping them to source employees locally and also assisting with upskilling and training through regional programmes such as Aspire on the Slough Trading Estate.

We stay close to businesses throughout their time as a SEGRO customer thanks to the internal management of our portfolio. Our asset management and property teams interact regularly with our customers, helping us to understand the opportunities and challenges that their businesses face and to anticipate their needs. 88 per cent of our customers rate their overall satisfaction as an occupier of a SEGRO warehouse as 'excellent' or 'very good'. Strong relationships with our customers also create opportunities, evidenced by the fact that over half of our current development pipeline is with existing customers.

We aim to be a trusted partner to all of our stakeholders and it is through these connections that we enable extraordinary things to happen within, and around, the spaces that we create.

OUR PEOPLE

Although real estate is a physical asset class, the business of developing and managing it requires human interaction and our longer-term success is therefore dependent on the expertise, commitment and motivation of our workforce. It is our employees who manage our relationships on a day-to-day basis and it is therefore crucial that we attract and retain talented people.

Over 300 people now work in our 14 offices across Europe. We have a strong company culture and a Purpose and Values that are shared and aspired to across all geographies. To enable the sharing of ideas and best practices we have created cross-border working groups and we encourage employees to visit other regions and deepen their understanding of the different parts of our business.

Our 'Space to Grow' programme offers our employees the opportunity to undertake a broad range of training and, as the use of technology advances within our sector, we will expand the scope of this training to ensure that it continues to provide our workforce with the skills that they need to thrive in, and develop, their roles.

Successful businesses are diverse and inclusive and we promote this throughout our workplace, enabling our employees to bring 'their whole selves' to work. We have robust policies in place that help us to support our belief that everyone deserves the right to be treated equally.

I would like to take this opportunity to thank all of our employees for their continued dedication and commitment to our business and for their contributions to the success of SEGRO in 2019.

OUTLOOK

The momentum that we have seen across our markets during the final months of the year means that we have started 2020 with confidence. We are proud owners of one of the highest quality logistics and industrial portfolios in Europe and we are well positioned to benefit from the structural drivers that are currently at play in our sector.

We expect to see further rental growth across our geographies, with an increasing contribution from Continental Europe, and the potential for further upside in the UK as our future relationship with the European Union becomes clearer.

Our development pipeline for 2020 is very healthy, allowing us to both modernise our portfolio and generate additional rental income, compounded by the rental growth from the active asset management of our existing estate. Whilst the trends of e-commerce and urbanisation continue to drive occupier demand we expect to be able to develop at this elevated level, de-risking the majority of it by pre-letting.

Looking beyond the immediate future, we recognise that the society in which we operate continues to face unprecedented levels of change as technological advances continue to impact our customers and wider society. In order to position our business to embrace this, we announced in January the creation of a new Strategy, Investment and Innovation team. This will ensure that we are able to navigate and benefit from these structural changes and will help us to become more agile in supporting the evolving needs of our customers and other stakeholders.

Our core strategy and pure focus on warehouse and industrial property will remain unchanged, but by keeping one eye on the horizon we expect to be able to position SEGRO for sustainable, long-term success.

A STRATEGY TO GENERATE ATTRACTIVE, SUSTAINABLE RETURNS

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

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

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

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

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

Embedded in this strategy is the long-term approach that we take to running our business. This requires:

- an understanding and assessment of the risks facing the business and the actions we can take to mitigate those risks. More information can be found in the Principal Risks section (page 26); and
- engagement with our key stakeholders to understand their priorities, and our impact on the environment.

Our portfolio comprises modern big box and urban warehouses which are well specified and located, with good sustainability credentials, and which should benefit from a low structural void rate and relatively low intensity asset management requirements. Our assets are concentrated in the strongest European submarkets which display attractive property market characteristics, including good growth prospects, limited supply availability and where we already have critical mass, or believe we will be able to achieve it in a reasonable timeframe.

DISCIPLINED CAPITAL ALLOCATION

We invested £692 million in our portfolio during the year: acquisitions of £136 million of assets, £147 million of land and development capital expenditure of £409 million. This was partly offset by £442 million of disposals.

Acquisitions focused on building scale in urban warehousing

2019 was a relatively quiet year for asset acquisitions as we continued to focus investment on our development pipeline, including many further land purchases. We did however complete a small number of transactions in key strategic markets.

£95 million of the acquisitions were urban warehouses in the UK, France and Italy. In London we made two off-market acquisitions: a warehouse in East London that complements our existing portfolio, and a further acquisition in South London, establishing a presence in the area for the first time. In France we purchased two properties in the supply-constrained market of Lyon. Finally, in Italy we acquired a warehouse on the outskirts of Verona, to be used by a global online retailer for their last mile distribution.

The remaining acquisitions included big box warehouses in Barcelona, where we are working to achieve scale, and also in Lille and Wrocław, two markets where we have identified strong occupier demand for logistics.

The consideration for the asset acquisitions was £136 million, reflecting a blended topped up initial yield of 4.7 per cent.

<u>Acquisitions completed in 2019</u>

Asset type	**Purchase price (£m, SEGRO share)**	**Net initial yield (%)**	**Topped-up net initial yield (%)**
Big box logistics	40.8	5.4	6.1
Urban warehousing	95.6	4.0	4.0
Land[2]	147.1	-	-
Total acquisitions completed in 2019[3]	**283.5**	**4.4[2]**	**4.7[1]**

1 Yield excludes land transactions.

2 Land acquisitions are discussed in Future Development Pipeline.

3 A reconciliation of acquisitions completed to the Financial Statements is provided in Table 3 of the supplementary notes.

Acquisitions: what to expect in 2020

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

DISCIPLINED CAPITAL ALLOCATION — ASSET RECYCLING TO IMPROVE PORTFOLIO FOCUS

During 2019, we sold £442 million of land and assets, taking advantage of strong investor demand to realise profits and release capital to reinvest in our business.

The largest component of these disposals was £259 million of UK stand-alone big box warehouses. Going forwards, our UK big box focus will be on developing logistics parks rather than stand-alone buildings.

Other disposals included the sale of a building at SLPEMG to its occupier and we also sold our holdings in Gdańsk, a smaller regional market that we have decided to exit in order to focus on other parts of Poland.

As in previous years, we sold a portfolio of Continental European big box warehouses developed by SEGRO to SELP for which we received £113 million net proceeds from an effective sale of a 50 per cent interest.

The consideration for the asset disposals was £433 million, reflecting a blended topped up initial yield of 3.9 per cent. The disposals generated a modest gain on sale compared to book values at 31 December 2018.

Additionally, we disposed of £9 million of land, primarily comprising plots in non-core markets.

<u>Disposals completed in 2019</u>

Asset type	Disposal proceeds (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	427.2	3.8	3.8
Urban warehousing	6.3	10.8	10.8
Land	8.9	-	-
Total disposals completed in 2019[2]	**442.4**	**3.9[1]**	**3.9[1]**

1 Yield excludes land transactions.

2. A reconciliation of disposals completed to the Financial Statements is provided in Table 3 of the supplementary notes.

Disposals: what to expect in 2020

While investor demand for industrial properties remains strong, we expect to continue to recycle assets where we believe we can generate better returns from deploying our capital in other opportunities. A typical run rate would be £150-250 million per year.

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

Warehouse property values across Europe increased throughout the year, with Continental Europe outperforming the UK. Investment volumes across Europe continued to be healthy, at similar levels to 2018. Both investor and occupier demand for the asset class remained strong.

The Group's property portfolio was valued at £10.3 billion at 31 December 2019 (£12.2 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, increased by 7.5 per cent on a like-for-like basis (adjusting for capital expenditure and asset recycling during the year) compared to 10.7 per cent in 2018. A reconciliation of the portfolio valuation to the Financial Statements is provided in Table 3 of the Supplementary Notes.

This primarily comprises a 5.8 per cent increase in the assets held throughout the year (2018: 10.1 per cent), driven by a 2.7 per cent increase in our valuer's estimate of the market rental value of our portfolio (ERV) and in Continental Europe this was complemented by approximately 50 basis points of yield compression. In total, our portfolio generated a total property return of 10.5 per cent (2018: 15.4 per cent).

Assets held throughout the year in the UK increased in value by 2.5 per cent (2018: 12.0 per cent), slightly ahead of the MSCI Real Estate UK All Industrial 2019 index which increased by 2.4 per cent. The performance was mostly due to the capture of reversionary potential in lease reviews and renewals, particularly in London. The true equivalent yield applied to our UK portfolio was 4.6 per cent, 20 basis points lower than at 31 December 2018 (4.8 per cent) reflecting the impact of newly completed developments and the disposal of some higher yielding assets rather than a movement in market yields. Rental values improved by 2.6 per cent (2018: 4.7 per cent).

Assets held throughout the year in Continental Europe increased in value by 13.5 per cent (2018: 5.1 per cent) on a constant currency basis, reflecting a combination of yield compression to 5.2 per cent (31 December 2018: 5.9 per cent) and rental value growth of 3.0 per cent (2018: 0.7 per cent).

More details of our property portfolio can be found in the 2019 Property Analysis Report available at www.segro.com/investors.

Valuations: what to expect in 2020

Capital growth forecasts are notoriously difficult given the multitude of drivers (particularly interest rates and credit spreads) most of which are outside our direct control.

Nevertheless, the prospects for our portfolio of big box and urban warehouses remain strong, supported by structural drivers of demand and relatively limited amounts of new speculative supply. This means that we are optimistic about the potential for further rental value growth, particularly in our urban warehouse portfolio.

Prime yields continue to appear attractive compared to government (risk-free) bond yields or most other property types, and this premium should be supportive for valuations. We believe that our high quality portfolio and our focus on asset management will enable us to outperform the wider market.

Property portfolio metrics at 31 December 2019[1]

	Lettable area sq m (AUM)	Portfolio value, £m Completed	Land & develop-ment	Combined property portfolio	Combined property portfolio (AUM)	Valuation movement[2 3] %	Yield[3] Topped -up net initial %	Net true equivalent %	Vacancy (ERV)[4] %
UK									
Greater London	1,096,285	3,819.1	181.9	4,001.0	4,001.2	3.4	3.6	4.4	4.4
Thames Valley	554,618	1,671.7	80.7	1,752.4	1,752.4	1.0	4.5	4.9	2.4
National Logistics	507,898	711.6	161.9	873.5	878.7	0.3	5.2	4.9	–
UK Total	**2,158,801**	**6,202.4**	**424.5**	**6,626.9**	**6,632.3**	**2.5**	**4.1**	**4.6**	**3.3**
Continental Europe									
Germany/Austria	1,410,891	982.4	122.5	1,104.9	1,657.2	13.4	4.3	4.7	7.9
Netherlands	205,951	108.1	29.3	137.4	253.9	19.6	5.1	5.0	–
France	1,296,664	955.3	82.9	1,038.2	1,424.5	16.6	4.8	5.0	4.1
Italy	903,197	371.8	193.1	564.9	845.0	9.6	5.2	5.2	0.1
Spain	230,838	127.6	41.9	169.5	260.6	9.9	3.9	5.4	23.4
Poland	1,382,632	495.9	30.4	526.3	920.9	9.1	6.4	6.2	3.6
Czech Republic	169,514	73.4	10.4	83.8	161.4	15.1	5.0	5.6	3.0
Continental Europe Total	**5,599,687**	**3,114.5**	**510.5**	**3,625.0**	**5,523.5**	**13.5**	**4.9**	**5.2**	**5.3**
GROUP TOTAL	**7,758,488**	**9,316.9**	**935.0**	**10,251.9**	**12,155.8**	**5.8**	**4.3**	**4.8**	**4.0**

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

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

3 In relation to completed properties only.

4 Vacancy rate excluding short term lettings for the Group at 31 December 2019 is 4.4 per cent.

OPERATIONAL EXCELLENCE – ACTIVE ASSET MANAGEMENT

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

Urban warehouses

Urban warehouses account for 67 per cent of our portfolio value. They tend to be smaller warehouses, and are located mainly in and on the edges of major cities where land supply is restricted and there is strong demand for warehouse space, particularly catering for the needs of last mile delivery and, around London, from data centre users.

Our urban portfolio is concentrated in London and South-East England (83 per cent) and major cities in Continental Europe (17 per cent), including Paris, Düsseldorf, Frankfurt, Berlin and Warsaw. These locations share similar characteristics in terms of limited (and shrinking) supply of industrial land and growing populations, while occupiers are attracted to modern warehouses with plenty of yard space to allow easy and safe vehicle circulation. We believe that this enduring occupier demand and limited supply bodes well for future rental growth.

Big box warehouses

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

They are focused on the major logistics hubs and corridors in the UK (South-East and Midlands regions), France (the logistics 'spine' linking Lille, Paris, Lyon and Marseille), Germany (Düsseldorf, Berlin, Frankfurt and Hamburg) and Poland (Warsaw, Łódz, Poznán, and the industrial region of Silesia). 30 per cent of our big box warehouses are in the UK and the remaining 70 per cent are in Continental Europe.

Occupier demand continues to be healthy across all of our markets but the nature (and typical location) of big box warehouses tends to mean that, over time, supply is able to increase more easily to satisfy demand, as there is generally more land available in out of town locations

There was an increase in the amount of speculative development of UK big box warehouses during 2019 but it appears that this space is being absorbed, with take-up levels above the long-term average. Our recent letting activity at SLPEMG and at our new logistics park close to Kettering, shows that there is still good demand from occupiers to sign pre-lets for modern, sustainable warehouses in prime locations.

On the Continent we have seen stronger rental growth in 2019 as the impact of e-commerce began to be felt. Overall, we believe that the prospects for significant rental growth in big box warehouses are, and have always been, limited but this asset class brings other benefits including lower asset management intensity and long leases which help to ensure a sustainable level of income. We do not see evidence of oversupply in any of the markets in which we operate.

Customer relationships key to our continued success

As long-term owners of warehouses, and given that we manage the majority of our portfolio internally, we seek to develop strong customer relationships.

Part of the role of our asset managers is to build a knowledge of the businesses that occupy our space. By understanding their evolving needs and requirements, we can not only help them to change and grow, but it also means that we can predict coming trends and innovate accordingly.

Almost 60 per cent of our headline rent comes from customers with whom we have multiple leases and over half of the potential rent from our current development pipeline has been secured by a pre-let with an existing customer.

Growing rental income from letting existing space and new developments

At 31 December 2019, our portfolio generated passing rent of £378 million, rising to £426 million once rent free periods expire ("headline rent"). During the year, we contracted £65.8 million of new headline rent, level with our record 2018 performance (£66.4 million). New pre-let agreements continue to contribute strongly to this number but in 2019 we also grew rent on our existing space significantly, helped by successful regears at the Heathrow Cargo Centre.

Our customer base remains well diversified, reflecting the multitude of uses of warehouse space. Our top 20 customers account for 32 per cent of total headline rent, and our largest customer, Deutsche Post DHL, accounts for 4.5 per cent.

Approximately half of our customers are involved in businesses affected by e-commerce, including third party logistics and parcel delivery businesses, and retailers. These businesses accounted for almost 70 per cent of our take-up during the year.

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

- **Rental growth from lease reviews and renewals**. These generated an uplift of 17.8 per cent (2018: 8.8 per cent) for the portfolio as a whole compared to previous headline rent. During the year, new rents agreed at review and renewal were 25.1 per cent higher in the UK (2018: 12.8 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £8.5 million of headline rent. In Continental Europe, rents agreed on renewal fell by 0.7 per cent (2018: 2.2 per cent lower), equating to a less than £0.1 million reduction in the rent roll, as market rental growth starts to get closer to the indexation provisions that have accumulated over recent years.
- **High levels of customer satisfaction**. Although the quality and location of our portfolio is important to our customers, we believe that the service we provide is crucial to maintaining high customer

retention and low vacancy. We carry out a rolling survey of our customer base throughout the year to identify and rectify issues promptly. In 2019, one third of our customer base responded and 88 per cent of the 367 participants in the surveys rated their experience as a SEGRO customer as "good" or "excellent" (2018: 80 per cent).

- **Vacancy has remained low.** The vacancy at 31 December 2019 was 4.0 per cent (31 December 2018: 5.2 per cent). This reduction was due to a combination of a strong performance in letting recently completed speculatively developed space as well as the disposal of two vacant UK big box warehouses. This has helped bring the vacancy rate on our standing stock down to 2.6 per cent (2018: 3.4 per cent). The vacancy rate is now at the bottom end of our target range of between 4 and 6 per cent. The average vacancy rate during the period was also down at 4.6 per cent (2018: 5.0 per cent).
- **High retention rate of 88 per cent**. During the period, space equating to £11.0 million (2018: £12.2 million) of rent was returned to us, including £1.1 million of rent lost due to insolvency (2018: £1.1 million). We took back space equating to £0.3 million of rent for redevelopment. Approximately £58 million of headline rent was at risk from a break or lease expiry during the period of which we retained 86 per cent in existing space, with a further 2 per cent retained but in new premises.
- **Lease terms continue to offer attractive income security**. The level of incentives agreed for new leases (excluding those on developments completed in the period) represented 6.6 per cent of the headline rent (2018: 5.6 per cent). The portfolio's weighted average lease length increased to 7.8 years to first break and 9.2 years to expiry (31 December 2018: 7.5 years to first break, 8.9 years to expiry). Lease terms are longer in the UK (9.3 years to break) than in Continental Europe (5.4 years to break).
- **£14.1 million of net new rent from existing assets.** The combination of these strong metrics has enabled us to generate £13.2 million of headline rent from new leases on existing assets (2018: £12.9 million) and £11.9 million from rent reviews, lease renewals and indexation (2018: £8.3 million). This was offset by rent from space returned of £11.0 million (2018: £12.2 million).
- **Continued strong demand from customers for pre-let agreements.** In addition to increased rents from existing assets, we contracted £33.2 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2018: £41.5 million). Included in this are four new data centres on the Slough Trading Estate and a number of big box units around both Milan and Rome (the largest of which we are developing for a global online retailer). Other noteworthy lettings included our first pre-let at SEGRO Park Kettering, a large unit for an online grocery retailer in East London, further lettings at SLPEMG and our latest development in Wrocław, Poland.
- **Rent roll growth increased to £54.5 million**. An important element of achieving our goal of being a leading income-focused REIT is to grow our rent roll, primarily through increasing rent from our existing assets and then from generating new rent through development. Rent roll growth, which reflects net new headline rent from existing space (adjusted for take-backs of space for development), take-up of developments and pre-lets agreed during the period, increased to £54.5 million in 2019, from £53.5 million in 2018.

ASSET MANAGEMENT: WHAT TO EXPECT IN 2020

We are anticipating strong occupier demand in all of our markets and expect vacancy rates to remain low. The limited supply in most of our markets, particularly urban warehousing, means that we expect retention to remain high with further rental growth.

Summary of key leasing data for 2019[1]

Summary of key leasing data for the year to 31 December[1]		**2019**	2018
Take-up of existing space[2] (A)	£m	**13.2**	12.9
Space returned[3] (B)	£m	**(11.0)**	(12.2)
NET ABSORPTION OF EXISTING SPACE (A-B)	£m	**2.2**	0.7

Other rental movements (rent reviews, renewals, indexation)[2] (C)	£m	**11.9**	8.3
RENT ROLL GROWTH FROM EXISTING SPACE	£m	**14.1**	9.0
Take-up of pre-let developments completed in the year (signed in prior years)[2] (D)	£m	**36.3**	24.3
Take-up of speculative developments completed in the past two years[2] (D)	£m	**9.0**	9.7
TOTAL TAKE UP[2] (A+C+D)	£m	**70.4**	55.2
Less take-up of pre-lets and speculative lettings signed in prior years[2]	£m	**(37.8)**	(30.3)
Pre-lets and lettings on speculative developments signed in the year for future delivery[2]	£m	**33.2**	41.5
RENTAL INCOME CONTRACTED IN THE YEAR[2]	£m	**65.8**	66.4
Take-back of space for redevelopment	£m	**(0.3)**	(0.7)
Retention rate[4]	%	**88**	89

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

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

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

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

OPERATIONAL EXCELLENCE — DEVELOPMENT ACTIVITY

During 2019, we invested £556 million in our development pipeline which comprised £409 million (2018: £548 million) in development spend, of which £18 million was for infrastructure, and a further £147 million to replenish our land bank to enable future development. Since the year end we also completed the acquisition of a further 182 hectares of land that had been expected to complete in 2019.

DEVELOPMENT PROJECTS COMPLETED

We completed 871,800 sq m of new space during the year, a 30 per cent increase on 2018, which had already been a record year for SEGRO. These projects were 85 per cent pre-let prior to the start of construction and were 92 per cent let as at 31 December 2019, generating £40.4 million of headline rent, with a potential further £3.5 million to come when the remainder of the space is let. This translates into a yield on total development cost (including land, construction and finance costs) of 7.3 per cent when fully let.

We completed 785,800 sq m of big box warehouse space, including the first four units at SLPEMG. Other big box completions included pre-lets to occupiers including Amazon, Geodis, Antony Morato, ALDI and Porsche.

We completed 86,000 sq m of urban warehouses, of which 90 per cent is already let. These included five new data centres on the Slough Trading Estate, a unit for airline caterer DO&CO at Heathrow and further phases of our urban warehouse parks in Berlin and Düsseldorf.

We also completed the strategic rail freight interchange terminal at SLPEMG and Maritime Intermodal launched their first route from this in early January.

CURRENT DEVELOPMENT PIPELINE

At 31 December 2019, we had development projects approved, contracted or under construction totalling 826,200 sq m, representing £316 million of future capital expenditure to complete and £50 million of annualised gross rental income when fully let. 60 per cent of this rent has already been secured and these projects should yield 6.6 per cent on total development cost when fully occupied.

- In the UK, we have 160,700 sq m of space approved or under construction. Within this are two more data centres on the Slough Trading Estate (taking the total number to 29) as well as a number of developments in East London, including a further phase at Rainham and our largest ever pre-let in London at a site close to Purfleet. We are also developing SEGRO Park Hayes in West London, a new urban warehouse estate close to Enfield in North London and finally two pre-lets in our National Logistics portfolio, one at SLPEMG and the other at SEGRO Park Kettering.
- In Continental Europe, we have 572,200 sq m of space approved or under construction. This includes pre-let big box warehouses for a variety of different occupiers, from retailers to manufacturers, across all of our European markets. We are also developing further phases of our successful urban warehouse parks in Frankfurt and Düsseldorf as well as new schemes in Lyon and on the outskirts of Paris.

- In addition to the above projects that we are developing ourselves, we also have 93,300 sq m of space under construction as part of forward-funded agreements with local developers. This is proving to be a very effective way to gain access to opportunities in competitive markets where accessing land is more difficult.

We continue to focus our speculative developments primarily on urban warehouse projects, particularly in the UK, France and Germany, where modern space is in short supply and occupier demand is strong. In the UK, our speculative projects are focused in London and on the Slough Trading Estate. In Continental Europe, we continue to build scale in Germany, where projects are underway in Düsseldorf and Frankfurt, as well as in France, with projects in Lyon and Paris.

Within our Continental European development programme, approximately £15 million of potential gross rental income is associated with big box warehouses developed outside our SELP joint venture. Under the terms of the joint venture, SELP has the option, but not the obligation, to acquire these assets shortly after completion. Assuming SELP exercises its option, we would retain a 50 per cent share of the rent after disposal. In 2019, SEGRO sold £226 million of completed assets to SELP, representing a net disposal of £113 million.

Further details of our completed projects and current development pipeline are available in the 2019 Property Analysis Report, which is available to download at www.segro.com/ investors.

FUTURE DEVELOPMENT PIPELINE

Near-term development pipeline

Within the future development pipeline are a number of pre-let projects which are close to being approved, awaiting either final conditions to be met or planning approval to be granted. We expect to commence these projects within the next six to 12 months.

These projects total 395,300 sq m of space, equating to approximately £205 million of additional capital expenditure and £20 million of additional rent.

Land bank

Our land bank identified for future development (including the near-term projects detailed above) totalled 507 hectares at 31 December 2019, valued at £423 million, less than 5 per cent of our total portfolio value. We invested £147 million in acquiring new land during the year, including land associated with developments already underway or expected to start in the short term.

We estimate that our land bank can support 2.1 million sq m of development over the next five years. The prospective capital expenditure associated with the future pipeline is approximately £1.0 billion. It could generate £100 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of around 6-7 per cent. These figures are indicative based on our current expectations and are dependent on our ability to secure pre-let agreements, planning permissions, construction contracts and on our outlook for occupier conditions in local markets.

Since the period end we acquired approximately 182 hectares of land ideally suited to big box warehouse development close to Coventry in the UK.

Conditional land acquisitions and land held under option agreements

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

The options are held on the balance sheet at a value of £37 million (including joint ventures at share). Those we expect to exercise over the next two to three years are for land capable of supporting just over 1.8 million sq m of space and generating approximately £116 million of headline rent (SEGRO share) for a blended yield of approximately 6-7 per cent.

ENVIRONMENTAL IMPACT

The carbon generated through our development activity is a significant part of our total carbon footprint and we understand that, as a developer, we are responsible for minimising the environmental impact of our activity and making our buildings as efficient as possible to operate.

Of the eligible certified space completed in 2019, 94 per cent has been accredited as BREEAM 'Excellent' or 'Very Good' (or a local equivalent).

We pay attention to our use of energy, resources and materials throughout the construction of our warehouses and are increasingly looking at how we can use design to minimise the carbon footprint of them throughout their entire life cycle. We now regularly include features such as LED lighting, transparent panels to improve natural daylight, water recycling systems and electric vehicle charging points.

We are also investigating ways of offsetting the carbon that we produce, for example by installing solar panels on our buildings to produce renewable energy. During 2019 we increased our renewable energy capacity by 38 per cent, bringing it to 18.5 MW, enough to power 4,500 homes.

USING OUR DEVELOPMENT PIPELINE TO HELP TRANSFORM COMMUNITIES

Our urban warehouse developments typically involve the regeneration of former, often neglected, manufacturing sites and the redevelopment of this land attracts new businesses and brings jobs and prosperity to the area.

We work closely with local authorities on the section 106 agreements (or equivalent) that form part of the planning process and often go above and beyond what is required. This can involve making investment to improve the local infrastructure, asking our contractors to source materials from local suppliers and advocating the recruitment of local workers during the construction process.

Once our warehouses are occupied we also do what we can to help our customers to employ locally and fund training programmes to upskill people from the surrounding community. We also create job networks to help connect our customers with potential employees.

As long-term owners of our assets it is in our interest for the communities that we are part of to thrive. Taking this into consideration from the very start of the development process is key to maximising the contribution that we can make and the impact that we can have.

DEVELOPMENT: WHAT TO EXPECT IN 2020

We have 826,200 sq m of development projects under way, capable of generating £50 million of new headline rent, of which 60 per cent has been secured.

We expect to invest in excess of £600 million in development capex and land, including approximately £50 million of infrastructure expenditure.

FINANCE REVIEW: EFFICIENT CAPITAL STRUCTURE, STRONG OPERATING RESULT

<u>Financial highlights</u>

	31 December 2019	31 December 2018

IFRS[1] net asset value (NAV) per share (diluted) (p)	**697**	644
EPRA[1] NAV per share (diluted) (p)	**708**	650
IFRS profit before tax (£m)	**902.0**	1,099.1
Adjusted[2] profit before tax (£m)	**267.5**	241.5
IFRS earnings per share (EPS) (p)	**79.3**	105.4
Adjusted[2] EPS (p)	**24.4**	23.4

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

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

Presentation of financial information

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

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

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

ADJUSTED PROFIT

Adjusted profit

	2019 £m	2018 £m
Gross rental income	**362.0**	323.2
Property operating expenses	**(80.7)**	(75.6)
Net rental income	**281.3**	247.6
Joint venture fee income	**20.4**	44.9
Administration expenses	**(51.5)**	(44.1)
Share of joint ventures' Adjusted profit[1]	**54.0**	39.0
Adjusted operating profit before interest and tax	**304.2**	287.4
Net finance costs	**(36.7)**	(45.9)
Adjusted profit before tax	**267.5**	241.5
Tax on Adjusted profit	**(3.2)**	(4.4)
Non-controlling interests share of Adjusted profit	**(0.2)**	(0.6)
Adjusted profit after tax	**264.1**	236.5

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

Adjusted profit before tax increased by 10.8 per cent to £267.5 million (2018: £241.5 million) during 2019 as explained below (see Note 2).

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

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

Net rental income

Net rental income increased by £33.7 million to £281.3 million, reflecting the positive net impact of like-for-like rental growth, development completions and investment activity during the period, offset by the impact of disposals.

Like-for-like net rental income (including JVs at share)	**2019 £m**	2018 £m	Change %
UK	**203.5**	192.6	5.7
Continental Europe	**90.6**	87.9	3.1
Like-for-like net rental income	**294.1**	280.5	4.8
Other[1]	**(6.5)**	(5.7)	
Like-for-like net rental income (after other)	**287.6**	274.8	4.7
Development lettings	**40.6**	11.7	
Properties taken back for development	**(0.2)**	1.4	
Like-for-like net rental income plus developments	**328.0**	287.9	
Properties acquired	**5.7**	0.8	
Properties sold	**10.7**	18.2	
Net rental income before surrenders, dilapidations and exchange	**344.4**	306.9	
Lease surrender premiums and dilapidations income	**0.5**	1.2	
Other items and rent lost from lease surrenders	**16.1**	8.6	
Impact of exchange rate difference between periods	**–**	1.4	
Net rental income (including joint ventures at share)	**361.0**	318.1	
Share of joint venture management fees	**(8.6)**	(7.0)	
Share of joint venture performance fees	**–**	(13.1)	
Net rental income after SEGRO share of joint venture fees	**352.4**	298.0	

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

The like-for-like rental growth metric is based on properties held throughout both 2019 and 2018 on a proportionally consolidated basis.

On a like-for-like basis, before other items (primarily corporate centre and other costs not specifically allocated to a geographic business unit), net rental income increased by £13.6 million, or 4.8 per cent, compared to 2018. This is due to strong rental performance across our portfolio (UK: 5.7 per cent increase and Continental Europe: 3.1 per cent increase).

Income from joint ventures

Joint venture fee income decreased by £24.5 million to £20.4 million. This decrease is due to a performance fee from SELP of £26.2 million that was recognised and paid in the prior year. The performance fee is calculated and receivable every five years should the SELP property portfolio meet certain performance criteria. It does not meet the recognition criteria in this period due to the volatility and uncertainty around its measurements.

SEGRO's share of joint ventures' Adjusted profit after tax increased by £15.0 million from £39.0 million in 2018 to £54.0 million in 2019. The increase is due to underlying growth in the SELP joint venture and the inclusion, in the prior year, of performance fee costs of £11.9 million (at share, being £13.1 million less tax of £1.2 million).

The share of joint ventures' Adjusted profit after tax are primarily from the SELP joint venture in 2019.

Administrative and operating costs

The Group is focused on managing its cost base and uses a Total Cost Ratio (TCR) as a key measure of cost management. The TCR for 2019 has been maintained at 22.9 per cent in line with 2018, above our 20 per cent target. The calculation is set out in Table 7 of the Supplementary Notes to the Financial Statements.

Total costs in respect of the cost ratio calculation (see Table 7) have increased by £10.7 million to £95.2 million in 2019. A proportional increase in gross rental income, by £46.0 million to £414.9 million (see Table 7), has maintained the cost ratio consistent with the prior year. The increase in costs include increased property operating costs following the growth of the property portfolio (see Note 5) and staff costs.

Excluding share-based payments, the cost ratio would be 19.9 per cent, unchanged compared to 2018.

Total costs (see Note 5) have increased by £47.4 million to £123.9 million. This is primarily due to the inclusion of £43.2 million trading property cost of sales. Costs also include service charge expenses of £27.6 million (2018: £25.5 million), previously shown net, as detailed further in Note 1.

Net finance costs

Net finance costs (including adjustments) decreased by £9.2 million in 2019 to £36.7 million primarily as a result of lower debt levels across the year compared to the prior period as a result of the equity placing and lower average cost of debt following the repayment of debt in the current period.

Net finance costs also include £3.0 million in respect of interest on lease liabilities following the adoption of IFRS 16 (see Note 1).

Taxation

The tax charge on Adjusted profit of £3.2 million (2018: £4.4 million) reflects an effective tax rate of 1.2 per cent (2018: 1.8 per cent), consistent with a Group target tax rate of less than 3 per cent.

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

Adjusted earnings per share

Adjusted earnings per share are 24.4 pence compared to 23.4 pence in 2018 (which included 1.2 pence in respect of the SELP performance fee).

IFRS PROFIT

IFRS profit before tax in 2019 was £902.0 million (2018: £1,099.1 million), equating to basic post-tax IFRS earnings per share of 79.3 pence compared with 105.4 pence for 2018, principally reflecting lower realised and unrealised gains in the wholly-owned portfolio.

A reconciliation between Adjusted profit before tax and IFRS profit before tax is provided in Note 2 to the Financial Statements.

Realised and unrealised gains on wholly-owned investment and trading properties of £496.1 million in 2019 (2018: £852.6 million) have been recognised in the Income Statement as the value of our portfolio increased during the year. These included an unrealised valuation surplus on invested properties of £476.7 million (2018: £791.4 million) and a profit of £7.2 million on investment property disposals (2018: £56.5 million).

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £214.2 million (2018: £101.1 million) largely in respect of the SELP portfolio and is further analysed in Note 6. The SELP portfolio is entirely based in Continental Europe where capital growth was above that in the UK (where the majority of the wholly owned portfolio is located).

The cost of closing out debt in the year was £18.6 million (2018: £6.4 million) following the buy back of the SEGRO bonds maturing in 2020. IFRS earnings were also impacted by a net fair value gain on interest rate swaps and other derivatives of £7.9 million (2018: £22.0 million loss) and a tax charge of £41.4 million (2018: £33.0 million) of which £38.2 million (2018: £28.6 million) arises in respect of adjustments, primarily in relation to property valuation movements.

BALANCE SHEET

EPRA net asset value

	£m	Shares million	Pence per share
EPRA net assets attributable to ordinary shareholders at 31 December 2018	**6,620.3**	**1,018.7**	**650**

Realised and unrealised property gain	710.3		
Adjusted profit after tax and non-controlling interests	264.1		
Dividend net of scrip shares issued (2018 final and 2019 interim)	(141.7)		
Exchange rate movement (net of hedging)	(52.6)		
Issue of shares	444.0		
Early repayment of debt	(18.6)		
Other	(24.8)		
EPRA net assets attributable to ordinary shareholders at 31 December 2019	**7,801.0**	**1,102.1**	**708**

At 31 December 2019, IFRS net assets attributable to ordinary shareholders were £7,677.6 million (31 December 2018: £6,564.0 million), reflecting 697 pence per share (31 December 2018: 644 pence) on a diluted basis.

EPRA NAV per share at 31 December 2019 was 708 pence (31 December 2018: 650 pence). The 8.9 per cent increase primarily reflects property gains in the period. The table above highlights the other principal factors behind the increase. A reconciliation between IFRS and EPRA NAV is available in Note 11 to the Financial Statements.

Cash flow and net debt reconciliation

Cash flow generated from operations was £210.3 million in 2019, an increase of £10.0 million from 2018. The underlying increase in cash flows from operating activities (£56.5 million) is driven by increased Adjusted profit in the year including favourable movements in trading properties of £30.9 million, largely due to a disposal during the year. This is offset by tax paid of £46.9 million, primarily in Italy from property disposals in the prior period.

The Group made net investments of £217.2 million of investment and development properties (including options and loans to joint ventures) during the year on a cash flow basis (2018: £276.5 million investment). This includes cash from disposals of £412.4 million (2018: £480.4 million) the largest of which was a portfolio of UK big box warehouses where £75.4 million of the proceeds were deferred until 2021. The Group spent £602.9 million (2018: £637.1 million) to purchase and develop investment properties, and it invested £12.2 million in joint ventures (2018: £99.2 million divestment).

The largest financing cashflow arose in respect of proceeds from the issue of shares primarily from an equity placing undertaken in February 2019. Other significant cash flows include dividends paid of £141.7 million (2018: £120.4 million) where cash flows are lower than the total dividend due to the level of scrip uptake.

Overall, net debt has decreased in the year from £2,177.0 million to £1,811.0 million.

Cash flow and net debt reconciliation

	2019 £m	2018 £m
Opening net debt	**(2,177.0)**	(1,954.2)
Cash flow from operations	**291.6**	235.1
Finance costs (net)	**(44.6)**	(55.1)
Debt and IRS close out costs	**(23.1)**	(5.7)
Dividends received (net)	**33.3**	28.6
Tax paid	**(46.9)**	(2.6)
Free cash flow	**210.3**	200.3
Dividends paid	**(141.7)**	(120.4)
Acquisitions and development of investment properties	**(602.9)**	(637.1)
Investment property sales	**412.4**	480.4

Acquisition of interests in property and other investments	**(14.5)**	(20.6)
Net investment in joint ventures	**(12.2)**	(99.2)
Net settlement of foreign exchange derivatives	**26.9**	(6.4)
Proceeds from issue of ordinary shares	**444.0**	0.6
Other items	**4.1**	5.4
Net funds flow	**326.4**	(197.0)
Non-cash movements	**(20.9)**	(9.8)
Exchange rate movements	**60.5**	(16.0)
Closing net debt	**(1,811.0)**	(2,177.0)

Capital expenditure

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

Total spend for the year was £892.8 million, a decrease of £64.2 million compared to 2018.

Development capital expenditure of £408.7 million was spent in the year (2018: £548.2 million) across all our business units, particularly Southern Europe, reflecting our development led growth strategy.

Development spend incorporates interest capitalised of £9.0 million (2018: £10.0 million) including joint ventures at share.

Spend on existing completed properties, none of which increased lettable space, totalled £30.8 million (2018: £30.3 million), of which £17.4 million (2018: £17.1 million) was for major refurbishment, infrastructure and fit-out costs prior to re-letting. The balance mainly comprises more minor refurbishment and fit-out costs, which equates to 5 per cent of Adjusted profit before tax and less than 2 per cent of total spend.

EPRA capital expenditure analysis

	2019			2018		
	Wholly owned £m	**Joint ventures £m**	**Total £m**	Wholly owned £m	Joint ventures £m	Total £m
Acquisitions	**233.9[1]**	**164.1**	**398.0[7]**	193.7	162.0	355.7
Development[4]	**345.2[2]**	**63.5**	**408.7**	482.3	65.9	548.2
Completed properties[6]	**25.2[3]**	**5.6**	**30.8**	23.9	6.4	30.3
Other[5]	**44.7**	**10.6**	**55.3**	16.6	6.2	22.8
Total	**649.0**	**243.8**	**892.8**	716.5	240.5	957.0

1 Being £233.9 million investment property and £nil trading property (2018: £193.7 million and £nil respectively) see Note 12.

2 Being £336.8 million investment property and £8.4 million trading property (2018: £461.8 million and £20.5 million respectively) see Note 12.

3 Being £25.2 million investment property and £nil trading property (2018: £23.9 million and £nil million respectively) see Note 12.

4 Includes wholly-owned capitalised interest of £8.2 million (2018: £9.2 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.8 million (2018: £0.8 million).

5 Tenant incentives, letting fees and rental guarantees and other items.

6 Capital expenditure on completed properties in 2019 did not create additional lettable space.

7 Total acquisitions completed in 2019 shown in the Disciplined Capital Allocation section of £283.5 million excludes share of assets acquired by SELP from SEGRO of £114.5 million (of which £113.0 million was completed property and £1.5 million was land).

FINANCIAL POSITION AND FUNDING

During 2019, we have taken advantage of favourable financing conditions to improve the capital structure of both SEGRO and SELP.

In February 2019, SEGRO issued 71 million new shares, raising £451 million of gross proceeds to help to fund our development programme while also retaining an appropriate capital structure. The shares were issued at 635 pence per share, a 2 per cent discount to the prior day’s closing share price.

In May 2019, SEGRO redeemed its £250 million 5.625 per cent sterling bonds due to mature in 2020 and, in September 2019, we extended the maturity of £915 million of revolving credit facilities for a further year to 2024.

In April 2019, SELP executed a new €200 million syndicated revolving credit facility, with a 2023 maturity. This means that SELP now has total revolving credit facilities of €500 million to help fund its development programme. In June 2019, SELP issued a €500 million, 7.5 year unsecured bond at a coupon of 1.5 per cent. The proceeds were used to refinance existing bank borrowings as well as provide additional liquidity to the venture.

As 31 December 2019, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures totalled £2,637.8 million (31 December 2018: £2,803.6 million), all but £27.6 million (31 December 2018: £29.8 million) of which were unsecured, and cash and cash equivalent balances were £153.5 million (31 December 2018: £90.2 million). Average debt maturity was 10.0 years (31 December 2018: 10.2 years) and average cost of debt (excluding non-cash interest and commitment fees) was 1.7 per cent (31 December 2018 1.9 per cent).

Funds available to SEGRO Group (including its share of joint venture funds) at 31 December 2019 totalled £1,370.0 million (31 December 2018: £1,248.9 million), comprising £153.5 million of cash and short term investments and £1,216.5 million of undrawn bank facilities of which only £8.5 million was uncommitted. Cash and cash equivalent balances, together with the Group’s interest rate and foreign exchange derivatives portfolio, are spread amongst a strong group of banks, all of which have a credit rating of A- or better.

Financial Key Performance Indicators

	2019		2018	
	SEGRO Group	**SEGRO Group and JVs at share**	SEGRO Group	SEGRO Group and JVs at share
Net borrowings (£m)	**1,811.0**	**2,484.3**	2,177.0	2,713.4
Available cash and undrawn facilities (£m)	**1,173.2**	**1,370.0**	1,177.8	1,248.9
Balance sheet gearing (%)	**23**	**N/A**	33	N/A
Loan to value ratio (%)	**22**	**24**	28	29
Weighted average cost of debt[1] (%)	**1.8**	**1.7**	2.1	1.9
Interest cover[2] (times)	**6.2**	**6.3**	4.5	4.9
Average duration of debt (years)	**11.6**	**10.0**	11.4	10.2

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

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

TREASURY POLICIES AND GOVERNANCE

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

GEARING AND FINANCIAL COVENANTS

The key leverage metric for SEGRO is its proportionally consolidated ("look-through") loan to value ratio (LTV) which incorporates assets and net debt on SEGRO's balance sheet and SEGRO's share of assets and net debt on the balance sheets of its joint ventures. The LTV at 31 December 2019 on this basis was 24 per cent (31 December 2018: 29 per cent), reflecting a combination of lower total debt levels mainly due to the new equity raised in early 2019 and the increase in the value of the portfolio during the course of the year.

SEGRO's borrowings contain gearing covenants based on Group net debt and net asset value, excluding debt in joint ventures. The gearing ratio of the Group at 31 December 2019, as defined within the principal debt funding arrangements of the Group, was 23 per cent (31 December 2018: 33 per cent). This is significantly lower than the Group's tightest financial gearing covenant within these debt facilities of 160 per cent.

Property valuations would need to fall by around 64 per cent from their 31 December 2019 values to reach the gearing covenant threshold of 160 per cent. A 64 per cent fall in property values would equate to an LTV ratio of approximately 68 per cent.

The Group's other key financial covenant within its principal debt funding arrangements is interest cover, requiring that net interest before capitalisation be covered at least 1.25 times by net property rental income. At 31 December 2019, the Group comfortably met this ratio at 6.2 times. On a proportionally consolidated basis, including joint ventures, this ratio was 6.3 times.

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

Our intention for the foreseeable future is to maintain our LTV at around 30 per cent, lower than our mid-cycle target of 40 per cent. This provides the flexibility to take advantage of investment opportunities and ensures significant headroom compared to our tightest gearing covenants should property values decline.

At 31 December 2019, the only debt maturity falling due within 12 months is a €59 million secured facility in SELP. The weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 10.0 years. With a majority of the Group's bank debt facilities not due to mature until 2024, and no Group debt maturities in 2020, this long average debt maturity translates into a favourable, well spread debt funding maturity profile which reduces future refinancing risk.

INTEREST RATE RISK

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

At 31 December 2019, including the impact of derivative instruments, 89 per cent (2018: 67 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures) were at fixed or capped rates. The fixed only level of debt is 57 per cent at 31 December 2019 (31 December 2018: 53 per cent).

As a result of the fixed rate cover in place, if short-term interest rates had been 1 per cent higher throughout the year to 31 December 2019, the adjusted net finance cost of the Group would have increased by approximately £8.9 million representing around 3 per cent of Adjusted profit after tax.

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

FOREIGN CURRENCY TRANSLATION RISK

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

The Group seeks to limit its exposure to volatility in foreign exchange rates by hedging its foreign currency gross assets using either borrowings or derivative instruments. The Group targets a hedging range of between the last reported LTV ratio (31 December 2019: 24 per cent) and 100 per cent. At 31 December 2019, the Group had gross foreign currency assets which were 65 per cent hedged by gross foreign currency denominated liabilities (31 December 2018: 67 per cent).

Including the impact of forward foreign exchange and currency swap contracts used to hedge foreign currency denominated net assets, if the value of the other currencies in which the Group operates at 31 December 2019 weakened by 10 per cent against sterling (to €1.30, in the case of euros), net assets would have decreased by approximately £98 million and there would have been a reduction in gearing of approximately 1.8 per cent and in the LTV of 1.5 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2019 into sterling within the consolidated income statement of the Group was €1.14:£1. Based on the hedging position at 31 December 2019, and assuming that this position had applied throughout 2019, if the euro had been 10 per cent weaker than the average exchange rate (€1.25:£1), Adjusted profit after tax for the year would have been approximately £7.8 million (3.0 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £9.6 million (3.6 per cent) higher than reported.

GOING CONCERN

As noted in the financial position and funding section above, the Group has a very 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 financial statements.

DIVIDEND INCREASE REFLECTS A STRONG YEAR AND CONFIDENCE FOR THE FUTURE

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share by 1.15 pence to 14.4 pence (2018: 13.25 pence) which will be paid as a PID. The Board’s recommendation is subject to approval by shareholders at the Annual General Meeting, in which event the final dividend will be paid on 1 May 2020 to shareholders on the register at the close of business on 19 March 2020.

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

- the policy of targeting a pay-out ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2019 and the outlook for earnings.

The total dividend for the year will, therefore, be 20.7 pence, a rise of 10.1 per cent on 2018 (18.8 pence) and represents distribution of 85 per cent of Adjusted profit after tax and Adjusted EPS.

As at 31 December 2019, the Company had distributable reserves that provide cover for the total of the interim dividend paid and the final dividend proposed in respect of the year ended 31 December 2019 of over 4 times (2018: 4 times). When required the Company can receive dividends from its subsidiaries to further increase the distributable reserves.

The Board has decided to retain a scrip dividend option for the 2019 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2019, 36 per cent of the 2018 final dividend and 36 per cent of the 2019 interim dividend was paid in new shares, equating to £71 million of cash retained on the balance sheet.

STATEMENT OF PRINCIPAL RISKS

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

OUR INTEGRATED AND ROBUST APPROACH TO RISK MANAGEMENT

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

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

Identification and review of emerging risks are integrated into our risk review process. Emerging risks are those risks or combination of risks which are often rapidly evolving for which the impact and probability of occurrence have not yet been fully understood and consequently necessary mitigations have not yet fully evolved. All risk owners and managers within the business are challenged to consider emerging risks that they are aware of and this is cross checked against formal horizon scans with the Executive Committee.

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

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

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

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

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

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

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

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

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

OUR RISK APPETITE

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

Property Risk

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

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

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

Financial Risk

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

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

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

Corporate Risk

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

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

PRINCIPAL RISKS

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

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

The current principal risks facing the Group are described below.

The descriptions indicate the potential areas of impact on the Group’s strategy; the time-horizon and probability of the risk; the principal activities that are in place to mitigate and manage such risks; the committees that provide second line of defence oversight; changes in the level of risk during the course of 2019; and whether the risk is within our appetite (after the application of our mitigations).

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

Whilst no principal risks have been added or removed in 2019, three of our risks have increased, whilst others have remained in line with the prior year.

PRINCIPAL RISK		**MITIGATIONS**	**IMPACT AND CHANGE IN 2019**
1. Market Cycle	The property market is cyclical and there is a continuous risk that the Group could either misinterpret the market or fail to react appropriately to changing market conditions, which could result in capital being invested or disposals taking place at the wrong price or time in the cycle. This is a continuous risk with a moderate likelihood.	The Board, Executive Committee and Investment Committee monitor the property market cycle on a continual basis and adapt the Group's investment/divestment strategy in anticipation of changing market conditions. Multiple, diverse investment and occupier market intelligence is regularly received and considered - both from internal 'on the ground' sources and from independent external sources. Upside and downside scenarios are incorporated into Investment Committee papers to assess the impact of differing market conditions.	Impact on strategy: Disciplined Capital Allocation Change in 2019: Similar risk Risk is within appetite.
2. Portfolio Strategy	The Group's Total Property and/or Shareholder Returns could underperform in absolute or relative terms as a result of an inappropriate portfolio strategy. This could result from: • Holding the wrong balance of prime or secondary assets; • Holding the wrong amounts or types of land, leading to diluted returns and/or constraints on development opportunities; • Holding the wrong level of higher risk 'opportunity' assets or too many old or obsolete assets which dilute returns; and • Holding assets in the wrong geographical markets; missing opportunities in new markets or lacking critical mass in existing markets. This is a continuous risk with a moderate likelihood.	The Group's portfolio strategy is subject to regular review by the Board to consider the desired shape of the portfolio in order to meet the Group's overall objectives and to determine our response to changing opportunities and market conditions. The Group's Disciplined Capital Allocation is informed by comprehensive asset plans and independent external assessments of market conditions and forecasts. Regular portfolio analysis ensures the portfolio is correctly positioned in terms of location and asset type, and retains the right balance of core and opportunity assets. The annual asset planning exercise provides a bottom-up assessment of the performance and potential for all assets to identify underperforming assets that are considered for sale.	Impact on strategy: Disciplined Capital Allocation Change in 2019: Similar risk Risk is within appetite.

3. Disruptive Brexit	The uncertainty associated with Brexit may adversely impact investment, capital, financial (including exchange rates), occupier and labour markets in the UK as the nature of the future relationships is negotiated. Whilst the UK left the EU on 31 January 2020, the full impact will not be felt until such time that the new trading relationship with the EU, and those required more globally, become more certain. The impact may be more acute depending on the outcome of future negotiations. In the long term, exit from the EU could impact levels of investor and occupier demand as a result of reduced trade, in particular those in industries more at risk to the impact of a disruptive Brexit, and/or the relocation of corporations and financial institutions away from the UK. Nevertheless, the likelihood of severe adverse impact on the Group is judged to be low.	The Group is mindful of ongoing political and economic uncertainties but remains focussed on controlling what it can within its own business. We have engaged in dialogue with key customers, and with key suppliers to understand labour and material supply risks. To date, we have not observed significant adverse factors. Structural drivers of demand appear to have continued to outweigh any Brexit-related uncertainties. The Group has, however, continued to adopt a disciplined approach to land acquisition and speculative development. The Group's strategy provides resilience through the market cycle. As well as the underlying quality and diversity (in terms of both asset type and location) of the portfolio, mitigations include substantial covenant headroom, access to diverse sources of funding, exchange rate and interest rate hedging, and short, responsive development lead-times.	Impact on strategy: Disciplined Capital Allocation, Operational Excellence and Efficient Capital and Corporate Structure Change in 2019: Increased risk The increased rating is a reflection of persisting uncertainty of future trade agreements. Risk is within appetite.
4. Health and Safety	Health and safety management processes could fail, leading to a loss of life, litigation, fines and serious reputational damage to the Group. This is a continuous risk with a low likelihood of causing significant harm to the Group. Nevertheless, we note that this risk is somewhat increased by the scale of the Group's development activity.	The Group manages an active health and safety management system, with a particular focus on managing the quality and compliance to good health and safety practice of all our suppliers. A published Health and Safety policy is supported by annual site inspections of existing assets, as part of proactive management, and development project inspections against SEGRO's Health & Safety Construction Standard. We continue to improve health and safety standards on our development sites, and work more closely with our suppliers and health and safety consultants to increase understanding and implementation of SEGRO's requirements. The Health and Safety Working Group are responsible for overseeing the implementation of, and compliance with, the Health and Safety Policy and Safety Management System. We undertake continuous monitoring of health and safety practices, including incidents, inspections and training tracked across the Group. Legal guidance and further support is provided through local health and safety consultants and ENHESA who provide regulatory assurance support to the Group.	Impact on strategy: Operational Excellence Change in 2019: Similar risk Risk is within appetite.
5. Development Plan Execution	The Group has an extensive current programme and future pipeline of developments. The Group could suffer significant financial losses from: • Cost over-runs on larger, more complex projects, including for example due to contractor default or poor performance and management. • Increased competition and/or construction costs (from labour market changes or weakened supply competition) leading to reduced or uneconomic development yields. • Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand. This is a medium-term risk with a moderate likelihood.	Our appetite for exposure to non-income producing assets (including land, infrastructure and speculative developments) is monitored closely, for example when acquisition decisions are being made by the Investment Committee. We retain a high level of 'optionality' in our future development programme including at the point of land acquisition, commitment to infrastructure and commitment to building. The development programme remains weighted towards pre-let opportunities. The risk of cost-overruns is mitigated by our experienced development teams and the use of trusted advisors and contractors. The risk of contractor default is mitigated by using a diversified selection of companies who have been through a rigorous onboarding process. Our short development lead-times enable a quick response to changing market conditions.	Impact on strategy: Disciplined Capital Allocation and Operational Excellence Change in 2019: Similar risk Risk is within appetite.

6. Investment Plan Execution	Decisions to buy, hold, sell or develop assets could be flawed due to uncertainty in analysis, quality of assumptions, poor due diligence or unexpected changes in the economic or operating environment. Our investment decisions could be insufficiently responsive to changes in market cycle and portfolio strategy. Further it may be delinked and therefore misaligned from portfolio strategy. This is a continuous risk with a moderate likelihood as changing investment and occupier market conditions require constant adaptation.	Asset plans are prepared annually for all estates to determine where to invest capital in existing assets and to identify assets for disposal. Locally-based property investment and operational teams provide market intelligence and networking to source attractive opportunities. Policies are in place to govern evaluation, due diligence, approval, execution and subsequent review of investment activity. The Investment Committee meets frequently to review investment and disposal proposals and to consider appropriate capital allocation. Investment hurdle rates are regularly reappraised taking into account estimates of our weighted average cost of capital. Major capital investment and disposal decisions are subject to Board approval in line with portfolio strategy.	<u>Impact on strategy:</u> Disciplined Capital Allocation <u>Change in 2019:</u> Similar risk Risk is within appetite.
7. Financing Strategy	The Group could suffer an acute liquidity or solvency crisis, financial loss or financial distress as a result of a failure in the design or execution of its financing strategy. Such an event may be caused by: a failure to obtain debt funding (e.g. due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; default on loan agreements as a result of a breach of financial or other covenants; or counterparty default. This is both a short and a long-term risk with a low likelihood.	The Group's financing strategy is aligned with our long-term business strategy, the Medium Term Plan and our risk appetite. The Treasury policy defines key policy parameters and controls to support execution of the strategy. The Group regularly reviews its changing financing requirements in the light of opportunities and market conditions and maintains a good long term relationship with a wide range of sources of finance. Financing activity in 2019 has strengthened the balance sheet, increased average debt maturity, lowered the average cost of debt, and demonstrated our ability to access a range of debt capital markets. Liquidity remains strong and there is substantial headroom against all of our financial covenants.	<u>Impact on strategy:</u> Efficient Capital and Corporate Structure <u>Change in 2019:</u> Similar risk Risk is within appetite.
8. Political and Regulatory	The Group could fail to anticipate significant political, legal, tax or regulatory changes, leading to a significant un-forecasted financial or reputational impact. In general, regulatory matters present medium- to long-term risks with a medium likelihood of causing significant harm to the Group. Political risks could impact business confidence and conditions in the short and longer terms.	Emerging risks in this category are reviewed regularly by the Executive Committee. Corporate heads of function consult with external advisers, attend industry and specialist briefings, and sit on key industry bodies such as EPRA and BPF. A number of potential risks were identified, assessed and managed during the course of the year. None were individually considered to be material enough to be classified as principal risks.	<u>Impact on strategy:</u> Disciplined Capital Allocation and Efficient Capital and Corporate Structure <u>Change in 2019:</u> Increased risk The increased rating reflects levels of Political uncertainty in markets including the UK knock on effects to the other EU countries. Risk is within appetite.

9. Operational delivery and compliance	The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: environmental damage; failing to attract, retain and motivate key staff; non-compliance with legislation; major customer default; supply chain failure; the structural failure of one of our assets; or a cyber-security breach. In addition the Group's operations might also be impacted by an adverse external event (such as a health pandemic or terrorism) or failure to respond to the consequences of climate change (which may involve extreme weather or environmental disaster). Compliance failures, such as breaches of joint venture shareholders' agreements, loan agreements or tax legislation could also damage reputation, revenue and shareholder value. This is a continuous risk with a low likelihood of causing significant harm to the Group.	The Group maintains a strong focus on Operational Excellence. The Executive, Operations, and Technology Committees regularly monitor the range of risks to property management, construction, compliance, business continuity, organisational effectiveness, customer management and cyber security. The Group's tax compliance is managed by an experienced internal tax team. REIT and SIIC tax regime compliance is demonstrated at least bi-annually. Compliance with joint venture shareholder agreements is managed by experienced property operations, finance and legal staff. The SELP JV additionally has comprehensive governance and compliance arrangements in place, including dedicated management, operating manuals, and specialist third-party compliance support. Our approach to environmental sustainability and climate change is discussed in detail in the Annual Report.	<u>Impact on strategy:</u> Operational Excellence <u>Change in 2019:</u> Increased risk The increased rating reflects the increased environmental challenges facing the business and wider communities. Risk is within appetite.

RESPONSIBILITY STATEMENT

The Statement of Directors' Responsibilities below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 December 2019. Certain parts of the Annual Report and Accounts have not been included in this announcement as set out in Note 1 to the condensed financial information.

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

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

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

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

The responsibility statement was approved by the Board of Directors on 13 February 2020 and signed on its behalf by:

David Sleath

Chief Executive

13 February 2020

Soumen Das

Chief Financial Officer

13 February 2020

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2019

	Notes	**2019 £m**	2018[1,2] £m
Revenue	4	**432.5**	369.0
Costs	5	**(123.9)**	(76.5)
		308.6	292.5
Administration expenses		**(51.5)**	(44.1)
Pension buy-out costs	2	**–**	(51.8)
Share of profit from joint ventures after tax	6	**203.1**	124.2
Realised and unrealised property gain	7	**489.2**	852.6
Operating profit		**949.4**	1,173.4
Finance income	8	**65.3**	33.4
Finance costs	8	**(112.7)**	(107.7)
Profit before tax		**902.0**	1,099.1
Tax	9	**(41.4)**	(33.0)
Profit after tax		**860.6**	1,066.1
Attributable to equity shareholders		**857.9**	1,062.6
Attributable to non-controlling interests		**2.7**	3.5
Earnings per share (pence)			
Basic	11	**79.3**	105.4
Diluted	11	**78.9**	104.8

1 *The prior period comparatives have been re-presented to reflect the presentation adopted in the current period. See Note 1.*

2 *The Group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective approach to transition and in accordance with the standard the Group's financial results for the prior periods have not been restated. See Note 1.*

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	**860.6**	1,066.1
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on defined benefit pension schemes	**–**	11.0
	–	11.0
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	**(110.2)**	29.4
Fair value movements on derivatives and borrowings in effective hedge relationships	**57.6**	(12.6)
	(52.6)	16.8
Tax on components of other comprehensive (expense)/income	**–**	–
Other comprehensive (expense)/income	**(52.6)**	27.8
Total comprehensive income for the year	**808.0**	1,093.9
Attributable to equity shareholders	**804.7**	1,090.5
Attributable to non-controlling interests	**3.3**	3.4

CONDENSED GROUP BALANCE SHEET

As at 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Intangible assets		**2.5**	3.9
Investment properties	12	**8,401.7**	7,801.4
Other interests in property		**28.3**	15.4
Property, plant and equipment		**23.0**	13.3
Investments in joint ventures	6	**1,121.4**	999.9
Other investments		**27.5**	23.6
Other receivables		**110.6**	26.8
Derivative financial instruments		**59.7**	25.7
		9,774.7	8,910.0
Current assets			
Trading properties	12	**20.2**	51.7
Trade and other receivables		**146.6**	128.7
Derivative financial instruments		**8.7**	11.7
Cash and cash equivalents	13	**132.5**	66.5
		308.0	258.6
Total assets		**10,082.7**	9,168.6
Liabilities			
Non-current liabilities			
Borrowings	13	**1,943.5**	2,243.5
Deferred tax liabilities	9	**53.2**	26.9
Trade and other payables		**102.9**	26.2
Derivative financial instruments		**–**	2.9
		2,099.6	2,299.5
Current liabilities			
Trade and other payables		**298.6**	261.9
Derivative financial instruments		**1.7**	2.8
Tax liabilities		**5.2**	40.4
		305.5	305.1
Total liabilities		**2,405.1**	2,604.6
Net assets		**7,677.6**	6,564.0
Equity			
Share capital	14	**109.6**	101.3
Share premium		**2,554.3**	2,047.7
Capital redemption reserve		**113.9**	113.9
Own shares held		**(2.6)**	(2.0)
Other reserves		**199.5**	246.2
Retained earnings brought forward		**4,056.9**	3,150.2
Profit for the year attributable to owners of the parent		**857.9**	1,062.6
Other movements		**(211.9)**	(155.9)
Retained earnings		**4,702.9**	4,056.9
Total equity attributable to owners of the parent		**7,677.6**	6,564.0
Non-controlling interests		**–**	–
Total equity		**7,677.6**	6,564.0
Net assets per ordinary share (pence)			
Basic	11	**700**	648
Diluted	11	**697**	644

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019[1]

	Attributable to owners of the parent										
					Other reserves						
	Ordinary share capital £m	**Share premium £m**	**Capital redemption reserve £m**	**Own shares held £m**	**Share based payments reserves £m**	**Translation, hedging and other reserves £m**	**Merger reserve £m**	**Retained earnings £m**	**Total equity attributable to equity shareholders £m**	**Non-controlling interests[2] £m**	**Total equity £m**
Balance at 1 January 2019	101.3	2,047.7	113.9	(2.0)	22.3	54.8	169.1	4,056.9	6,564.0	–	6,564.0
Profit for the year	–	–	–	–	–	–	–	857.9	857.9	2.7	860.6
Other comprehensive income	–	–	–	–	–	(53.2)	–	–	(53.2)	0.6	(52.6)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(53.2)**	**–**	**857.9**	**804.7**	**3.3**	**808.0**
Transactions with owners of the Company											
Issue of shares	7.3	436.7	–	–	–	–	–	–	444.0	–	444.0
Own shares acquired	–	–	–	(3.4)	–	–	–	–	(3.4)	–	(3.4)
Equity-settled share-based transactions	–	–	–	2.8	6.5	–	–	3.1	12.4	–	12.4
Dividends	1.0	69.9	-	–	–	–	–	(212.6)	(141.7)	–	(141.7)
Movement in non-controlling interest[2]	–	–	–	–	–	–	–	(2.4)	(2.4)	(3.3)	(5.7)
Total transaction with owners of the Company	**8.3**	**506.6**	**–**	**(0.6)**	**6.5**	**–**	**–**	**(211.9)**	**308.9**	**(3.3)**	**305.6**
Balance at 31 December 2019	**109.6**	**2,554.3**	**113.9**	**(2.6)**	**28.8**	**1.6**	**169.1**	**4,702.9**	**7,677.6**	**–**	**7,677.6**

1 *The format of the statement of changes in equity has been changed from that disclosed in the Annual Report & Accounts 2018 for better presentation and to reconcile total comprehensive income for the year.*

2 *Non-controlling interests relate to Vailog S.r.l.*

For the year ended 31 December 2018[1]

	Attributable to owners of the parent										
					Other reserves						
	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Share based payments reserves £m	Translation, hedging and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity attributable to equity shareholders £m	Non-controlling interests[2] £m	Total equity £m
Balance at 1 January 2018	100.3	1,998.6	113.9	(3.3)	18.7	37.9	169.1	3,150.2	5,585.4	(1.2)	5,584.2
Profit for the year	–	–	–	–	–	–	–	1,062.6	1,062.6	3.5	1,066.1
Other comprehensive income	–	–	–	–	–	16.9	–	11.0	27.9	(0.1)	27.8
Total comprehensive income for the year	–	–	–	–	–	16.9	–	1,073.6	1,090.5	3.4	1,093.9
Transactions with owners of the Company											
Issue of shares	0.2	0.4	–	–	–	–	–	–	0.6	–	0.6
Own shares acquired	–	–	–	(1.1)	–	–	–	–	(1.1)	–	(1.1)
Equity-settled share-based transactions	–	–	–	2.4	3.6	–	–	3.0	9.0	–	9.0
Dividends	0.8	48.7	-	–	–	–	–	(169.9)	(120.4)	–	(120.4)
Movement in non-controlling interest[2]	–	–	–	–	–	–	–	–	–	(2.2)	(2.2)
Total transaction with owners of the Company	1.0	49.1	–	1.3	3.6	–	–	(166.9)	(111.9)	(2.2)	(114.1)
Balance at 31 December 2018	101.3	2,047.7	113.9	(2.0)	22.3	54.8	169.1	4,056.9	6,564.0	–	6,564.0

1 *The format of the statement of changes in equity has been changed from that disclosed in the Annual Report & Accounts 2018 for better presentation and to reconcile total comprehensive income for the year.*

2 *Non-controlling interests relate to Vailog S.r.l.*

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2019

	Notes	**2019 £m**	2018 £m
Cash flows from operating activities	15(i)	**291.6**	235.1
Interest received		**47.1**	44.1
Dividends received		**33.3**	28.6
Interest paid		**(91.7)**	(99.2)
Cost of early close out of interest rate derivatives and new derivatives transacted		**(11.4)**	–
Proceeds from early close out of interest rate derivatives		**6.9**	–
Cost of early close out of debt		**(18.6)**	(5.7)
Tax paid		**(46.9)**	(2.6)
Net cash received from operating activities		**210.3**	200.3
Cash flows from investing activities			
Purchase and development of investment properties		**(602.9)**	(637.1)
Sale of investment properties		**412.4**	480.4
Acquisition of other interests in property		**(13.3)**	(2.0)
Purchase of plant and equipment and intangibles		**(2.7)**	(1.6)
Acquisition of other investments		**(1.2)**	(18.6)
Investment and loans to joint ventures		**(148.6)**	(200.2)
Divestment and repayment of loans from joint ventures		**136.4**	101.0
Net cash used in investing activities		**(219.9)**	(278.1)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		**(141.7)**	(120.4)
Proceeds from borrowings		**10.2**	264.1
Repayment of borrowings		**(251.1)**	(102.0)
Principal element of lease payments		**(0.9)**	–
Settlement of foreign exchange derivatives		**26.9**	(6.4)
Purchase of non-controlling interest		**(7.9)**	–
Proceeds from issue of ordinary shares		**444.0**	0.6
Purchase of ordinary shares		**(3.4)**	(1.1)
Net cash generated from financing activities		**76.1**	34.8
Net increase/(decrease) in cash and cash equivalents		**66.5**	(43.0)
Cash and cash equivalents at the beginning of the year		**66.5**	109.3
Effect of foreign exchange rate changes		**(0.5)**	0.2
Cash and cash equivalents at the end of the year	13	**132.5**	66.5

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated statutory accounts for the years ended 31 December 2019 and 2018, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2019 (approved by the Board on 13 February 2020) will be delivered following the Company's annual general meeting. The external auditor has reported on the accounts and their reports did not contain any modifications or emphasis of matter paragraphs.

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

The financial information set out in this announcement is based on the consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The financial information is in accordance with the accounting policies set out in the 2018 financial statements apart from as detailed below.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of IFRSs as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs by March 2020.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.18 (31 December 2018: £1 = €1.11) and Income statement: £1 = €1.14 (31 December 2018: £1 = €1.13).

Following recent discussions with the Financial Reporting Council's ("FRC") Corporate Reporting Review team, the format of the Group Income Statement has been changed to improve the presentation of the Financial Statements. The sub headings 'Gross rental income', 'Net rental income' and 'Joint venture fee income' previously presented have been removed from the Group Income Statement. The line item 'Costs' is now presented. A breakdown of 'Costs' is shown in Note 5 where a reconciliation to 'Property operating expenses' as reported in the 2018 Group Income Statement is provided. The prior-year comparatives have been represented to reflect this change. There is no change in 'Operating profit', 'Profit before tax' or 'Profit after tax' as a result of the change in presentation.

The revenue accounting policy for service charges and other recoveries from tenants has consequently been updated:

These include income in relation to service charges, directly recoverable expenditure and management fees. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue from services is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided and recognised over time. The Group generally acts as the principal in service charge transactions as it directly controls the delivery of the services at point they are provided to the tenant. Where the Group acts as a principal, service charge income is presented gross within revenue and service charge expense presented gross within costs.

New and amended standards adopted by the Group

A number of new or amended standards become applicable for the current reporting year, and the Group has had to change its accounting policies as a result of adopting IFRS 16 Leases.

There is no significant impact on the Group as a lessor. The impact of the adoption of the IFRS 16 leasing standard on the Group as a lessee and the new accounting policies are disclosed below. The other standards and amendments did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

IFRS 16 Leases – as a lessee

The Group has applied IFRS 16, 'Leases' on 1 January 2019. In accordance with the transition provisions in IFRS 16, the new rules have been adopted retrospectively, with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated. The Group had to update its Leases and Investment properties accounting policies following the adoption of IFRS 16.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. Until the 2019 financial year, the payments made under the operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

The Group holds two types of significant 'operating leases':

- Head leases: A small proportion of the investment properties held by the Group are situated on land held through leasehold arrangements, as opposed to the Group owning the freehold. The remaining lease terms for the leasehold arrangements range between 11 and 47 years. Under the lease terms with tenants the head lease payments are directly recoverable.
- Office leases: Office space occupied by the Group's operations.

Upon initial recognition the lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The associated right-of-use ("ROU") assets were measured equal to the lease liability. As a result there is no impact on opening retained earnings at 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to the portfolio of offices leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Whilst judgement and estimates were required in applying IFRS 16, these were not deemed to be significant. The potential exposure to future cash outflows not reflected in the measurement of the lease liabilities are not expected to be significant.

The Balance Sheet impact of recognising the lease liabilities and associated ROU asset upon adoption at 1 January 2019 and subsequently at 31 December 2019 is set out below.

Head leases*:

Balance Sheet caption	**1 January 2019 £m**	**31 December 2019 £m**
Investment property (ROU asset)	75.2	70.2
Non-current Trade and other Payables (lease liability)	74.8	69.8
Current Trade and other Payables (lease liability)	0.4	0.4

** The head leases are held in the Southern Europe Business Unit and are denominated in euros.*

As the head leases meet the definition of investment property, they are initially recognised in accordance with IFRS 16, and then subsequently accounted for as investment property in accordance with IAS 40 and the Group's accounting policy. After initial recognition the ROU head lease asset is subsequently carried at fair value and the valuation gains and losses recognised within 'Realised and unrealised property gain' in the Income Statement.

The incremental borrowing rate applied to lease liabilities on 1 January 2019 has been estimated on an individual lessee basis and range from 3 per cent to 4 per cent. The weighted average lessees incremental borrowing rate on 1 January 2019 was 3.9 per cent.

Office leases:

The impact upon recognition was not significant. As at 31 December 2019, a lease liability of £7.6 million has been recognised within non-current and current trade and other payables, and a ROU asset of £7.5 million recognised within Property, plant and equipment.

Measurement of lease liabilities:

Below sets out a reconciliation between the operating lease commitments presented under IAS 17 at 31 December 2018 and the opening lease liability recognised under IFRS 16 on 1 January 2019 at the date of application.

	£m
Office lease commitments as at 31 December 2018	4.9
Head lease commitments as at 31 December 2018	156.3
Total lease commitments based on gross cash flows as at 31 December 2018	**161.2**
Discounted using lesee's incremental borrowing rate at the date of initial application	79.6
(Less): short-term leases not recognised as a liability	(2.5)
(Less): low-value leases not recognised as a liability	(1.9)
IFRS 16 lease liability recognised as at 1 January 2019	**75.2**

Impact on earnings per share from the adoption of IFRS 16:

Profit after tax for the year ended 31 December 2019 decreased by £0.05 million following the adoption of IFRS 16 and Adjusted profit after tax increased by £0.4 million following the adoption. There was no impact on EPS or Adjusted EPS.

New accounting polices

The Group's new accounting policies for leases and investment property to reflect the new IFRS 16 Lease accounting standard are set out below.

Leases

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

The Group recognises a right-of-use ("ROU") asset and the lease liability at the commencement date of the lease.

Lease liabilities include the present value of payments which generally include fixed payments and variable payments that depend on an index (such as an inflation index). When the lease contains an extension or purchase option that the Group considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

Each lease payment is allocated between the liability and finance cost. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined or if not, the incremental borrowing rate is used. The finance cost is charged to profit or loss over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

Cash payments relating to the principal portion of the lease liabilities are presented as cash flows from financing activities and cash payments for the interest portion are presented as cash flows from operating activities.

The ROU asset is measured at a cost based on the amount of the initial measurement of the lease liability, plus initial direct costs and the cost of obligations to refurbish the asset, less any incentives received.

The ROU asset (other than the ROU assets that relate to land or property that meets the definition of investment property under IAS 40) is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment. ROU assets are included in the heading Property, plant and equipment, and the lease liability in included in the headings current and non-current Trade and other payables on the Balance Sheet.

Where the ROU asset relates to land or property that meets the definition of investment property under IAS 40, after initial recognition the ROU asset is subsequently accounted for as investment property and carried at fair value (see Investment properties accounting policy). Valuation gains and losses in a period are taken to the Income Statement. The ROU assets are included in the heading Investment properties, and the lease liability in the headings current and non-current Trade and other payables on the Balance Sheet.

The Group has elected not to recognise ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for low value leases. The payments for such leases are recognised in the Income Statement on a straight-line basis over the lease term.

Investment properties

These properties include completed properties that are generating rent or are available for rent, and development properties that are under development or available for development. Investment properties comprise freehold and leasehold properties and are first measured at cost (including transaction costs), then revalued to market value at each reporting date by independent professional valuers. Leasehold properties are shown gross of the leasehold payables (and accounted for as right-of-use asset under IFRS 16, see Leases accounting policy). Valuation gains and losses in a period are taken to the Income Statement. As the Group uses the fair value model, as per IAS 40 Investment Properties, no depreciation is provided. An asset will be classified as held for sale within investment properties, in line with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, where the asset is available for immediate sale in their present condition and the sale is highly probable.

2. ADJUSTED PROFIT

Adjusted profit is a non-GAAP measure and is the Group's measure of underlying profit, which is used by the Board and senior management to measure and monitor the Group's income performance.

It is based on the Best Practices Recommendations Guidelines of European Public Real Estate Association (EPRA), which calculate profit excluding investment and development property revaluations and gains or losses on disposals. Changes in the fair value of financial instruments and associated close-out costs and their related taxation, as well as other permitted one-off items, are also excluded. Refer to the Supplementary Notes for all EPRA adjustments.

The Directors may also exclude from the EPRA profit measure additional items (gains and losses) which are considered by them to be non-recurring, unusual or significant by virtue of size and nature. No non-EPRA adjustments to underlying profit were made in 2019. In the period to 31 December 2018, £51.8 million of pension buy-out costs incurred in respect of the SEGRO Pension Scheme following the commitment to buy-out the scheme during the year, were excluded from the calculation of Adjusted profit. There was no tax effect of this item in the period to 31 December 2018.

	Notes	**2019 £m**	2018 £m
Gross rental income	4	**362.0**	323.2
Property operating expenses	5	**(80.7)**	(75.6)
Net rental income		**281.3**	247.6
Joint venture fee income	4	**20.4**	44.9
Administration expenses		**(51.5)**	(44.1)
Share of joint ventures' Adjusted profit after tax[1]	6	**54.0**	39.0
Adjusted operating profit before interest and tax		**304.2**	287.4
Net finance costs (including adjustments)	8	**(36.7)**	(45.9)
Adjusted profit before tax		**267.5**	241.5
Adjustments to reconcile to IFRS:			
Adjustments to the share of profit from joint ventures after tax[1]	6	**149.1**	85.2
Realised and unrealised gain on property	7	**489.2**	852.6
Gain on sale of trading properties	12	**6.9**	–
Cost of early close out of debt	8	**(18.6)**	(6.4)
Net fair value gain/(loss) on interest rate swaps and other derivatives	8	**7.9**	(22.0)
Pension buy-out costs[2]		**–**	(51.8)
Total adjustments		**634.5**	857.6
Profit before tax		**902.0**	1,099.1
Tax			
On Adjusted profit	9	**(3.2)**	(4.4)
In respect of adjustments	9	**(38.2)**	(28.6)
Total tax adjustments		**(41.4)**	(33.0)
Profit after tax before non-controlling interests		**860.6**	1,066.1
Non-controlling interests:			
Less: share of adjusted profit attributable to non-controlling interests		**(0.2)**	(0.6)
: share of adjustments attributable to non-controlling interests		**(2.5)**	(2.9)
Profit after tax and non-controlling interests		**857.9**	1,062.6
Of which:			
Adjusted profit after tax and non-controlling interests		**264.1**	236.5
Total adjustments after tax and non-controlling interests		**593.8**	826.1
Profit attributable to equity shareholders		**857.9**	1,062.6

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

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

3. SEGMENTAL ANALYSIS

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

31 December 2019	**Gross rental income £m**	**Net rental income £m**	**Share of joint ventures' Adjusted profit £m**	**Adjusted PBIT[2] £m**	**Total directly owned property assets £m**	**Investments in joint ventures £m**	**Capital expenditure[3] £m**
Thames Valley	**78.9**	**72.8**	**–**	**70.9**	**1,752.4**	**–**	**38.4**
National Logistics	**40.2**	**36.8**	**0.5**	**37.8**	**871.6**	**3.9**	**50.1**
Greater London	**142.6**	**129.7**	**–**	**127.0**	**4,001.0**	**–**	**199.5**
Northern Europe	**26.9**	**15.6**	**21.8**	**42.4**	**573.4**	**604.3**	**53.3**
Southern Europe	**61.9**	**35.7**	**24.4**	**64.1**	**1,085.6**	**735.9**	**254.8**
Central Europe	**11.5**	**4.5**	**19.6**	**27.3**	**137.9**	**435.9**	**8.2**
Other[1]	**–**	**(13.8)**	**(12.3)**	**(65.3)**	**–**	**(658.6)**	**2.7**
Total	**362.0**	**281.3**	**54.0**	**304.2**	**8,421.9**	**1,121.4**	**607.0**

31 December 2018	Gross rental income £m	Net rental income £m	Share of joint ventures' Adjusted profit £m	Adjusted PBIT[2] £m	Total directly owned property assets £m	Investments in joint ventures £m	Capital expenditure[3] £m
Thames Valley	71.2	65.1	–	65.1	1,638.5	–	20.3
National Logistics	31.4	29.2	(0.2)	29.0	999.0	3.7	170.1
Greater London	134.0	118.7	–	118.3	3,724.5	–	50.4
Northern Europe	24.2	14.0	22.7	41.3	505.7	507.2	79.2
Southern Europe	51.2	30.8	20.3	53.3	837.2	611.8	348.7
Central Europe	11.2	4.8	18.8	28.2	148.2	397.0	31.2
Other[1]	–	(15.0)	(22.6)	(47.8)	–	(519.8)	1.6
Total	323.2	247.6	39.0	287.4	7,853.1	999.9	701.5

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

2 A reconciliation of total Adjusted PBIT to the IFRS profit before tax is provided in Note 2.

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

4. REVENUE

	2019 £m	2018 £m
Rental income from investment and trading properties	**306.9**	282.8
Rent averaging	**25.1**	12.5
Service charge income*	**27.6**	25.5
Management fees*	**1.4**	1.3
Surrender premiums and dividend income from property related investments	**1.0**	1.1
Gross rental income[1]	**362.0**	323.2
Joint venture fees - management fees	**20.4**	18.7
- performance fees	**–**	26.2
Joint venture fee income*	**20.4**	44.9
Proceeds from sale of trading properties*	**50.1**	0.9
Total revenue	**432.5**	369.0

* *The above income streams reflect revenue recognition under IFRS 15 Revenue from Contracts with Customers and total £99.5 million (2018: £72.6 million).*

1 *Net rental income of £281.3 million (2018: £247.6 million) is calculated as gross rental income of £362.0 million (2018: £323.2 million) less total property operating expenses of £80.7 million (2018: £75.6 million) shown in Note 5.*

5. COSTS

	2019 £m	2018 £m
Vacant property costs	**4.8**	5.1
Letting, marketing, legal and professional fees	**8.5**	8.0
Loss allowance and impairment of receivables	**1.0**	0.3
Service charge expense	**27.6**	25.5
Other expenses	**10.5**	10.3
Property management expenses	**52.4**	49.2
Property administration expenses[1]	**35.6**	31.0
Costs capitalised[2]	**(7.3)**	(4.6)
Total property operating expenses	**80.7**	75.6
Trading properties cost of sales	**43.2**	0.9
Total costs	**123.9**	76.5[3]

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

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

3 *Total 2018 Costs of £76.5 million consists of: Property operating expenses of £50.1 million which was reported and presented as a line item in the 2018 Group Income Statement, service charge expense of £25.5 million and trading properties costs of sales of £0.9 million.*

6. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

6(i) Profit from joint ventures after tax

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

	SELP £m	Roxhill £m	Other £m	At 100% 2019 £m	At 100% 2018 £m	At 50% 2019 £m	At 50% 2018 £m
Revenue[1]	**213.0**	**7.2**	**3.3**	**223.5**	195.1	**111.8**	97.6
Gross rental income	**213.0**	**1.1**	**–**	**214.1**	195.1	**107.1**	97.6
Property operating expenses							
-underlying property operating expenses	**(8.4)**	**–**	**(0.1)**	**(8.5)**	(8.1)	**(4.2)**	(4.1)
-vacant property costs	**(2.1)**	**–**	**–**	**(2.1)**	(1.8)	**(1.1)**	(0.9)
-property management fees	**(17.1)**	**–**	**–**	**(17.1)**	(13.9)	**(8.6)**	(7.0)
-service charge expense	**(44.1)**	**–**	**–**	**(44.1)**	(44.2)	**(22.1)**	(22.1)
-performance fees	**–**	**–**	**–**	**–**	(26.2)	**–**	(13.1)
Net rental income	**141.3**	**1.1**	**(0.1)**	**142.3**	100.9	**71.1**	50.4
Administration expenses	**(3.3)**	**–**	**–**	**(3.3)**	(2.6)	**(1.6)**	(1.3)
Finance costs (including adjustments)	**(19.9)**	**–**	**(0.2)**	**(20.1)**	(15.3)	**(10.0)**	(7.6)
EPRA profit/(loss) before tax	**118.1**	**1.1**	**(0.3)**	**118.9**	83.0	**59.5**	41.5
Tax	**(10.9)**	**–**	**–**	**(10.9)**	(5.0)	**(5.5)**	(2.5)
Adjusted profit/(loss) after tax	**107.2**	**1.1**	**(0.3)**	**108.0**	78.0	**54.0**	39.0
Adjustments:							
(Loss)/profit on sale of investment properties	**(1.1)**	**–**	**–**	**(1.1)**	15.2	**(0.6)**	7.6
Valuation surplus on investment properties	**437.0**	**–**	**–**	**437.0**	187.0	**218.6**	93.5
Impairment of other interests in properties	**–**	**(9.7)**	**–**	**(9.7)**	–	**(4.9)**	–
Profit on sale of trading properties	**–**	**–**	**2.1**	**2.1**	–	**1.1**	–
Tax in respect of adjustments	**(130.2)**	**–**	**–**	**(130.2)**	(31.7)	**(65.1)**	(15.9)
Total adjustments	**305.7**	**(9.7)**	**2.1**	**298.1**	170.5	**149.1**	85.2
Profit/(loss) after tax	**412.9**	**(8.6)**	**1.8**	**406.1**	248.5	**203.1**	124.2
Other comprehensive income	**–**	**–**	**–**	**–**	–	**–**	–
Total comprehensive income/(expense) for the year	**412.9**	**(8.6)**	**1.8**	**406.1**	248.5	**203.1**	124.2

1 *Total revenue at 100% of £223.5 million (2018: £195.1 million) includes: Gross rental income £214.1 million (2018: £195.1 million) and proceeds from sale of trading properties £9.4 million (2018: £nil). Proceeds from sale of trading properties is presented net of cost of sale and shown in the line item 'Profit on sale of trading properties' in the table above.*

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

	SELP £m	Roxhill £m	Other £m	At 100% 2019 £m	At 100% 2018 £m	At 50% 2019 £m	At 50% 2018 £m
Investment properties	**3,796.7**	**–**	**–**	**3,796.7**	3,133.9	**1,898.3**	1,566.9
Other interests in property	**–**	**16.6**	**–**	**16.6**	10.9	**8.3**	5.4
Total non-current assets	**3,796.7**	**16.6**	**–**	**3,813.3**	3,144.8	**1,906.6**	1,572.3
Trading properties	**–**	**1.9**	**–**	**1.9**	4.8	**1.0**	2.4
Other receivables	**118.9**	**5.9**	**2.5**	**127.3**	159.9	**63.7**	80.0
Cash and cash equivalents	**37.6**	**2.9**	**1.5**	**42.0**	47.6	**21.0**	23.8
Total current assets	**156.5**	**10.7**	**4.0**	**171.2**	212.3	**85.7**	106.2
Total assets	**3,953.2**	**27.3**	**4.0**	**3,984.5**	3,357.1	**1,992.3**	1,678.5
Borrowings	**(1,338.4)**	**–**	**–**	**(1,338.4)**	(1,120.4)	**(669.2)**	(560.2)
Deferred tax	**(243.2)**	**–**	**–**	**(243.2)**	(123.5)	**(121.6)**	(61.8)
Total non-current liabilities	**(1,581.6)**	**–**	**–**	**(1,581.6)**	(1,243.9)	**(790.8)**	(622.0)
Borrowings	**(50.1)**	**–**	**–**	**(50.1)**	–	**(25.1)**	–
Other liabilities	**(90.5)**	**(19.5)**	**–**	**(110.0)**	(113.4)	**(55.0)**	(56.6)
Total current liabilities	**(140.6)**	**(19.5)**	**–**	**(160.1)**	(113.4)	**(80.1)**	(56.6)
Total liabilities	**(1,722.2)**	**(19.5)**	**–**	**(1,741.7)**	(1,357.3)	**(870.9)**	(678.6)
Net assets	**2,231.0**	**7.8**	**4.0**	**2,242.8**	1,999.8	**1,121.4**	999.9

On 13 June 2019 SELP issued a 7.5 year, €500 million unsecured bond at an annual coupon of 1.5 per cent as discussed further in the Finance Review.

The external borrowings of the joint ventures are non-recourse to the Group. At 31 December 2019, the fair value of £1,388.5 million (2018: £1,120.4 million) of borrowings was £1,427.4 million (2018: £1,104.3 million). This results in a fair value adjustment decrease in EPRA triple net asset value of £38.9 million (2018: £16.1 million increase), at share £19.4 million (2018: £8.0 million increase), see Note 11.

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

No additional performance fee has been recognised by SEGRO in the 2019 Income Statement (and no additional performance fee expense has been recognised by SELP). In the prior year SELP paid a £52.4 million performance fee including the amount subject to clawback. Only £26.2 million, representing the 50 per cent of the performance fee paid not subject to future clawback, was recognised by SEGRO in the 2018 Income Statement (see Note 4). The 50 per cent subject to clawback (which is denominated in euros) has been recognised as a contract liability within Trade and other payables at 31 December 2019 and 31 December 2018.

6(iii) Investments by Group

	2019 £m	2018 £m
Cost or valuation at 1 January	**999.9**	792.0
Exchange movement	**(65.2)**	17.4
Net investments[1]	**16.9**	99.2
Disposals	**–**	(4.3)
Dividends received[2]	**(33.3)**	(28.6)
Share of profit after tax	**203.1**	124.2
Cost or valuation at 31 December	**1,121.4**	999.9

1 *Net investments represent the net movement of capital injections, loans and divestments with joint ventures during the period.*

2 *Dividends received from SELP.*

7. REALISED AND UNREALISED PROPERTY GAIN

	2019 £m	2018 £m
Profit on sale of investment properties	**7.2**	56.5
Valuation surplus on investment properties[1]	**476.7**	791.4
Decrease in provision for impairment of trading properties	**1.4**	–
Increase in provision for impairment of other interests in property	**(0.4)**	–
Valuation surplus on other investments	**4.3**	4.7
Total realised and unrealised property gain	**489.2**	852.6

1 *Includes £477.1 million valuation surplus on investment properties (2018: £791.4 million) less £0.4 million valuation loss on head lease ROU asset (2018: £nil).*

Total valuation surplus on investment and trading properties total £696.7 million (2018: £884.9 million). This comprises £476.7 million from investment properties (2018: £791.4 million), £1.4 million from trading properties (2018: £nil) and £218.6 million from joint ventures at share (2018: £93.5 million).

Details of realised gains on sale of trading properties are given in Note 12.

8. NET FINANCE COSTS

Finance income	2019 £m	2018 £m
Interest received on bank deposits and related derivatives	**32.0**	29.9
Fair value gain on interest rate swaps and other derivatives	**33.1**	2.6
Net interest income on defined benefit asset	**–**	0.9
Exchange differences	**0.2**	–
Total finance income	**65.3**	33.4

Finance costs		
Interest on overdrafts, loans and related derivatives	**(71.8)**	(82.3)
Cost of early close out of debt	**(18.6)**	(6.4)
Amortisation of issue costs	**(2.3)**	(3.4)
Interest on lease liabilities	**(3.0)**	–
Total borrowing costs	**(95.7)**	(92.1)
Less amount capitalised on the development of properties	**8.2**	9.2
Net borrowing costs	**(87.5)**	(82.9)
Fair value loss on interest rate swaps and other derivatives	**(25.2)**	(24.6)
Exchange differences	**–**	(0.2)
Total finance costs	**(112.7)**	(107.7)
Net finance costs	**(47.4)**	(74.3)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £36.7 million (2018: £45.9 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £7.9 million gain (2018: £22.0 million loss) and the cost of early close out of debt of £18.6 million (2018: £6.4 million).

9. TAX

9(i) Tax on profit

	2019 £m	2018 £m
Tax:		
On Adjusted profit	**(3.2)**	(4.4)
In respect of adjustments	**(38.2)**	(28.6)
Total tax charge	**(41.4)**	(33.0)
Current tax		
United Kingdom		
Current tax credit	**0.3**	–
Total UK current tax credit	**0.3**	–
Overseas		
Current tax charge	**(12.0)**	(40.5)
Adjustments in respect of earlier years	**(0.3)**	(0.6)
Total overseas current tax charge	**(12.3)**	(41.1)
Total current tax charge	**(12.0)**	(41.1)
Deferred tax		
Origination and reversal of temporary differences	**(6.1)**	(1.6)
Released in respect of property disposals in the year	**4.7**	20.5
On valuation movements	**(39.2)**	(9.9)
Total deferred tax in respect of investment properties	**(40.6)**	9.0
Other deferred tax	**11.2**	(0.9)
Total deferred tax (charge)/credit	**(29.4)**	8.1
Total tax charge on profit on ordinary activities	**(41.4)**	(33.0)

9(ii) Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January 2019 £m	Exchange movement £m	Acquisitions /disposals £m	Recognised in income £m	Balance 31 December 2019 £m
Valuation surpluses and deficits on properties/accelerated tax allowances	**25.2**	**(2.3)**	**(0.6)**	**29.1**	**51.4**
Deferred tax asset on revenue losses	**(1.4)**	**–**	**–**	**0.9**	**(0.5)**
Others	**3.1**	**(0.2)**	**–**	**(0.6)**	**2.3**
Total deferred tax liabilities	**26.9**	**(2.5)**	**(0.6)**	**29.4**	**53.2**

10. DIVIDENDS

	2019 £m	2018 £m
Ordinary dividends paid		
Interim dividend for 2019 @ 6.30 pence per share	**68.9**	–
Final dividend for 2018 @ 13.25 pence per share	**143.7**	–
Interim dividend for 2018 @ 5.55 pence per share	**–**	56.1
Final dividend for 2017 @ 11.35 pence per share	**–**	113.8
Total dividends	**212.6**	169.9

The Board recommends a final dividend for 2019 of 14.4 pence which is estimated to result in a distribution of up to £157.9 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2019 is 20.7 pence (2018: 18.8 pence).

The total dividend in 2019 of £212.6 million (2018: £169.9 million) was paid; £141.7 million as cash (2018: £120.4 million) and £70.9 million in scrip dividends (2018: £49.5 million).

11. EARNINGS AND NET ASSETS PER ORDINARY SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 0.4 million shares (2018: 0.7 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.6 million shares (2018: 0.7 million) being the actual number of shares held on trust for employee share schemes at year end.

11(i) Earnings per ordinary share (EPS)

	2019			2018		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic EPS	**857.9**	**1,081.3**	**79.3**	1,062.6	1,008.6	105.4
Dilution adjustments:						
Share and save as you earn schemes	**–**	**5.8**	**(0.4)**	–	5.8	(0.6)
Diluted EPS	**857.9**	**1,087.1**	**78.9**	1,062.6	1,014.4	104.8
Basic EPS	**857.9**	**1,081.3**	**79.3**	1,062.6	1,008.6	105.4
Adjustments to profit before tax[1]	**(634.5)**		**(58.7)**	(857.6)		(85.0)
Tax in respect of Adjustments	**38.2**		**3.6**	28.6		2.8
Non-controlling interest on adjustments	**2.5**		**0.2**	2.9		0.2
Adjusted Basic EPS	**264.1**	**1,081.3**	**24.4**	236.5	1,008.6	23.4
Adjusted Diluted EPS	**264.1**	**1,087.1**	**24.3**	236.5	1,014.4	23.3

1 Details of adjustments are included in Note 2.

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

	2019			2018		
	Equity attributable to ordinary shareholders £m	**Shares million**	**Pence per share**	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic NAV	**7,677.6**	**1,096.1**	**700**	6,564.0	1,012.8	648
Dilution adjustments:						
Share and save as you earn schemes	**–**	**6.0**	**(3)**	–	5.9	(4)
Diluted NAV	**7,677.6**	**1,102.1**	**697**	6,564.0	1,018.7	644
Fair value adjustment in respect of interest rate derivatives – Group	**(50.5)**		**(5)**	(35.0)		(3)
Fair value adjustment in respect of trading properties – Group	**–**		**–**	2.2		–
Fair value adjustment in respect of trading properties – Joint ventures	**0.9**		**–**	0.9		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**51.9**		**5**	26.4		3
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**121.1**		**11**	61.8		6
EPRA NAV[1]	**7,801.0**	**1,102.1**	**708**	6,620.3	1,018.7	650
Fair value adjustment in respect of debt – Group	**(233.3)**		**(21)**	(17.4)		(1)
Fair value adjustment in respect of debt – Joint ventures	**(19.4)**		**(2)**	8.0		1
Fair value adjustment in respect of interest rate swap derivatives – Group	**50.5**		**5**	35.0		3
Deferred tax in respect of depreciation and valuation surpluses – Group	**(51.9)**		**(5)**	(26.4)		(3)
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**(121.1)**		**(11)**	(61.8)		(6)
EPRA triple net NAV (NNNAV)[1]	**7,425.8**	**1,102.1**	**674**	6,557.7	1,018.7	644

1 *EPRA NAV and NNNAV is an alternative metric that is calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA) to provide a transparent and consistent basis to enable comparison between European property companies.*

12. PROPERTIES

12(i) Investment properties

	Completed £m	Development £m	Total £m
At 1 January 2019	**6,827.8**	**888.7**	**7,716.5**
Exchange movement	**(75.4)**	**(22.6)**	**(98.0)**
Property acquisitions	**98.6**	**135.3**	**233.9**
Additions to existing investment properties	**25.2**	**336.8**	**362.0**
Disposals	**(467.3)**	**(6.0)**	**(473.3)**
Transfers on completion of development	**625.8**	**(625.8)**	**–**
Transfer to trading properties	**–**	**(3.1)**	**(3.1)**
Revaluation surplus during the year	**372.5**	**104.6**	**477.1**
At 31 December 2019	**7,407.2**	**807.9**	**8,215.1**
Add tenant lease incentives, letting fees and rental guarantees	**116.4**	**–**	**116.4**
Investment properties excluding head lease ROU assets at 31 December 2019	**7,523.6**	**807.9**	**8,331.5**
Add head lease liabilities (ROU assets)	**70.2**	**–**	**70.2**
Total investment properties at 31 December 2019	**7,593.8**	**807.9**	**8,401.7**

Investment properties are stated at fair value as at 31 December 2019 based on external valuations performed by professionally qualified valuers. The Group's wholly-owned and joint venture property portfolio is valued by CBRE Ltd on a half-yearly basis (apart from two assets valued by Knight Frank). The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties. In estimating the fair value of the properties, the valuers consider the highest and best use of the properties. There has been no change to the valuation technique during the year.

CBRE Ltd also undertakes some professional and agency work on behalf of the Group, although this is limited relative to the activities provided by other advisors to the Group as a whole. The firm advises us that the total fees paid by the Group represent less than 5 per cent of its total revenue in any year.

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

During 2019 a plot of land with a carrying value of £3.1 million was transferred to trading properties following the agreement in the year which led to the development of the asset with a view to sell the asset on completion (2018: £19.3 million). No trading properties were transferred to investment properties during 2019 (2018: £nil).

At 31 December 2019 the carrying value of investment properties was adjusted by £70.2 million to reflect head lease liabilities (2018: £nil) which have been recognised upon adoption of IFRS 16 on 1 January 2019. Head lease liabilities are held within Trade and other payables. See Note 1 for further details. The carrying value of investment properties situated on land held under leaseholds is £151.5 million (excluding head lease ROU assets) (2018: £120.3 million).

The disposals of investment properties during the year include properties with a carrying value of £221.0 million (2018: £242.0 million) sold to the SELP joint venture. Total proceeds received by SEGRO was £229.0 million (2018: £251.6 million).

12(ii) Trading properties

	2019 £m	2018 £m
At 1 January	**51.7**	12.5
Exchange movement	**(1.2)**	0.3
Additions	**8.4**	20.5
Disposals[1]	**(43.2)**	(0.9)
Decrease in provision for impairment during the year	**1.4**	–
Transfer from investment properties	**3.1**	19.3
At 31 December	**20.2**	51.7

1 *Gain on sale of trading properties of £6.9 million in the year (2018: £nil) have been generated from total proceeds of £50.1 million (2018: £0.9 million), see Note 4, less costs of £43.2 million (2018: £0.9 million), see Note 5.*

Trading properties were externally valued, as detailed in Note 12(i), resulting in a decrease in the provision for impairment of £1.4 million (2018: £nil). Based on the fair value at 31 December 2019, the portfolio has unrecognised surplus of £nil million (2018: £2.2 million).

13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2019 £m	2018 £m
In one year or less	**–**	–
In more than one year but less than two	**79.3**	250.0
In more than two years but less than five	**120.6**	115.9
In more than five years but less than ten	**896.5**	533.8
In more than ten years	**847.1**	1,343.8
In more than one year	**1,943.5**	2,243.5
Total borrowings	**1,943.5**	2,243.5
Cash and cash equivalents	**(132.5)**	(66.5)
Net borrowings	**1,811.0**	2,177.0
Total borrowings is split between secured and unsecured as follows:		
Secured (on land and buildings)	**2.6**	3.2
Unsecured	**1,940.9**	2,240.3
Total borrowings	**1,943.5**	2,243.5
Currency profile of total borrowings after derivative instruments		
Sterling	**184.7**	759.6
Euros	**1,758.8**	1,483.9
Total borrowings	**1,943.5**	2,243.5
Maturity profile of undrawn borrowing facilities		
In one year or less	**8.5**	14.0
In more than one year but less than two	**–**	–
In more than two years	**1,032.2**	1,097.3
Total available undrawn facilities	**1,040.7**	1,111.3

During the year the Group undertook a debt refinancing exercise and redeemed £250 million of sterling bonds due 2020 at a cost of £18.6 million above carrying value (see Note 8). The debt refinancing is discussed in more detail in the Finance Review.

14. SHARE CAPITAL

	Number of shares m	Par value of shares £m
Issued and fully paid ordinary shares at 10p each:		
At 1 January 2019	**1,013.5**	**101.3**
Issue of shares – placing	**71.0**	**7.1**
Issue of shares – scrip dividends	**10.3**	**1.0**
Issue of shares – other	**1.9**	**0.2**
At 31 December 2019	**1,096.7**	**109.6**

On 15 February 2019 the Company announced the placing of 71 million ordinary shares of 10p each in the capital of the Company at a price of 635 pence per share. The Company raised £450.9 million, before £7.5 million expenses and as a result the Company's share capital increased by £7.1 million and share premium by £436.3 million.

15. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

15(i) Reconciliation of cash generated from operations

	2019 £m	2018 £m
Operating profit	**949.4**	1,173.4
Adjustments for:		
Depreciation of property, plant and equipment	**3.4**	2.9
Share of profit from joint ventures after tax	**(203.1)**	(124.2)
Profit on sale of investment properties	**(7.2)**	(56.5)
Revaluation surplus on investment properties	**(476.7)**	(791.4)
Valuation gain on other investments	**(4.3)**	(4.7)
Pension buy-out costs	**–**	51.8
Other provisions	**8.2**	6.1
	269.7	257.4
Changes in working capital:		
Decrease/(increase) in trading properties	**30.9**	(19.5)
Increase in debtors and tenant incentives	**(59.3)**	(13.7)
Increase in creditors	**50.3**	10.9
Net cash inflow generated from operations	**291.6**	235.1

15(ii) Analysis of net debt

		Cash movements		Non-cash adjustments				
	At 1 January 2019 £m	Cash inflow[2] £m	Cash outflow[3] £m	Exchange movement £m	Fair value changes £m	Cost of early close out of debt £m	Other non-cash adjustment[1] £m	**At 31 December 2019 £m**
Bank loans and loan capital	2,259.7	10.2	(269.7)	(60.5)	–	18.6	–	**1,958.3**
Capitalised finance costs	(16.2)	–	(0.9)	–	–	–	2.3	**(14.8)**
Total borrowings	2,243.5	10.2	(270.6)	(60.5)	–	18.6	2.3	**1,943.5**
Cash in hand and at bank	(66.5)	(66.5)	–	0.5	–	–	–	**(132.5)**
Net debt	2,177.0	(56.3)	(270.6)	(60.0)	–	18.6	2.3	**1,811.0**

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

2 *Proceeds from borrowings of £10.2 million.*

3 *Cash outflow of £270.6 million, comprises the repayment of borrowings of £251.1 million, cash settlement for early repayment of debt of £18.6 million and capitalised issue costs of £0.9 million.*

15. RELATED PARTY TRANSACTIONS

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

SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

		2019		2018	
	Notes	**£m**	**Pence per share**	£m	Pence per share
EPRA Earnings	Table 4	**264.1**	**24.4**	184.7	18.3
EPRA NAV	Table 3	**7,801.0**	**708**	6,620.3	650
EPRA NNNAV	11	**7,425.8**	**674**	6,557.7	644
EPRA net initial yield	Table 5		**3.8%**		3.9%
EPRA 'topped up' net initial yield	Table 5		**4.3%**		4.3%
EPRA vacancy rate	Table 6		**4.0%**		5.2%
EPRA cost ratio (including vacant property costs)	Table 7		**22.9%**		36.9%
EPRA cost ratio (excluding vacant property costs)	Table 7		**21.5%**		35.3%

TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

		2019			2018		
	Notes	**Group £m**	**JV £m**	**Total £m**	Group £m	JV £m	Total £m
Gross rental income	2,6	**362.0**	**107.1**	**469.1**	323.2	97.6	420.8
Property operating expenses	2,6	**(80.7)**	**(27.4)**	**(108.1)**	(75.6)	(27.1)	(102.7)
Net rental income		**281.3**	**79.7**	**361.0**	247.6	70.5	318.1
Joint venture fee income[1]	2	**20.4**	**(8.6)**	**11.8**	44.9	(20.1)	24.8
Administration expenses	2,6	**(51.5)**	**(1.6)**	**(53.1)**	(44.1)	(1.3)	(45.4)
Adjusted operating profit before interest and tax		**250.2**	**69.5**	**319.7**	248.4	49.1	297.5
Net finance costs (including adjustments)	2,6	**(36.7)**	**(10.0)**	**(46.7)**	(45.9)	(7.6)	(53.5)
Adjusted profit before tax		**213.5**	**59.5**	**273.0**	202.5	41.5	244.0
Tax on adjusted profit	2,6	**(3.2)**	**(5.5)**	**(8.7)**	(4.4)	(2.5)	(6.9)
Adjusted earnings		**210.3**	**54.0**	**264.3**	198.1	39.0	237.1
Non-controlling interest on adjusted profit	2,6	**(0.2)**	**–**	**(0.2)**	(0.6)	–	(0.6)
Adjusted earnings after non-controlling interests (A)		**210.1**	**54.0**	**264.1**	197.5	39.0	236.5
Number of shares, million	11			**1,081.3**			1,008.6
Adjusted EPS, pence per share				**24.4**			23.4
Number of shares	11			**1,087.1**			1,014.4
Adjusted EPS, pence per share – diluted				**24.3**			23.3

EPRA earnings							
Adjusted earnings after tax and non-controlling interests (A)		**210.1**	**54.0**	**264.1**	197.5	39.0	236.5
Pension buy-out costs	2	**–**	**–**	**–**	(51.8)	–	(51.8)
EPRA earnings after tax and non-controlling interests		**210.1**	**54.0**	**264.1**	145.7	39.0	184.7
Number of shares				**1,081.3**			1,008.6
EPRA EPS, pence per share				**24.4**			18.3
Number of shares				**1,087.1**			1,014.4
EPRA EPS, pence per share – diluted				**24.3**			18.2

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

TABLE 3: BALANCE SHEET, PROPORTIONAL CONSOLIDATION

		2019			2018		
	Notes	**Group £m**	**JV £m**	**Total £m**	Group £m	JV £m	Total £m
Investment properties	12,6	**8,401.7**	**1,898.3**	**10,300.0**	7,801.4	1,566.9	9,368.3
Trading properties	12,6	**20.2**	**1.0**	**21.2**	51.7	2.4	54.1
Total properties		**8,421.9**	**1,899.3**	**10,321.2**	7,853.1	1,569.3	9,422.4
Investment in joint ventures	6	**1,121.4**	**(1,121.4)**	**–**	999.9	(999.9)	–
Other net liabilities		**(54.7)**	**(104.6)**	**(159.3)**	(112.0)	(33.0)	(145.0)
Net borrowings	13,6	**(1,811.0)**	**(673.3)**	**(2,484.3)**	(2,177.0)	(536.4)	(2,713.4)
Total shareholders' equity[1]		**7,677.6**	**–**	**7,677.6**	6,564.0	–	6,564.0
EPRA adjustments	11			**123.4**			56.3
EPRA NAV	11			**7,801.0**			6,620.3
Number of shares, million	11			**1,102.1**			1,018.7
EPRA NAV, pence per share	11			**708**			650

1 After non-controlling interests.

Loan to value of 24.2 per cent is calculated as net borrowings of £2,484.3 million divided by total properties (excluding head lease ROU asset of £70.2 million) of £10,251.0 million (2018: 28.8 per cent; £2,713.4 million net borrowings; £9,422.4 million total properties).

The portfolio valuation uplift of +7.5 per cent shown in the Disciplined Capital Allocation section is not directly derivable from the Financial Statements and is calculated to be comparable with published MSCI Real Estate indices against which we are measured. Based on the Financial Statements there is a valuation surplus of £696.7 million (see Note 7) and property value of £10,251.0 million (paragraph above) giving a valuation uplift of 7.3 per cent. The primary differences are that the uplift excludes the impact of rent free incentives (£26.7 million, +0.3 per cent) and other movements (-£5.3 million, -0.1 per cent) primarily due to foreign exchange based on closing rate as opposed to average used in the Financial Statements.

Total assets under management of £12,220.5 million (2018: £10,991.8 million) includes Group total properties of £8,421.9 million and 100 per cent of total properties owned by joint ventures of £3,798.6 million (see Note 6 (ii), investment properties of £3,796.7 million and trading properties of £1.9 million) (2018: Group: £7,853.1 million, joint ventures: £3,138.7 million).

Total acquisitions completed in 2019 of £283.5 million shown in the Disciplined Capital Allocation section includes: SEGRO Group acquisitions of £233.9 million (see Note 12), share of joint venture acquisitions of £164.1 million; and excludes share of assets acquired by SELP from SEGRO of £114.5 million (see Note 12).

Total disposals completed in 2019 of £442.4 million shown in the Disciplined Capital Allocation section includes: Carrying value of investment properties disposed by SEGRO Group of £473.3 million (see Note 12) and profit generated on disposal of £7.2 million (see Note 7); proceeds from the sale of trading properties by SEGRO Group of £50.1 million (see Note 4); share of JV disposal proceeds of £18.3 million; carrying value of lease incentives, letting fees and rental guarantees disposed by SEGRO Group and JV (at share) of £8.0 million; and excludes 50% of the disposal proceeds for assets sold from SEGRO to SELP JV of £114.5 million (see Note 12).

TABLE 4: EPRA EARNINGS

	Notes	2019 £m	2018 £m
Earnings per IFRS income statement		**857.9**	1,062.6
Adjustments to calculate EPRA Earnings, exclude:			
Valuation surplus on investment properties	7	**(476.7)**	(791.4)
Profit on sale of investment properties	7	**(7.2)**	(56.5)
Gain on sale trading properties	12	**(6.9)**	–
Decrease in provision for impairment of trading properties	7	**(1.4)**	–
Increase in provision for impairment of other interests in property	7	**0.4**	–
Valuation surplus on other investments	7	**(4.3)**	(4.7)
Tax on profits on disposals[1]		**9.2**	36.8
Costs of early close out of debt	8	**18.6**	6.4
Net fair value (gain)/loss on interest rate swaps and other derivatives	8	**(7.9)**	22.0
Deferred tax charge/(credit) in respect of EPRA adjustments[1]		**29.0**	(8.2)
Adjustments to the share of profit from joint ventures after tax	6	**(149.1)**	(85.2)
Non-controlling interests in respect of the above	2	**2.5**	2.9
EPRA earnings		**264.1**	184.7
Basic number of shares	11	**1,081.3**	1,008.6
EPRA Earnings per Share (EPS)		**24.4**	18.3
Company specific adjustments:			
Pensions buy-out costs	2	**–**	51.8
Adjusted earnings		**264.1**	236.5
Adjusted EPS	11	**24.4**	23.4

1. *Total tax charge in respect of adjustments per Note 2 of £38.2 million (2018: £28.6 million charge) comprises tax charge on profits on disposals of £9.2 million (2018: £36.8 million charge) and deferred tax charge of £29.0 million (2018: £8.2 million credit).*

TABLE 5: EPRA NET INITIAL YIELD AND TOPPED-UP NET INITIAL YIELD

Combined property portfolio including joint ventures at share – 2019	**Notes**	**UK £m**	**Continental Europe £m**	**Total £m**
Total properties per financial statements	Table 3	**6,626.0**	**3,695.2**	**10,321.2**
Add valuation surplus not recognised on trading properties[1]		0.9	–	0.9
Less head lease ROU assets		–	(70.2)	(70.2)
Combined property portfolio per external valuers' report		**6,626.9**	**3,625.0**	**10,251.9**
Less development properties (investment, trading and joint ventures)		(424.5)	(510.5)	(935.0)
Net valuation of completed properties		**6,202.4**	**3,114.5**	**9,316.9**
Add notional purchasers' costs		416.8	152.9	569.7
Gross valuation of completed properties including notional purchasers' costs	A	**6,619.2**	**3,267.4**	**9,886.6**
Income				
Gross passing rents[2]		242.1	147.7	389.8
Less irrecoverable property costs		(4.0)	(6.1)	(10.1)
Net passing rents	B	**238.1**	**141.6**	**379.7**
Adjustment for notional rent in respect of rent frees		30.0	18.6	48.6
Topped up net rent	C	**268.1**	**160.2**	**428.3**
Including fixed/minimum uplifts[4]		10.7	1.0	11.7
Total topped up net rent		**278.8**	**161.2**	**440.0**

Yields – 2019		%	%	%
EPRA net initial yield[3]	B/A	3.6	4.3	3.8
EPRA topped up net initial yield[3]	C/A	4.1	4.9	4.3
Net true equivalent yield		4.6	5.2	4.8

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 6: EPRA VACANCY RATE

	2019 £m	2018 £m
Annualised potential rental value of vacant premises	**19.2**	23.1
Annualised potential rental value for the completed property portfolio	**474.2**	441.3
EPRA vacancy rate	**4.0%**	5.2%

TABLE 7: TOTAL COST RATIO/EPRA COST RATIO

	Notes	2019 £m	2018 £m
Costs			
Property operating expenses[1]	5	**80.7**	75.6
Administration expenses		**51.5**	44.1
Share of joint venture property operating and administration expenses[2]	6	**37.6**	35.4
Less:			
Joint venture property management fee income, management fees and other costs recovered through rents but not separately invoiced[3]		**(74.6)**	(70.6)
Total costs (A)		**95.2**	84.5
Gross rental income			
Gross rental income	4	**362.0**	323.2
Share of joint venture property gross rental income	6	**107.1**	97.6
Less:			
Service charge income, management fees and other costs recovered through rents but not separately invoiced[3]		**(54.2)**	(51.9)
Total gross rental income (B)		**414.9**	368.9
Total cost ratio (A)/(B)		**22.9%**	22.9%
Total costs (A)		**95.2**	84.5
Share based payments		**(12.5)**	(11.1)
Total costs after share based payments (C)		**82.7**	73.4
Total cost ratio after share based payments (C)/(B)		**19.9%**	19.9%

EPRA cost ratio

	Notes	2019 £m	2018 £m
Total costs (A)		**95.2**	84.5
Pension buy-out costs	2	**–**	51.8
EPRA total costs including vacant property costs (D)		**95.2**	136.3
Group vacant property costs	5	**(4.8)**	(5.1)
Share of joint venture vacant property costs	6	**(1.1)**	(0.9)
EPRA total costs excluding vacant property costs (E)		**89.3**	130.3
Total gross rental income (B)		**414.9**	368.9
Total EPRA cost ratio (including vacant property costs) (D)/(B)		**22.9%**	36.9%
Total EPRA cost ratio (excluding vacant property costs) (E)/(B)		**21.5%**	35.3%

1 *Property operating expenses are net of costs capitalised in accordance with IFRS of £7.3 million (2018: £4.6 million) (see Note 5 for further detail on the nature of costs capitalised).*

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

3 *Total deduction of £74.6 million (2018: £70.6 million) from costs includes: joint venture management fees income of £20.4 million (2018: £18.7 million), service charge income including joint ventures of £49.7 million (2018: £47.6 million) and management fees and other costs recovered through rents but not separately invoiced, including joint ventures, of £4.5 million (2018: £4.3 million). These items have been represented as an offset against costs rather than a component of income in accordance with EPRA BPR Guidelines as they are reimbursing the Group for costs incurred. Gross rental income of £362.0 million x(2018: £323.2 million) does not include joint venture management fees income of £20.4 million (2018: £18.7 million) and are not included in the total deduction to income of £54.2 million (2018: £51.9 million).*

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rent roll: See Passing Rent.

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

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

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

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

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

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

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

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

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

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

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

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