PRESS RELEASE

SEGRO

17 FEBRUARY 2017

SEGRO plc

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

SEGRO plc ('SEGRO' / 'Company' / 'Group') announces its results for the year ended 31 December 2016.

- **Strong results, financial position and momentum, with a high quality pipeline of growth opportunities.**

- **Adjusted EPS up 7.1 per cent to 19.7 pence** (2015: 18.4 pence) was underpinned by a 4.0 per cent increase in like-for-like net rental income, a continued low vacancy rate at 5.7 per cent and a strong contribution from development completions. IFRS EPS of 53.9 pence (2015: 91.7 pence), which includes the impact of unrealised capital gains on the portfolio, reflects continued capital growth but at a slower rate.

- **EPRA NAV per share up 8.0 per cent to 500 pence**, driven by a 4.8 per cent like-for-like increase in the value of the portfolio, reflecting development gains, UK rental growth and asset management activities.

- **Occupier and investor demand for modern warehousing remains resilient.** Occupier demand remains strong from a broad range of business sectors, particularly from retailers adapting their supply chains to the rapid growth of internet retailing. The result of the EU referendum has had little apparent impact on occupier and investor demand for well located, modern urban and big box warehouses.

- **Future earnings prospects underpinned by the largely de-risked development programme.** Developments under construction have the potential to generate £27 million of new rent, of which 61 per cent has been pre-let. A further £27 million is available from conditional pre-let and potential speculative projects which are expected to start in the coming months.

- **Final dividend increased by 5.7 per cent to 11.2 pence** (2015 final dividend: 10.6 pence).

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

"I am pleased to report another strong set of results. We have had a record year for development completions, delivering 422,000 sq m of new warehouse space, of which 80 per cent is now let. We have a high quality pipeline of developments under construction and more under discussion, reflecting the continuing strength of occupier demand for, and short supply of, well located, modern urban and big box warehouses.

"Our business is well positioned, notwithstanding the current degree of political and economic uncertainty. We have had an active start to 2017 and we continue to see opportunities to grow our business through further disciplined investment, matched by a prudent approach to financing."

FINANCIAL AND OPERATING HIGHLIGHTS[1]

Healthy occupier demand and successful asset management reflected in strong operating performance

- **4.0 per cent like-for-like growth in net rental income**, including 6.0 per cent growth in the UK and a 0.7 per cent fall in Continental Europe. This reflects £2 million net absorption of standing stock, lower vacancy throughout the year and strong rental growth in the UK.
- **£45 million of new rent contracted (14 per cent ahead of prior year)** including £23 million from new development pre-let agreements and lettings of speculatively developed space prior to completion.
- **Development capex expected to be in excess of £300 million in 2017.** The committed development pipeline is 61 per cent pre-let and expected to deliver £27 million of headline rent and a 7.7 per cent yield when fully leased, with a further £27 million of potential rent from near-term development opportunities.

Capital growth rate reflects SEGRO's active management of the portfolio

- **Portfolio capital value growth of 4.8 per cent,** reflecting development gains, UK rental growth, an uplift in the value of two industrial sites to be sold for residential development and a slight improvement in valuation yields.
- **EPRA NAV per share increased by 8.0 per cent to 500 pence** (31 December 2015: 463 pence), primarily the result of the improvement in the value of the portfolio.

Disciplined capital allocation focused on accretive development investment

- **£302 million of investment in profitable development pipeline.** Developments completed and under construction generated a capital gain of 16 per cent during the year. The completed developments are 80 per cent let and added £24 million to the rent roll.
- **£155 million of investment in development land** including the first sites from the partnership agreements with Roxhill and the Greater London Authority.
- **£90 million of investment in modern warehouse acquisitions** at a blended 6.3 per cent yield, helping to build scale in Italy, Spain and the UK.
- **£325 million of new equity** raised to fund development has been invested or committed to projects identified in September which have either completed or are under construction.
- **£565 million of disposals** of assets not core to our strategy at a blended 5.9 per cent yield, including the Bath Road office portfolio, two budget hotels and a number of more mature, asset management-intensive light industrial estates in the UK and Germany.
- **Look-through LTV ratio of 33 per cent** (31 December 2015: 38 per cent) reflects the impact of rising capital values and the equity raised in September 2016, offset by investment activity and exchange rate movements during the year.

[1] Figures quoted on pages 1 to 13 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	2016	2015	Change per cent
Adjusted[1] profit before tax (£m)	154.5	138.6	11.5
IFRS profit before tax (£m)	426.4	686.5	(37.9)
Adjusted[2] earnings per share (pence, basic)	19.7	18.4	7.1
IFRS earnings per share (pence, basic)	53.9	91.7	(41.2)
Dividend per share (pence)	16.4	15.6	5.1

Balance sheet metrics	31 December 2016	31 December 2015	Change per cent
Portfolio valuation (SEGRO share, £m)	6,345	5,773	4.8[5]
EPRA[3 4] NAV per share (pence, diluted)	500	463	8.0
IFRS net asset value per share (pence, diluted)	502	468	7.3
Group net borrowings (£m)	1,598	1,807	(11.6)
Loan to value ratio including joint ventures at share (per cent)	33	38	–

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

2 A reconciliation between Adjusted earnings per share and IFRS earnings per share is shown in Note 11 to the condensed financial statements.

3 A reconciliation between EPRA NAV per share and IFRS net asset value per share is shown in Note 11 to the condensed financial statements.

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

5 Percentage valuation movement during the period based on the difference between opening and closing valuations for the portfolio as a whole (comprising completed properties, buildings under construction and land), adjusting for capital expenditure, acquisitions and disposals.

WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

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

www.emincote.com/segro023/default.asp

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

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

Dial-in:	+44 (0) 20 3059 8125
Access code:	SEGRO Full Year Results

An audio recording of the conference call will be available until 24 February 2017 on:

UK & International:	+44 (0) 121 260 4861
USA:	+1 844 230 8058
Access code:	5137421#

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 2016 Property Analysis Report and other information about SEGRO.

CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

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FINANCIAL CALENDAR

2016 final dividend record date	24 March 2017
2016 final dividend scrip dividend price announced	30 March 2017
Last date for scrip dividend elections	10 April 2017
2017 First Quarter Trading Update	19 April 2017
Annual General Meeting	20 April 2017
2016 final dividend payment date	4 May 2017
2017 Interim Results	25 July 2017

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 over six million square metres of space valued at £8 billion serving customers from a wide range of industry sectors. Its properties are located in and around major cities and at key transportation hubs in the UK and in nine other European countries.

See www.SEGRO.com for further information.

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

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

CHIEF EXECUTIVE'S REVIEW

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

To that end, our strategy is to create a portfolio which generates attractive, low risk, income-led returns with above average rental and capital growth when market conditions are positive, and is resilient in a downturn. We seek to enhance returns through development, while ensuring that the short-term income 'drag' associated with holding land does not outweigh the long-term potential benefits.

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

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

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

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

ACQUIRING HIGH QUALITY WAREHOUSE ASSETS IN EUROPE

We acquired £90 million of assets during the year at an average topped-up net initial yield of 6.3 per cent.

Our acquisition activities which, as expected, were lower than in 2015, have focused on building scale in our newer geographies, including big box and urban warehouses in the major logistics and urban markets of Spain (Barcelona and Madrid) and Northern Italy.

We also acquired £155 million of development land which is discussed under "Enhancing growth through development".

Acquisitions: What to expect in 2017

We will continue to undertake asset acquisitions, preferably on an off-market basis, where we believe we can add value. Competition for high quality warehouse properties remains strong so we expect to focus our investment on developing new assets, as we did in 2016.

Acquisitions completed in 2016

Asset location / type	Purchase price[1] (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	82.6	6.2	6.2
Urban warehousing	7.4	7.0	7.0
Land[3]	155.1	n/a	n/a
Total acquisitions completed in 2016	**245.1**	**6.3[2]**	**6.3[2]**

1 Excluding acquisition costs.

2 Yield excludes land transactions.

3 Land acquisitions are discussed in Future Development Projects.

DISPOSING OF NON-STRATEGIC ASSETS

We received gross proceeds of £565 million and £24 million from disposals of assets and land respectively, reflecting an average 2.7 per cent premium to 31 December 2015 book values. The asset sales reflect an average topped-up initial yield of 5.9 per cent.

Our disposal activity during the year focused on selling non-strategic assets to third parties, including the £325 million Bath Road office portfolio in the UK and a number of more management-intensive industrial estates in the UK and Germany.

Within the disposals were €179 million of wholly-owned Continental Europe big box warehouses which we sold to the SEGRO European Logistics Partnership (SELP) joint venture (SEGRO has a 50 per cent interest in SELP so the disposal is treated as a sale of 50 per cent of the assets in the total disposals figure below). Under the terms of the joint venture, we offer SELP the Continental European big box warehouses which have either been bought or developed by SEGRO. SELP has the option but not the obligation to buy these assets. There are a number of such assets which would be suitable for future sale to SELP and we intend to offer these for sale to the joint venture during 2017.

Disposals: What to expect in 2017

We will continue to identify assets for disposal where we believe that the expected risk-adjusted returns from retaining them are less appealing than the returns offered by other investment opportunities, not least by those from investing in our own development pipeline. We will balance disposal activity with appropriate investment in line with our goal to generate a growing and resilient income stream.

Disposals completed in 2016

Asset location / type	Gross proceeds (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	103.5	5.4	5.4
Light industrial	112.8	4.6	5.4
Higher value use buildings	349.1	5.6	6.2
Land	24.0	n/a	n/a
Total disposals completed in 2016	**589.4**	**5.4**[1]	**5.9**[1]

1 Yield excludes land transactions.

ASSET VALUE APPRECIATION REFLECTS RETURNS FROM ASSET MANAGEMENT IN A STABLE YIELD ENVIRONMENT

The portfolio valuation, including completed assets, buildings under construction and land, increased by 4.8 per cent on a like-for-like basis during the year.

Values of UK commercial real estate fell in the months immediately after the EU referendum but the impact was relatively minor for industrial assets compared to other real estate sectors. Pricing has recently shown signs of improving and investment volumes recovered strongly in the fourth quarter of 2016 after a lull in the third quarter. Investor demand for big box warehouses in Continental Europe held up well throughout the year and pricing in some regions has continued to improve, amid a generally benign economic environment, favourable structural trends driving occupier demand and yields which remain attractive compared to low interest rates.

The Group's property portfolio totalled £6.3 billion (£8.0 billion of assets under management) at 31 December 2016. The portfolio valuation, including completed assets, buildings under construction and land, increased by 4.8 per cent on a like-for-like basis (adjusted for capital expenditure and asset recycling during the year). This comprises a 4.5 per cent increase in the value of our completed properties, a 7.6 per cent increase in the value of properties under development and an 11.5 per cent increase in the value of our land bank. The valuation was also impacted by a rise in stamp duty taxes in both the UK and France during the year.

The largest component of the uplift in the value of our land bank was the increase in the value of a former industrial estate in West London which we have committed to sell to a residential developer. We expect this transaction to complete before the end of the first quarter of 2017.

The UK completed portfolio (including assets held throughout the year, assets acquired during the year and developments completed during the year) was the strongest component of performance, delivering a 5.6 per cent valuation uplift (2015:

13.1 per cent), despite the rise in stamp duty on commercial properties during the year, outperforming the MSCI-IPD UK Industrial Quarterly Index which increased by 2.0 per cent.

This outperformance reflects the high quality of our portfolio and the continued impact of our asset management initiatives across the business. The capital return on our UK portfolio was driven by the combination of a 4.7 per cent improvement in estimated rental values (2015: 4.4 per cent) and a 17.5 per cent increase in the value of completed developments. The equivalent yield on the portfolio improved to 5.6 per cent (31 December 2015: 5.8 per cent).

In Continental Europe, the completed portfolio value increased by 2.0 per cent during 2016 (2015: 7.9 per cent). The portfolio equivalent yield improved to 6.6 per cent (31 December 2015: 6.8 per cent), while rental values posted a modest positive return of 0.3 per cent after a 0.9 per cent decline in 2015. This reflected broadly stable rental values for big box warehouses across our geographies and some signs of improvement in our modern urban warehouses, particularly in Germany. The Continental European developments we completed during the year increased in value by 20 per cent.

More details of our property portfolio can be found in the 2016 Property Analysis Report available at www.SEGRO.com/investors.

Valuations: What to expect in 2017

While investor demand for high quality warehouses in core urban and transport locations remains strong, it also remains selective on pricing and quality. We expect to add value through active management of our existing assets and development.

Prime yields continue to appear attractive compared to government (risk-free) bond yields, enhanced by the prospect of rental growth to come, although this should be considered in the context of heightened political and economic uncertainty.

Property portfolio metrics at 31 December 2016

		Portfolio value, £m				Yield[2]		
	Lettable area (100%) sq m	Completed	Land & dvpt	Combined property portfolio	Valuation movement[1 2] %	Net initial %	Net true equivalent %	Vacancy (ERV)[3] %
UK								
Greater London	1,141,283	2,142.5	183.4	2,325.9	7.4	3.8	5.4	5.8
Thames Valley and National Logistics	1,128,182	1,837.6	153.9	1,991.5	3.6	4.7	5.8	8.1
UK Total	**2,269,465**	**3,980.1**	**337.3**	**4,317.4**	**5.6**	**4.2**	**5.6**	**6.9**
Continental Europe								
Germany/Austria	1,183,890	550.4	123.4	673.8	3.0	5.4	6.0	2.6
Belgium/Netherlands	298,882	112.7	18.7	131.4	(3.2)	7.2	7.1	9.9
France	1,027,991	469.6	48.9	518.5	2.0	6.4	6.9	1.5
Italy/Spain	349,015	153.9	99.6	253.5	6.1	6.1	6.7	0.9
Poland	1,160,979	360.2	28.3	388.5	0.2	6.5	6.9	6.3
Czech Republic/Hungary	125,918	39.3	23.0	62.3	4.6	4.7	6.9	7.4
Continental Europe Total	**4,146,675**	**1,686.1**	**341.9**	**2,028.0**	**2.0**	**6.1**	**6.6**	**3.6**
GROUP TOTAL	**6,416,140**	**5,666.2**	**679.2**	**6,345.4**	**4.5**	**4.8**	**5.9**	**5.7**

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

2 In relation to completed properties only.

3 Vacancy rate excluding short term lettings for the Group at 31 December 2016 is 6.3 per cent.

IMPROVING RETURNS FROM OUR EXISTING ASSETS

At 31 December 2016, our portfolio comprised two main asset types: urban warehouses and big box warehouses. The demand-supply dynamics differ, varying by both type and by geography.

Urban warehouses account for 54 per cent of our portfolio value and are used for a wide variety of purposes, including light industrial, urban distribution (particularly "last mile delivery") and data centres, by a wide variety of businesses, united by the need to be close to both their customers and their workforce. They are located mainly on the edges of London, Paris, Düsseldorf, Berlin and Warsaw, where land supply is most restricted and demand for warehouse space is strongest. The supply shortage is most apparent in London where industrial land is being lost, in particular, to infrastructure projects and residential development. The Greater London Authority issued a report during the year forecasting that one-third of London's industrial land will be lost over the next 25 years.

The combination of this lack of land and strong demand from businesses needing warehousing to service their customers is manifesting itself in improving lease terms and higher rental values.

Big box warehouses, classed as those over 10,000 sq m in size, account for 40 per cent of our portfolio value. These are focused on the major logistics hubs and corridors in the UK (South-East and Midlands regions), France (the logistics 'spine' linking Lille, Paris, Lyon and Marseille), Germany (Düsseldorf, Berlin, Leipzig and Hamburg) and Poland (Warsaw, Łódź and Poznań).

Although occupier demand is healthy across all of our markets, the availability of land and competition for customers outside the UK means that new supply of big box warehousing often keeps pace with demand, resulting in limited rental growth.

In the UK, the availability of high quality big box warehousing in core logistics locations has been particularly low and this has resulted in significant rental growth over the past two years. Speculative development has increased over the past year, although we believe this has slowed in the aftermath of the EU referendum. In Continental Europe, there is some speculative construction underway but big box logistics rents are broadly stable. In Central Europe, headline rents are stable but competition for pre-let agreements has caused incentive levels to rise. Importantly, we do not see any evidence of oversupply in any of our markets.

Growing rental income from letting existing space and new developments

During 2016, we contracted new leases and pre-let agreements totalling £44.9 million of headline rent (2015: £39.3 million).

We generated £16.1 million from leases on existing space, offset by £14.1 million of rent lost from space returned to us, resulting in net take-up of £2.0 million of existing space (2015: £5.2 million).

Additionally, we contracted £27.1 million of rent from letting up developments completed during 2016 (of which £21.7 million was agreed in prior years) and £23.4 million from pre-let agreements.

Summary of key leasing data for 2016[1]

Summary of key leasing data for the year to 31 December[1]		2016	2015
Take-up of existing space[2] (A)	£m	14.2	18.7
Space returned[3] (B)	£m	(14.1)	(14.1)
NET ABSORPTION OF EXISTING SPACE (A-B)	**£m**	**0.1**	**4.6**
Other rental movements (rent reviews, renewals, indexation)[2] (C)	£m	1.9	0.6
RENT ROLL GROWTH FROM EXISTING SPACE	**£m**	**2.0**	**5.2**
Take-up of developments completed in the period – pre-let space[2] (D)	£m	19.0	7.5
Take-up of developments completed in the period – speculative space[2] (D)	£m	8.1	6.3
TOTAL TAKE UP[2] (A+C+D)	**£m**	**43.2**	**33.1**
Less take-up of pre-lets and speculative lettings signed in prior periods[2]	£m	(21.7)	(7.9)
Pre-lets signed in the period for delivery in later periods[2]	£m	23.4	14.1
RENTAL INCOME CONTRACTED IN THE PERIOD[2]	**£m**	**44.9**	**39.3**
Take-back of space for redevelopment	£m	(1.1)	(1.6)
Retention rate[4]	%	75	68

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 (headline rent).
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.

Our customers represent a wide range of industries, allowing us to avoid over-reliance on any single sector or individual customer. Our top 20 customers represent 27 per cent of our rent roll, and our largest customer represents 4.8 per cent.

Take-up reflects the economic and structural trends in our major markets, with 35 per cent of new rent from parcel delivery companies and third party logistics providers, while retailers and manufacturers accounted for 16 per cent and 18 per cent respectively.

Changes in the rent roll from our standing assets is influenced by three main factors: rent agreed at rent reviews and lease renewals, the portfolio's vacancy rate and space returned to us. Overall operating performance is also dependent on pre-let agreements, lease terms agreed and operating cost efficiencies.

- **Rent reviews and lease renewals: rental uplift of 5.4 per cent.** Rents improved in our UK markets, especially in London and South-East England. During the year, new headline rents on review and renewal were 6.4 per cent higher in the UK (in tandem with an improvement in lease terms) and 0.1 per cent lower in our Continental European portfolio. In Continental Europe, higher rents on renewal in our Southern Europe portfolio were offset by lower rents in Central Europe from lease renewals due to greater competition for customers.
- **Vacancy remains low at 5.7 per cent.** The vacancy rate at 31 December 2016 was 5.7 per cent (31 December 2015: 4.8 per cent), of which approximately a quarter represents speculative developments completed in 2015 and 2016. The increase in the vacancy rate was primarily the result of a higher level of speculative development completions during the year and the expected take-back of a large UK warehouse in November which added 0.8 percentage points to the rate. Treating short-term lettings as vacant space would increase the vacancy rate to 6.3 per cent (31 December 2015: 6.3 per cent). The average vacancy rate during the year was lower, at 5.2 per cent compared to 6.5 per cent in 2015. We target a vacancy rate of between 5 and 7 per cent to allow for temporary volatility arising from the timing of speculative development completions and take-backs of space.
- **Retention rate of 75 per cent.** During the year, space equating to £14.1 million (2015: £14.1 million) of headline rent was returned to us, including £1.4 million of rent lost due to insolvency (2015: £1.3 million). We retained 75 per cent of rent at risk from break or expiry during the year (2015: 68 per cent). During 2017, £26.1 million of rent is at risk from lease break or expiry and, at 31 December 2016, customers in administration represented £0.4 million of annualised rent (31 December 2015: £0.3 million). 79 per cent of customers rated us 'good' or 'excellent' in our annual customer survey, a welcome improvement from 2015 (77 per cent). We continually seek to improve our customer service and the survey is a useful tool to direct our focus.
- **Lease terms improve.** The level of incentives agreed for new leases (excluding those on developments completed in the year) represented 7.3 per cent of the headline rent, an improvement from 8.0 per cent in 2015. Lease lengths also improved to 7.1 years to first break (8.7 years to expiry) as at 31 December 2016, compared to 6.8 years (8.6 years to expiry) at 31 December 2015. Lease terms continue to be longer in the UK (8.2 years to break) than in Continental Europe (5.2 years to break), reflecting mainly different lease structures and regulations.
- **£23 million of rent contracted from pre-let developments.** During the year, we contracted £23.4 million of rent from pre-let agreements for future delivery (2015: £14.1 million). Parcel delivery and logistics companies account for over half of the agreements, including Deutsche Post DHL in Germany and DPD in the UK. Retailers, particularly those operating primarily online, were also prominent, including our first developments for Amazon in Italy and Germany, Yoox Net a Porter in Italy and METRO in Paris. We also secured £8.1 million from take-up of space completed speculatively (2015: £6.3 million). A data centre provider occupied a newly built warehouse on the Slough Trading Estate and two of the three speculatively built warehouses in Navigation Park, Enfield, were occupied shortly after completion.
- **Total cost ratio at 23 per cent.** Our total cost ratio for 2016 increased to 23.0 per cent (2015: 22.2 per cent). Approximately half of our costs are considered property operating costs, the remainder being central administration costs. Operating and administrative costs increased by £11.8 million, which was partly offset by a £4.1 million increase in joint venture management fee income due mainly to development within, and the increased net asset value of, SELP. See the Financial Review for more details of the total cost ratio, including details of a change in calculation method to bring our disclosure into line with EPRA guidelines.

Asset management: What to expect in 2017

We expect rent roll growth from standing assets to remain positive in 2017. Our vacancy rate will continue to be impacted by the completion of speculatively developed space but the higher level of pre-let developments should ensure that it remains within our range of between 5 and 7 per cent. We will continue to focus on maintaining an efficient cost base.

ENHANCING GROWTH THROUGH DEVELOPMENT

As competition to acquire standing warehouse assets has increased, the risk-adjusted returns have shifted firmly in favour of development compared to acquiring existing assets. There are relatively few competitors with the land, the development expertise and the financial capacity to develop warehouse assets. We invested £302 million in new developments during 2016 (2015: £164 million) and acquired £155 million of land to extend the longevity of our development pipeline.

The strength of demand for pre-let developments in particular was the reason behind the decision to raise £325 million of new equity to fund a number of these projects.

Development projects completed

We completed 421,600 sq m of new space during the year. These projects were 80 per cent let as at 31 December 2016, generating £23.5 million of annualised gross rent, with a potential further £5.8 million to come when the remainder of the space is let. This translates into a yield on total development cost (including land, construction and finance costs) of 8.2 per cent when fully let, substantially higher than yields available from acquiring similar quality assets.

Amongst the developments completed in 2016 were three big box warehouses in Rugby Gateway, one of which has been let to parcel delivery and logistics company Hermes. We completed new urban last mile distribution warehouses for Deutsche Post DHL in London, Düsseldorf and Vienna, and for FedEx/TNT in Paris.

Current development pipeline

At 31 December 2016, we had development projects approved, contracted or under construction totalling 540,500 sq m, representing £171 million of future capital expenditure and £27 million of headline rent when fully let. The projects, all of which are due to complete in 2017 and 2018, are 61 per cent pre-let and will yield 7.7 per cent on total development cost when fully occupied.

We will usually build urban warehouses speculatively as occupiers often prefer to see the space before committing to a lease. We are more cautious about building big box warehouses speculatively unless they can be leased to multiple parties or are in areas of particular supply constraint.

We have seven pre-let big box warehouses under construction including our largest ever development: a 155,000 sq m warehouse for Amazon in Rome. We are also building a 57,400 sq m big box warehouse for international retailer, METRO, in Paris.

We have also commenced speculative development of a number of multi-let industrial estates, all of which are close to population centres, allowing occupiers to access their customers quickly and easily.

Future development projects

Our land bank identified for future development was valued at £392 million at 31 December 2016, equating to 6 per cent of our total portfolio. Land is an important source of future growth for us but, until it is developed, it produces no income and reduces the income returns we generate. As a result, where we acquire land, we normally expect to be able to develop it fully within five years, or we seek to secure the land through option agreements, allowing us to buy the land only when we are ready to begin developing it.

During the year, we invested £155 million in development land, most of which was for sites which are already being developed or where infrastructure works have begun. Within these were plots of land bought as a result of two significant agreements secured during 2016.

We secured a 10 year agreement with the Greater London Authority to develop 35 hectares of industrial land across five sites in East London known collectively as East Plus. We estimate that the sites, which we will acquire over the course of the ten year agreement, will support around 140,000 sq m of urban distribution and light industrial space. The combination of these sites, along the A13 main road between London's inner and outer ring-roads, should provide us with an enviable position in this regenerating area. We have started development of two sites, including a warehouse pre-let to DPD.

We entered a development partnership with Roxhill in February 2016 which gave us access to 12 sites for big box warehouse development in the Midlands and South-East regions of the UK. These sites, over which SEGRO holds option agreements, could support development of over 1 million sq m of big box warehousing over 10 years, which would enable us to achieve the scale we desire in this attractive asset class and location. We subsequently exercised two options during the year including one to develop a 550,000 sq m rail-connected logistics park, known as SEGRO Logistics Park East Midlands Gateway, directly adjacent to the M1 motorway and East Midlands International Airport, the UK's second largest cargo airport. We have started infrastructure works and will approach potential customers for pre-let agreements during 2017.

We estimate that our land bank can support 2.7 million sq m of development. The prospective capital expenditure associated with these projects is £1.2 billion and we estimate that they could generate £128 million of headline rent, representing a yield on total development cost (including land and notional finance costs) of 8.2 per cent.

Within this land bank are projects which we expect to commence in the next 6 to 12 months, including pre-let agreements subject to final approval and/or planning permission and speculative developments we expect to approve shortly.

At 31 December 2016, these near-term opportunities have the ability to generate approximately £27 million of new headline rent (around 69 per cent of which is associated with potential pre-let agreements) from capital expenditure of approximately £245 million.

These figures are indicative of our current expectations but are dependent on our ability to secure pre-let agreements, planning permission, construction contracts and on our outlook for occupier conditions in local markets.

Within our land bank are sites identified for alternative use valued at £102 million and comprise part of a site we acquired in West London in 2015, as well as the former Northfields Industrial Estate, on both of which we have conditional agreements to sell to residential developers. We expect to dispose of both sites in 2017 or early 2018.

Development: What to expect in 2017

We expect to invest in excess of £300 million in development during 2017, which includes both our committed pipeline and further development opportunities under discussion, including a number of pre-let projects under negotiation or subject to planning.

Further details of our completed and active development projects are available in the 2016 Property Analysis Report, which is available to download at www.SEGRO.com/investors.

CREATING A STRONG AND RESILIENT CAPITAL BASE

Net debt, including our share of joint venture net debt, fell by £102 million during the year to £2.1 billion. The LTV ratio improved to 33 per cent (31 December 2015: 38 per cent) as a result of lower net debt and rising asset values.

Net debt, including our share of joint venture net debt, fell by £102 million during the year to £2.1 billion. The movement in net debt is mainly a function of net divestment during the year and £325 million (gross) of new equity, partly offset by the impact of our strategy to protect our balance sheet against exchange rate volatility.

The LTV ratio improved to 33 per cent (31 December 2015: 38 per cent) as a result of lower net debt and rising asset values. We estimate that our portfolio would have to fall in value by approximately 50 per cent before breaching the tightest covenants on our debt.

The euro strengthened by 16 per cent against sterling during the year. We have maintained a high degree of hedging to protect our balance sheet and earnings from the impact of future volatility. Our net assets are 69 per cent hedged and our euro earnings are 47 per cent hedged against movements in the euro-sterling exchange rate. Further details can be found in the Financial Review.

During the year, we carried out approximately £2 billion of financing including refinancing £400 million of bank facilities in the APP joint venture and €780 million of Group bank facilities. We raised £325 million of gross proceeds from an equity placing and launched the first bond within SELP, raising €500 million with an additional €200 million of revolving credit facilities. This activity improved the cost, efficiency and duration of our capital structure.

The equity placing was carried out in September to fund £456 million of capital expenditure associated with identified development projects either underway or expect to be commenced over the following 12 months. At 31 December 2016, approximately 75 per cent of the expected investment had been deployed or committed to our development pipeline and the remaining projects are progressing according to plan.

Capital structure: what to expect in 2017

We expect to invest in excess of £300 million in development capital expenditure during 2017. At 31 December 2016, we had £32 million of cash and and £535 million of bank credit facilities available to us to fund this intended expenditure. Approximately £200 million of SEGRO bonds mature in 2018 and we will assess refinancing options for these during 2017.

DIVIDEND INCREASE REFLECTS A STRONG YEAR AND CONFIDENCE FOR THE FUTURE

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share of 0.6 pence to 11.2 pence (2015: 10.6 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 4 May 2017 to shareholders on the register at the close of business on 24 March 2017.

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

- the policy of targeting a payout ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2016 and the outlook for earnings.

The total dividend for the year will, therefore, be 16.4 pence, a rise of 5.1 per cent on 2015 (15.6 pence) and represents payment of 87 per cent of Adjusted profit after tax and 83 per cent of Adjusted EPS.

The Board has decided to retain a scrip dividend option for the 2016 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2016, 32 per cent of the 2015 final dividend and 19 per cent of the 2016 interim dividend was paid in new shares, equating to £29.5 million of cash retained on the balance sheet and 7.1 million new shares being issued.

OUTLOOK: WHAT TO EXPECT FOR SEGRO IN 2017 AND BEYOND

I am proud of what SEGRO has achieved in 2016: the sale of the Bath Road office portfolio means that we are now a pure-play warehouse REIT; we have continued to grow our rent roll on both a like-for-like basis and from letting up our high quality developments; our portfolio is well occupied by a diverse range of customers on improving lease terms; and we have secured approximately £2 billion of new financing on our own behalf and on behalf of our joint ventures in the form of new equity and new debt, most particularly the equity placing and the inaugural SELP bond.

Our investment activity in 2016 was focused on building scale in our major markets, through development and modest acquisitions of high quality warehouses. In particular, we have increased our exposure to Italy where we have an operating base capable of servicing a larger portfolio. This scale has helped us both to establish SEGRO as an influential participant in these markets and to become more operationally efficient.

The UK's decision to leave the European Union has undoubtedly caused uncertainty for the property industry generally. It is likely to take months, if not years, for occupier demand to adjust to the new situation, so we are not complacent about the impact it could have on our business. Indeed, the work done to reposition our portfolio over the past five years was designed to ensure it would be resilient in times of market uncertainty or weakness.

The early signs are encouraging: we have seen little, if any, impact on occupier and investor demand for our warehouse properties since the referendum result.

We welcome the UK government's decision to support a third runway at Heathrow Airport, allowing us to progress our long-term development plans for the airport's cargo centres which are owned by the APP joint venture.

We enter 2017 with confidence. Occupier demand is holding up well and there is no evidence of over-supply in any of our markets, meaning that the prospects are good for further rental growth in the UK and stable or improving rents in Continental Europe. The persistent low interest rate environment continues to cast warehouse yields in a favourable light and we see evidence of a healthy appetite for modern, well located assets among investors. While the scope for further yield compression is limited, both rental growth and development profits should provide support for the value of our portfolio in 2017.

While there are a number of broader economic and geopolitical uncertainties, we are confident that our portfolio is well positioned to be able to outperform the wider property market.

Our priorities for 2017 and beyond

Our strategy is directed at delivering attractive total returns for shareholders in the form of a sustainable, progressive dividend stream and net asset value growth over time. The three pillars of our strategy are designed to achieve this and we will continue to focus on growing and improving our portfolio in a disciplined and focused way.

- **Disciplined Capital Allocation.** As in 2016, we expect to invest more in development than in acquisitions, although we will remain open to acquisitions where the pricing and returns are attractive. We continue to identify assets which may be suitable for disposal although the volume will likely be considerably slower than in 2016. We will seek to divest these assuming investment market conditions remain supportive.

- **Operational Excellence – Development and Asset Management.** Our development pipeline is an important source of enhanced returns. We expect to continue to develop over half of our buildings on a pre-let basis during 2017, although we will continue to develop speculatively in areas where occupier demand is strong and supply is constrained.

  We remain alert to any changes in occupier demand and the speed of warehouse construction allows us to increase or reduce speculative development relatively quickly should conditions warrant it. We continue to strive to deliver excellent asset management, maintaining a well occupied portfolio and an efficiently run company.

- **Efficient and resilient capital structure.** Our balance sheet has been strengthened by proceeds from disposals and the equity placing in September providing capacity for further investment in our portfolio. We intend to maintain our LTV ratio at comfortably below 40 per cent to provide appropriate resilience in the event of any property market correction.

Our business is well positioned, notwithstanding the current degree of political and economic uncertainty. We have had an active start to 2017, and we continue to see opportunities to grow our business through further disciplined investment, matched by a prudent approach to financing.

FINANCIAL REVIEW

The actions taken to improve the quality of our property portfolio have resulted in an 11 per cent increase in Adjusted profit before tax. EPRA NAV per share increased by 8 per cent to 500 pence and the balance sheet has been strengthened with the LTV ratio having improved from 38 per cent to 33 per cent.

Financial highlights

	31 December 2016	31 December 2015
Total property return (%)	**9.3**	18.4
EPRA NAV growth (%)	**8.0**	20.6
EPRA[1] NAV per share (p)	**500**	463
IFRS profit before tax (£m)	**426.4**	686.5
Adjusted[2] profit before tax (£m)	**154.5**	138.6
IFRS earnings per share (EPS, basic) (p)	**53.9**	91.7
Adjusted[2] EPS, basic (p)	**19.7**	18.4

1 Management reviews the performance of the business and the financial structure primarily on a proportionally consolidated basis which includes the Group's share of joint ventures on a line by line basis. The Group's key performance indicators are therefore also presented on this basis.
2 Adjusted profit before tax, Adjusted EPS and EPRA NAV are alternate metrics to their IFRS equivalents.

Presentation of financial information

The Group financial statements are 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 on EPRA Best Practices Recommendations 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. See Table 2 of the Supplementary Notes to the financial statements for further information on these adjustments, including the adjustment made in 2015.

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

Reconciliations between SEGRO Adjusted metrics and EPRA metrics are provided in the Supplementary Notes to the condensed financial statements, which also include other 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.

Adjusted profit

	2016 £m	2015 £m
Gross rental income	**225.5**	210.7
Property operating expenses	**(44.9)**	(37.7)
Net rental income	**180.6**	173.0
Joint venture management fee income	**18.6**	17.0
Administration expenses	**(31.4)**	(28.5)
Share of joint ventures' Adjusted profit[1]	**55.4**	44.4
Adjusted operating profit before interest and tax	**223.2**	205.9
Net finance costs (including adjustments)	**(68.7)**	(67.3)
Adjusted profit before tax	**154.5**	138.6
Tax on Adjusted profit	**(1.8)**	(1.3)
Non-controlling interests share of Adjusted profit	**(0.1)**	–
Adjusted profit after tax	**152.6**	137.3

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

Adjusted profit before tax increased by 11.5 per cent to £154.5 million (2015: £138.6 million) during 2016 reflecting increased gross rental income and joint venture fees offset by an increase in property operating expenses, net finance costs and administration expenses (see Note 2).

Net rental income

Net rental income increased by £7.6 million to £180.6 million, reflecting the positive net impact of investment activity, development completions and the strengthening of the euro during the period, offset by the impact of disposals.

On a like-for-like basis, before other items (primarily corporate centre and other costs not specifically allocated to a geographic business unit), net rental income increased by £8.0 million, or 4.0 per cent, compared to 2015. This is mainly due to strong rental performance in our UK portfolio more than offsetting a slight fall in Continental Europe, in particular Poland.

The like-for-like rental growth metric is based on properties held throughout both 2016 and 2015 on a proportionally consolidated basis. This provides details of underlying rental income growth excluding the distortive impact of acquisitions, disposals and development completions. Where an asset has been sold into a joint venture (transfers into SELP, for example) the 50 per cent share owned throughout the period is included in like-for-like calculation, with the balance shown as disposals.

Like-for-like net rental income

(Including JVs at share)	2016 £m	2015 £m	Change %
UK	**149.4**	141.0	6.0
Continental Europe	**60.4**	60.8	(0.7)
Like-for-like net rental income	**209.8**	201.8	4.0
Other[1]	**(3.6)**	(2.0)	
Like-for-like net rental income (after other)	**206.2**	199.8	3.2
Development lettings	**21.2**	4.6	
Properties taken back for development	**1.1**	3.0	
Like-for-like net rental income plus developments	**228.2**	207.4	
Properties acquired	**14.5**	3.5	
Properties sold	**9.0**	33.3	
Net rental income before surrenders, dilapidations and exchange	**252.0**	244.2	
Lease surrender premiums and dilapidations income	**1.3**	1.6	
Other items and rent loss from lease surrenders	**(2.6)**	(4.3)	
Impact of exchange rate difference between periods	**–**	(8.8)	
Net rental income per Table 2 (including joint ventures at share)	**250.7**	232.7	

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

Income from joint ventures

Joint venture management fee income increased by £1.6 million to £18.6 million. This increase was largely due to increased development and management fees from SELP (£3.2 million), part of which relates to the size of the portfolio which was £2.1 billion at 31 December 2016, compared to £1.5 billion at 31 December 2015 (at 100 per cent). This was partially offset by £1.5 million lower fee income from the Airport Property Partnership (APP) joint venture.

SEGRO's share of joint ventures' Adjusted profit after tax increased by £11.0 million, or 24.8 per cent (from £44.4 million at 31 December 2015 to £55.4 million at 31 December 2016), reflecting the higher net income from the Group's largest two joint ventures: SELP and APP. This was partly offset by the closing of the Heathrow Big Box (HBB) joint venture in June 2015.

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 2016 has increased to 23.0 per cent from 22.2 per cent for 2015. This is based on Adjusted profit and therefore excludes the non-recurring £4.8 million pension settlement costs in 2015. The calculation is set out in Table 6 of the Supplementary Notes to the financial statements. Excluding the impact of share based payments, the TCR is 21.0 per cent which is a fall of 0.4 percent from 2015.

The balance of acquisitions, development completions, rental growth and disposals has increased the gross rental income (the denominator of this ratio) by £24.1 million, while total costs have increased by £7.7 million due to higher property operating and administration expenses (including increases in share based payments), and out of period credits in 2015. In calculating the TCR, management fees of £1.2 million (2015: £1.0 million) are shown as a reduction in costs rather than as income in line with EPRA BPR Guidelines and have consequently reduced the TCR by 0.3 per cent in the current and prior periods.

Net finance costs

Net finance costs (including adjustments) increased by £1.4 million in 2016 to £68.7 million. The comparative period benefitted from interest income of £4.3 million paid on deferred consideration receivable in respect of the SELP transaction which was fully paid during 2015 and therefore did not similarly benefit 2016.

Taxation

The tax charge on Adjusted profit of £1.8 million (2015: £1.3 million) reflects an effective tax rate of 1.2 per cent (2015: 0.9 per cent), consistent with a Group target tax rate of less than 3 per cent.

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

Adjusted earnings per share

Adjusted earnings per share are 19.7 pence (2015: 18.4 pence) reflecting a £15.3 million improvement in Adjusted profit after tax and non-controlling interests, an increased average number of shares as a result of the equity placing in September 2016 and the take-up of the scrip dividend option offered with the 2015 final and 2016 interim dividends.

TOTAL PROPERTY RETURN

The total property return ('TPR') for the portfolio in 2016 (calculated by MSCI Real Estate) was 9.3 per cent, which is lower than for 2015 (18.4 per cent), reflecting a lower capital return compared to the prior year. The TPR comprises an income return of 5.4 per cent (2015: 5.3 per cent) and a capital return of 3.7 per cent (12.4 per cent).

More detail on the performance of the property portfolio can be found in the Chief Executive's Review.

IFRS PROFIT

IFRS profit before tax in 2016 was £426.4 million (2015: £686.5 million), equating to basic post-tax IFRS earnings per share of 53.9 pence compared with 91.7 pence for 2015, principally reflecting lower realised and unrealised gains in both the wholly-owned and joint venture portfolios.

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

Realised and unrealised gains on wholly-owned investment and trading properties of £246.0 million in 2016 (2015: £461.5 million gain) have been recognised in the income statement as the value of our portfolio increased during the year, albeit more slowly than in 2015. These comprised an unrealised valuation surplus of £231.3 million (2015: £439.8 million surplus) and a profit of £16.7 million on asset disposals (2015: £22.9 million profit), offset by increase in impairment provisions against trading properties of £2.0 million (2015: £1.2 million increase) where their fair values are deemed to be less than their original cost.

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £42.8 million (2015: £125.6 million) and is further analysed in Note 6.

IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £2.6 million (2015: £23.7 million loss) and a tax charge of £7.7 million (2015: £3.7 million) of which £5.9 million (2015: £2.4 million) arises in respect of adjustments, primarily in relation to property valuations and disposals.

BALANCE SHEET

	£m	Shares million	Pence per share
EPRA NAV attributable to owners of the parent at 31 December 2015	**3,453.4**	**746.3**	**463**
Equity placing	318.4		(5)
Dividend net of scrip shares issued (2015 final and 2016 interim)	(89.0)		(16)
Realised and unrealised property gain	288.8		35
Adjusted profit after tax	152.6		20
Exchange rate	29.8		3
Other	8.1		–
EPRA NAV attributable to owners of the parent at 31 December 2016	**4,162.1**	**833.2**	**500**

At 31 December 2016, IFRS net assets attributable to ordinary shareholders were £4,182.1 million (31 December 2015: £3,489.9 million), reflecting 502 pence per share (31 December 2015: 468 pence) on a diluted basis.

EPRA NAV per share at 31 December 2016 was 500 pence (31 December 2015: 463 pence), the 8 per cent increase mainly reflecting property gains in the period. The table above highlights the other principal factors behind the increase. A reconciliation between IFRS and EPRA NAV is available in Note 11 to the condensed financial statements.

Cash flow and net debt reconciliation

Cash flow generated from operations was £101.2 million in 2016, an increase of £13.5 million from 2015 due mainly to the impact from increased Adjusted profit in the year and positive working capital flows from the disposal of trading properties in the year. The comparative period included the receipt of a US tax refund (£33.6 million) which was partially offset by an outflow of £24.8 million in order to fund early close out interest rate swaps.

The Group made net divestments of £84.2 million of investment properties and development (including options and loans to joint ventures) during the year on a cash flow basis (2015: £272.5 million investment).

The Group received cash from disposals of £614.0 million (2015: £226.3 million) primarily in respect of the disposal of the Bath Road office portfolio and spent £429.7 million (2015: £470.8 million) to purchase and develop investment properties, invested £63.4 million in joint ventures (2015: £28.0 million) and £36.7 million in other property interests (2015: £nil).

Other significant cash flows include the equity placing in September 2016 which accounted for virtually all of the share proceeds of £318.4 million during the year. Furthermore the Group paid dividends of £89.0 million (2015: £91.5 million) where cash flows are reduced by the level of scrip uptake. The settlement of foreign exchange derivatives has led to a net outflow of £168.4 million as the euro has strengthened in the year.

Overall, net debt has decreased in the year from £1,806.5 million to £1,598.4 million.

	2016 £m	2015 £m
Opening net debt	**(1,806.5)**	(1,679.2)
Cash flow from operations	**156.7**	123.9
Finance costs (net)	**(71.1)**	(65.1)
Early close out of interest rate swaps	**–**	(24.8)
Dividends received (net)	**26.5**	20.8
Tax received/(paid) (net)	**(10.9)**	34.5
Acquisition of Vailog	**–**	(1.6)
Free cash flow	**101.2**	87.7
Dividends paid	**(89.0)**	(91.5)
Equity placing	**318.4**	–
Purchase and development of investment properties	**(429.7)**	(470.8)
Acquisitions of other interest in property	**(36.7)**	–
Net investment in joint ventures	**(63.4)**	(28.0)
Investment property sales	**614.0**	226.3
Acquisition of Vailog	**–**	(24.8)
Acquisition of Big Box	**–**	2.6
Net settlement of foreign exchange derivatives	**(168.4)**	101.1
Sale of portfolio into SELP	**–**	119.9
Other items	**(5.8)**	3.0
Net funds flow	**240.6**	(74.5)
Non-cash movements	**(3.9)**	(3.8)
Exchange rate movements	**(28.6)**	(0.3)
Debt acquired from Vailog/LPP	**–**	(48.7)
Closing net debt	**(1,598.4)**	(1,806.5)

Capital expenditure

Table 7 in the Supplementary Notes 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 £709.5 million, a decrease of £172.5 million compared to 2015. More detail on acquisitions can be found in the Chief Executive's Review, although note that, where SEGRO has bought from a joint venture, the acquisition is reflected at 50 per cent.

Development capital expenditure increased by £137.2 million to £301.6 million, reflecting our stated intention to increase the level of investment in developments, both speculative and pre-let, to take advantage of strong occupier demand for modern space in our markets. Development spend incorporates interest capitalised of £5.8 million (2015: £3.0 million) including joint ventures at share.

Spend on existing completed properties totalled £22.0 million (2015: £25.0 million), of which £13.0 million (2015: £17.9 million) was for value enhancing major refurbishment, infrastructure and fit-out costs prior to re-letting. The balance mainly comprises more minor refurbishment and fit-out costs, which equates to less than 6 per cent of Adjusted profit before tax and 1.2 per cent of total spend.

TREASURY POLICIES AND GOVERNANCE

The Group Treasury function operates within a formal treasury policy covering all aspects of treasury activity, including funding, counterparty exposure and management of interest rate, currency and liquidity risks. Group Treasury policies are reviewed by the Board at least once a year, most recently in September 2016.

Group Treasury reports on compliance with these policies on a quarterly basis to the Finance Committee, which includes the Chief Executive and is chaired by the Chief Financial Officer.

FINANCIAL POSITION AND FUNDING

Financial Key Performance Indicators

GROUP ONLY	**31 December 2016**	31 December 2015
Net borrowings[3] (£m)	**1,598**	1,807
Available Group cash and undrawn facilities (£m)	**567**	234
Gearing (%)	**38**	52
Weighted average cost of debt[1] (%)	**3.9**	3.7
Interest cover[2] (times)	**2.4**	2.5
INCLUDING JOINT VENTURES AT SHARE		
Net borrowings[3] (£m)	**2,091**	2,193
LTV ratio[3] (%)	**33**	38
Weighted average cost of debt[1] (%)	**3.4**	3.5
Average duration of debt (years)	**6.2**	6.0

1 Based on gross debt, excluding commitment fees and amortised costs.
2 Net rental income/Adjusted net finance costs (before capitalisation).
3 Supplementary Notes Table 3.

At 31 December 2016, the Group's net borrowings (including the Group's share of borrowings in joint ventures) were £2,091.0 million (31 December 2015: £2,193.2 million).

Excluding the Group's share of borrowings in joint ventures, net borrowings at 31 December 2016 were £1,598.4 million comprising gross borrowings of £1,630.4 million (all but £3.9 million of which were unsecured) and cash and cash equivalent balances of £32.0 million.

The Group's share of the net borrowings in its joint ventures was £492.6 million comprising gross borrowings of £554.6 million (all of which were advanced on a non-recourse basis to SEGRO) and cash and cash equivalent balances of £62.0 million.

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 but one of which currently have long-term credit ratings of A– or better.

Funds available (excluding cash and undrawn facilities held in joint ventures) at 31 December 2016 totalled £566.9 million, comprising £32.0 million of cash and short-term investments and £534.9 million of undrawn bank facilities provided by the Group's relationship banks, of which only £5.0 million were uncommitted. At 31 December 2016, there were no debt maturities (bonds, notes and bank facilities) falling due within 12 months and the weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 6.2 years. With none of the Group's drawn bank debt facilities at 31 December 2016 maturing in the next three years and no debt maturities in 2017, this relatively long average debt maturity translates into a favourable, well spread debt funding maturity profile which reduces future refinancing risk.

In May 2016, the Group's on balance sheet facilities were refinanced, increasing the total facilities by £94.1 million to provide total committed revolving facilities of £666.7 million. At the same time, the margin on drawn facilities and commitment fees on the undrawn facilities was reduced and the maturities extended, with the largest (£513.7 million) facility maturing in 2021 with an option to extend the facility by a further two years at SEGRO's request and on each bank's approval for the share of their participation. SEGRO's committed facilities are provided by ten long term relationship banks.

In October 2016 SELP obtained credit ratings from Fitch (BBB+) and Moody's (Baa2) and issued a seven year €500 million unsecured bond at a coupon of 1.25 per cent and a four year revolving credit facility of €200 million. The proceeds of the issue were primarily used to repay SELP's secured financing, provide additional liquidity and reduce SELP's cost of financing by approximately 110 basis points.

The Group seeks to maintain, over the medium term, an appropriate mix of debt funding between longer-dated core funding provided by bonds, and shorter-dated bank facilities providing funding headroom and more flexible borrowings that are cheaper and easier to repay than bonds. At 31 December 2016, 91 per cent of the gross borrowings of the Group were bonds and 9 per cent were bank borrowings.

The market value of the gross borrowings of the Group (including debt funding arrangements within joint ventures) at 31 December 2016 was £359.9 million higher than the balance sheet carrying value. This difference mainly relates to the sterling bond portfolio and term debt in joint ventures which have fixed interest coupons above current market rates. The majority (£1,109 million) of the sterling bonds have been swapped into floating sterling debt or fixed or floating euro debt via a combination of interest rate and currency swaps.

The market value (including accrued interest) of the Group's derivative financial instruments (mainly interest rate and currency swaps used to hedge interest rate and currency exposures) at 31 December 2016 was an asset of £66.9 million (2015: £55.8 million). The increase during the year was mainly due to the reduction in sterling interest rates, the realisation of the mark to market liability from euro cross currency swaps on maturity and rollover, offset by a further reduction in euro rates. These instruments are held at fair value on the Group's balance sheet within debtors and creditors.

GEARING AND FINANCIAL COVENANTS

The loan to value (LTV) ratio of the Group at 31 December 2016 on a look-through basis (including the borrowings and property assets of the Group's share of joint ventures) was 33.0 per cent. On a wholly-owned basis, the LTV ratio of the Group was 33.7 per cent at 31 December 2016.

Our intention for the foreseeable future is to aim to keep our LTV below our previously stated mid-cycle target of 40 per cent. This provides the flexibility to take advantage of any opportunities arising and ensures significant headroom compared to our tightest gearing covenants should property values decline.

The gearing ratio of the Group at 31 December 2016, as defined within the principal debt funding arrangements of the Group (excluding debt funding arrangements within joint ventures), was 38 per cent (31 December 2015: 52 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 50 per cent from their 31 December 2016 values to reach the gearing covenant threshold of 160 per cent. A 50 per cent fall in property values would equate to a look-through LTV ratio of around 66 per cent.

The Group's other key financial covenant within its principal debt funding arrangements is interest cover, requiring that net interest before capitalisation be covered at least 1.25 times by net property rental income. At 31 December 2016, the Group comfortably met this ratio at 2.4 times. On a look-through basis, including joint ventures, this ratio was 2.9 times.

INTEREST RATE RISK EXPOSURE

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

At 31 December 2016, including the impact of derivative instruments, 80 per cent (2015: 75 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures) were at fixed rates. By currency, 82 per cent of the euro denominated net borrowings and 75 per cent of the remaining net borrowings (predominantly sterling) were at fixed rates.

At 31 December 2016 the weighted average interest rate for gross borrowings (excluding those within joint ventures) was 3.9 per cent (2015: 3.7 per cent) before commitment fees and amortised costs (reflecting the lower quantum of drawn debt).

Including the impact, at share, of gross borrowings in joint ventures, the weighted average interest rate of the Group at 31 December 2016, before commitment fees and amortised costs, was 3.4 per cent (2015 3.5 per cent).

As a result of fixed rate cover in place, if short-term interest rates had been 1 per cent higher throughout the year to 31 December 2016, the adjusted net finance cost of the Group would have increased by approximately £2.7 million, representing around 1.8 per cent of Adjusted profit after tax.

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

FOREIGN CURRENCY TRANSLATION EXPOSURE

The Group has negligible transactional foreign currency exposure, but does have a potentially significant currency translation exposure arising on the conversion of its substantial foreign currency denominated assets (mainly euro) and euro denominated earnings into sterling in the Group consolidated accounts. At 31 December 2016, the Group had gross foreign currency assets which were 69 per cent hedged by gross foreign currency denominated liabilities (including the impact of derivative financial instruments). Translation hedging has been reduced from the upper end of the policy range of between 50 per cent and 100 per cent to provide a more balanced impact on movements in the sterling/euro exchange rate on NAV and LTV.

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 2016 weakened by 10 per cent against sterling (€1.29, in the case of euros), net assets would have decreased by approximately £51 million and there would have been a reduction in gearing of approximately 1.9 per cent and in the look-through LTV of 1.1 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2016 into sterling within the consolidated income statement of the Group was €1.22: £1. Based on the hedging position at 31 December 2016, and assuming that this position had applied throughout 2016, if the euro had been 10 per cent weaker than it was against sterling throughout the year (€1.34: £1), Adjusted profit after tax for the year would have been approximately £4.4 million (2.9 per cent) lower than reported.

GOING CONCERN

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

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

STATEMENT OF PRINCIPAL RISKS

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

The Group's risk management process, principal risks, and mitigating actions are described in the 2016 Annual Report. The Principal Risks facing the Group are summarised below:

PROPERTY RISKS

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.

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

Execution of investment plans. Decisions to buy, hold, sell or develop assets could be flawed due to uncertainty in analysis, quality of assumptions, poor due diligence or unexpected changes in the economic or operating environment. Our investment decisions could be insufficiently responsive to implement our strategy effectively.

FINANCIAL RISKS

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

UK exit from the EU. The uncertainty associated with the UK's decision to exit the EU may impact investment, capital, financial (including foreign exchange) and occupier markets in the UK during the transition period as the terms of exit and future relationships are negotiated, and in the long term. In the long term, exit from the EU could reduce levels of investor and occupier demand as a result of reduced trade and/or the relocation of corporations and financial institutions away from the UK, and London in particular.

Eurozone economic environment. The risk of a significant adverse impact to the Group's earnings, net asset value, financial covenants or investor confidence arising from a major disruption to the economic and business environment in Europe, sustained poor economic performance in the Eurozone, or the exit of a significant economy from the Eurozone.

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

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

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

CORPORATE RISKS

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

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

Regulatory environment. The Group could fail to anticipate legal, regulatory or fiscal changes, leading to a significant un-forecasted financial or reputational impact.

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 2016. 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 statements.

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 16 February 2017 and signed on its behalf by:

David Sleath

Chief Executive

16 February 2017

Soumen Das

Chief Financial Officer

16 February 2017

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue	4	**283.5**	248.5
Gross rental income	4	**225.5**	210.7
Property operating expenses	5	**(44.9)**	(37.7)
Net rental income		**180.6**	173.0
Joint venture management fee income		**18.6**	17.0
Administration expenses		**(31.4)**	(28.5)
Pension settlement costs	2	**–**	(4.8)
Share of profit from joint ventures after tax	6	**85.1**	156.5
Realised and unrealised property gain	7	**246.0**	461.5
Other investment income		**–**	6.6
Goodwill and other amounts written off on acquisitions and amortisation of intangibles		**(0.2)**	(3.8)
Operating profit		**498.7**	777.5
Finance income	8	**46.7**	43.4
Finance costs	8	**(119.0)**	(134.4)
Profit before tax		**426.4**	686.5
Tax	9	**(7.7)**	(3.7)
Profit after tax		**418.7**	682.8
Attributable to equity shareholders		**417.7**	682.5
Attributable to non-controlling interests		**1.0**	0.3
		418.7	682.8
Earnings per share (pence)			
Basic	11	**53.9**	91.7
Diluted	11	**53.6**	91.7

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	**418.7**	682.8
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on defined benefit pension schemes	**15.0**	17.9
	15.0	17.9
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	**114.1**	(22.3)
(Decrease)/increase in value of available-for-sale investments	**(0.3)**	0.1
Fair value movements on derivatives in effective hedge relationships	**(86.4)**	17.9
	27.4	(4.3)
Tax on components of other comprehensive income	**–**	–
Other comprehensive profit before transfers	**42.4**	13.6
Transfer to income statement of related foreign exchange movements	**(2.0)**	–
Transfer to income statement on sale of available-for-sale investments	**–**	(0.4)
Total comprehensive profit for the year	**459.1**	696.0
Attributable to equity shareholders	**458.5**	695.7
Attributable to non-controlling interests	**0.6**	0.3
Total comprehensive profit for the year	**459.1**	696.0

CONDENSED GROUP BALANCE SHEET

As at 31 December 2016

	Notes	**2016 £m**	2015 £m
ASSETS			
Non-current assets			
Goodwill and other intangibles		**3.1**	2.4
Investment properties	12	**4,714.4**	4,118.1
Other interests in property		**9.6**	–
Plant and equipment		**16.1**	16.4
Investments in joint ventures	6	**1,066.2**	867.3
Available-for-sale investments		**0.7**	0.9
Derivative financial instruments	14	**80.1**	80.8
Pension assets		**45.7**	20.2
		5,935.9	5,106.1
Current assets			
Trading properties		**25.4**	37.6
Trade and other receivables		**102.8**	97.8
Derivative financial instruments	14	**12.6**	0.7
Cash and cash equivalents	13	**32.0**	16.4
Assets held for sale	12	**–**	305.9
		172.8	458.4
Total assets		**6,108.7**	5,564.5
LIABILITIES			
Non-current liabilities			
Borrowings	13	**1,630.4**	1,822.9
Deferred tax liabilities	9	**16.3**	12.6
Trade and other payables		**4.7**	3.9
Derivative financial instruments	14	**14.7**	1.1
		1,666.1	1,840.5
Current liabilities			
Trade and other payables		**246.5**	203.6
Derivative financial instruments	14	**11.1**	24.6
Tax liabilities		**4.1**	7.7
		261.7	235.9
Total liabilities		**1,927.8**	2,076.4
Net assets		**4,180.9**	3,488.1
Equity			
Share capital		**83.0**	74.8
Share premium		**1,431.1**	1,091.4
Capital redemption reserve		**113.9**	113.9
Own shares held		**(5.5)**	(6.3)
Other reserves		**196.2**	165.8
Retained earnings		**2,363.4**	2,050.3
Total equity attributable to the owners of the parent		**4,182.1**	3,489.9
Non-controlling interests		**(1.2)**	(1.8)
Total equity		**4,180.9**	3,488.1
Net assets per ordinary share (pence)			
Basic	11	**505**	468
Diluted	11	**502**	468

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Balance 1 January 2016 £m	Exchange movement £m	Retained profit £m	Items taken directly to reserves[3] £m	Shares issued £m	Other £m	Dividends £m	Transfers £m	Balance 31 December 2016 £m
Ordinary share capital	**74.8**	**–**	**–**	**–**	**7.5**	**–**	**0.7**	**–**	**83.0**
Share premium	**1,091.4**	**–**	**–**	**–**	**310.9**	**–**	**28.8**	**–**	**1,431.1**
Capital redemption reserve	**113.9**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**113.9**
Own shares held	**(6.3)**	**–**	**–**	**–**	**–**	**(2.3)**	**–**	**3.1**	**(5.5)**
Other reserves:									
Share-based payments reserve	**8.5**	**–**	**–**	**–**	**–**	**7.0**	**–**	**(2.0)**	**13.5**
Fair value reserve for AFS[1]	**0.1**	**–**	**–**	**(0.3)**	**–**	**–**	**–**	**–**	**(0.2)**
Translation and other reserves	**(11.9)**	**114.1**	**–**	**(86.4)**	**–**	**(2.0)**	**–**	**–**	**13.8**
Merger reserve	**169.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**169.1**
Total other reserves	**165.8**	**114.1**	**–**	**(86.7)**	**–**	**5.0**	**–**	**(2.0)**	**196.2**
Retained earnings	**2,050.3**	**–**	**417.7**	**15.0**	**–**	**–**	**(118.5)**	**(1.1)**	**2,363.4**
Total equity attributable to equity shareholders	**3,489.9**	**114.1**	**417.7**	**(71.7)**	**318.4**	**2.7**	**(89.0)**	**–**	**4,182.1**
Non-controlling interests[2]	**(1.8)**	**(0.4)**	**1.0**	**–**	**–**	**–**	**–**	**–**	**(1.2)**
Total equity	**3,488.1**	**113.7**	**418.7**	**(71.7)**	**318.4**	**2.7**	**(89.0)**	**–**	**4,180.9**

For the year ended 31 December 2015

	Balance 1 January 2015 £m	Exchange movement £m	Retained profit £m	Items taken directly to reserves[3] £m	Shares issued £m	Other £m	Dividends £m	Transfers £m	Balance 31 December 2015 £m
Ordinary share capital	74.2	–	–	–	0.1	–	0.5	–	74.8
Share premium	1,070.0	–	–	–	0.3	–	21.1	–	1,091.4
Capital redemption reserve	113.9	–	–	–	–	–	–	–	113.9
Own shares held	(6.1)	–	–	–	–	(6.7)	–	6.5	(6.3)
Other reserves:									
Share-based payments reserve	7.5	–	–	–	–	3.2	–	(2.2)	8.5
Fair value reserve for AFS[1]	0.4	–	–	0.1	–	(0.4)	–	–	0.1
Translation and other reserves	(7.5)	(22.3)	–	17.9	–	–	–	–	(11.9)
Merger reserve	169.1	–	–	–	–	–	–	–	169.1
Total other reserves	169.5	(22.3)	–	18.0	–	2.8	–	(2.2)	165.8
Retained earnings	1,467.3	–	682.5	17.9	–	–	(113.1)	(4.3)	2,050.3
Total equity attributable to equity shareholders	2,888.8	(22.3)	682.5	35.9	0.4	(3.9)	(91.5)	–	3,489.9
Non-controlling interests	–	–	0.3	–	–	(2.1)	–	–	(1.8)
Total equity	2,888.8	(22.3)	682.8	35.9	0.4	(6.0)	(91.5)	–	3,488.1

1 AFS is the term used for 'Available-for-sale investments' and is shown net of deferred tax.
2 Non-controlling interests relate to Vailog S.r.l.
3 Recognised in Other Comprehensive Income.

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	**2016 £m**	2015 £m
Cash flows from operating activities	14	**156.7**	123.9
Interest received		**69.8**	87.0
Dividends received		**26.5**	20.8
Interest paid		**(140.9)**	(152.1)
Early close out of interest rate swaps		**–**	(24.8)
Tax (paid)/received		**(10.9)**	34.5
Acquisition of Vailog		**–**	(1.6)
Net cash received from operating activities		**101.2**	87.7
Cash flows from investing activities			
Purchase and development of investment properties		**(429.7)**	(470.8)
Sale of investment properties		**614.0**	226.3
Acquisition of other interest in property		**(36.7)**	–
Purchase of plant and equipment and intangibles		**(3.5)**	(2.1)
Sale of available-for-sale investments		**–**	11.4
Acquisition of Big Box		**–**	2.6
Acquisition of Vailog		**–**	(24.8)
Sale of SELP portfolio		**–**	119.9
Investment in joint ventures		**(184.3)**	(28.0)
Divestment in joint ventures		**120.9**	–
Net cash generated from/(used in) investing activities		**80.7**	(165.5)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		**(89.0)**	(91.5)
Increase in borrowings		**42.5**	320.5
Decrease in borrowings		**(267.7)**	(208.3)
Close out of Vailog debt		**–**	(44.8)
Net settlement of foreign exchange derivatives		**(168.4)**	101.1
Proceeds from issue of ordinary shares		**318.4**	0.4
Purchase of ordinary shares		**(2.3)**	(6.7)
Net cash (used in)/received from financing activities		**(166.5)**	70.7
Net increase/(decrease) in cash and cash equivalents		**15.4**	(7.1)
Cash and cash equivalents at the beginning of the year		**16.4**	23.8
Effect of foreign exchange rate changes		**0.2**	(0.3)
Cash and cash equivalents at the end of the year	13	**32.0**	16.4

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 2016 and 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 (approved by the Board on 16 February 2017) 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 2015 financial statements.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of IFRSs as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in March 2017.

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

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.17 (31 December 2015: £1 = €1.36) and Income statement: £1 = €1.22 (31 December 2015: £1 = €1.38).

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. In the period to 31 December 2015, £4.8 million of pension settlement costs incurred in rationalising pension schemes, primarily the buying out of the Bilton Group Pension Scheme, were excluded from the calculation of Adjusted profit. There is no tax effect of this item in the period to 31 December 2015. No non-EPRA adjustments to underlying profit were made in 2016.

	2016 £m	2015 £m
Gross rental income	**225.5**	210.7
Property operating expenses	**(44.9)**	(37.7)
Net rental income	**180.6**	173.0
Joint venture management fee income	**18.6**	17.0
Administration expenses	**(31.4)**	(28.5)
Share of joint ventures' Adjusted profit after tax[1]	**55.4**	44.4
Adjusted operating profit before interest and tax	**223.2**	205.9
Net finance costs (including adjustments)	**(68.7)**	(67.3)
Adjusted profit before tax	**154.5**	138.6
Adjustments to reconcile to IFRS:		
Adjustments to the share of profit from joint ventures after tax[1]	**29.7**	112.1
Profit on sale of investment properties	**16.4**	23.0
Valuation surplus on investment and owner occupied properties	**231.3**	439.8
Gain/(loss) on sale of trading properties	**0.3**	(0.1)
Increase in provision for impairment of trading properties	**(2.0)**	(1.2)
Other investment income	**–**	6.6
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**(0.2)**	(3.8)
Cost of early close out of bank debt	**(1.0)**	–
Net fair value loss on interest rate swaps and other derivatives	**(2.6)**	(23.7)
Pension settlement costs[2]	**–**	(4.8)
Total adjustments	**271.9**	547.9
Profit before tax	**426.4**	686.5
Tax		
On Adjusted profit	**(1.8)**	(1.3)
In respect of adjustments	**(5.9)**	(2.4)
	(7.7)	(3.7)
Profit after tax before non-controlling interests	**418.7**	682.8
Non-controlling interests:		
Less: share of adjusted profit attributable to non-controlling interests	**(0.1)**	–
: share of adjustments attributable to non-controlling interests	**(0.9)**	(0.3)
Profit after tax and non-controlling interests	**417.7**	682.5
Of which:		
Adjusted profit after tax and non-controlling interests	**152.6**	137.3
Total adjustments after tax and non-controlling interests	**265.1**	545.2
Profit attributable to equity shareholders	**417.7**	682.5

1 A detailed breakdown of the adjustments to the share of profit from joint ventures is included in Note 6.
2 Non-EPRA related adjustment referred to in third paragraph above.

3. SEGMENTAL ANALYSIS

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

31 December 2016	**Gross rental income £m**	**Net rental income £m**	**Share of joint ventures' adjusted profit £m**	**Adjusted PBIT £m**	**Total directly owned property assets £m**	**Investments in joint ventures £m**	**Capital expenditure[2] £m**
Greater London	**76.7**	**67.5**	**14.5**	**88.5**	**1,777.5**	**363.4**	**28.6**
Thames Valley and National Logistics	**95.6**	**88.7**	**(0.1)**	**88.5**	**1,991.7**	**12.6**	**230.2**
Northern Europe	**25.0**	**17.5**	**16.5**	**36.5**	**378.8**	**396.9**	**88.4**
Southern Europe	**22.9**	**15.5**	**12.6**	**28.9**	**474.6**	**222.3**	**179.5**
Central Europe	**5.3**	**2.9**	**13.2**	**19.1**	**117.2**	**319.5**	**10.3**
Other[1]	**–**	**(11.5)**	**(1.3)**	**(38.3)**	**–**	**(248.5)**	**0.8**
Total	**225.5**	**180.6**	**55.4**	**223.2**	**4,739.8**	**1,066.2**	**537.8**

31 December 2015	Gross rental income £m	Net rental income £m	Share of joint ventures' adjusted profit £m	Adjusted PBIT £m	Total directly owned property assets £m	Investments in joint ventures £m	Capital expenditure[2] £m
Greater London	67.8	62.3	12.6	82.8	1,680.8	341.2	325.2
Thames Valley and National Logistics	102.0	94.5	–	94.4	2,011.1	5.2	168.3
Northern Europe	15.3	9.8	11.8	22.8	337.6	214.8	131.7
Southern Europe	20.3	14.3	9.4	24.3	320.9	126.6	124.0
Central Europe	5.3	3.1	11.2	16.5	111.2	174.3	15.5
Other[1]	–	(11.0)	(0.6)	(34.9)	–	5.2	1.1
Total	210.7	173.0	44.4	205.9	4,461.6	867.3	765.8

1 Other includes the corporate centre, SELP holding companies and costs relating to the operational business which are not specifically allocated to a geographical business unit. This includes the bond issued and revolving credit facility both held by SELP Finance SARL, a Luxembourg entity, during 2016. This replaced debt held by SELP entities within in the business units.

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

4. REVENUE

		2016 £m	2015 £m
Rental income from investment properties		**210.6**	197.6
Rental income from trading properties		**1.8**	4.1
Rent averaging		**11.8**	7.2
Management fees		**1.2**	1.0
Surrender premiums		**0.1**	0.8
Gross rental income		**225.5**	210.7
Joint venture management fee income	– property management fees	**17.7**	13.8
	– performance and other fees	**0.9**	3.2
Service charge income		**19.4**	17.1
Proceeds from sale of trading properties		**20.0**	3.7
Total revenue		**283.5**	248.5

5. PROPERTY OPERATING EXPENSES

	2016 £m	2015 £m
Vacant property costs	**5.6**	3.4
Letting, marketing, legal and professional fees	**7.9**	7.2
Bad debt expense	**0.2**	0.6
Other expenses, net of service charge income	**9.8**	8.3
Property management expenses	**23.5**	19.5
Property administration expenses[1]	**25.0**	20.9
Costs capitalised[2]	**(3.6)**	(2.7)
Total property operating expenses	**44.9**	37.7

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

6. INVESTMENTS IN JOINT VENTURES

6(i) – Profit from joint ventures after tax

	SEGRO European Logistics Partnership £m	Airport Property Partnership £m	Roxhill £m	Other £m	At 100% 2016 £m	At 100% 2015 £m	At 50% 2016 £m	At 50% 2015 £m
Gross rental income	**117.1**	**48.4**	**–**	**–**	**165.5**	146.4	**82.7**	73.2
Property operating expenses:								
– underlying property operating expenses	**(4.2)**	**(1.4)**	**–**	**(0.1)**	**(5.7)**	(4.3)	**(2.8)**	(2.1)
– vacant property costs	**(1.3)**	**(0.8)**	**–**	**–**	**(2.1)**	(2.5)	**(1.1)**	(1.3)
– property management fees	**(10.2)**	**(6.6)**	**–**	**–**	**(16.8)**	(13.8)	**(8.4)**	(6.9)
– performance and other fees	**–**	**(0.7)**	**–**	**–**	**(0.7)**	(6.3)	**(0.3)**	(3.2)
Net rental income	**101.4**	**38.9**	**–**	**(0.1)**	**140.2**	119.5	**70.1**	59.7
Administration expenses	**(1.4)**	**(0.1)**	**(0.1)**	**–**	**(1.6)**	(2.1)	**(0.8)**	(1.1)
Finance costs (including adjustments)	**(14.5)**	**(9.8)**	**(0.2)**	**–**	**(24.5)**	(26.7)	**(12.2)**	(13.3)
Adjusted profit/(loss) before tax	**85.5**	**29.0**	**(0.3)**	**(0.1)**	**114.1**	90.7	**57.1**	45.3
Tax on Adjusted profits	**(3.3)**	**–**	**–**	**–**	**(3.3)**	(1.9)	**(1.7)**	(0.9)
Adjusted profit after tax	**82.2**	**29.0**	**(0.3)**	**(0.1)**	**110.8**	88.8	**55.4**	44.4
Adjustments:								
Profit/(loss) on sale of investment properties	**(0.2)**	**7.1**	**–**	**–**	**6.9**	0.2	**3.5**	0.1
Valuation surplus on investment properties	**29.3**	**49.3**	**–**	**–**	**78.6**	247.6	**39.3**	123.8
Write back/(increase) in provision for impairment of trading properties	**–**	**–**	**–**	**–**	**–**	3.3	**–**	1.7
Cost of early close out of bank debt	**(13.6)**	**–**	**–**	**–**	**(13.6)**	(6.1)	**(6.8)**	(3.0)
Net fair value gain on interest rate swaps and other derivatives	**–**	**(2.8)**	**–**	**–**	**(2.8)**	–	**(1.4)**	–
Other investment income	**–**	**–**	**–**	**–**	**–**	1.8	**–**	0.9
Tax in respect of adjustments	**(9.6)**	**–**	**–**	**(0.2)**	**(9.8)**	(22.7)	**(4.9)**	(11.4)
Total adjustments	**5.9**	**53.6**	**–**	**(0.2)**	**59.3**	224.1	**29.7**	112.1
Profit/(loss) after tax	**88.1**	**82.6**	**(0.3)**	**(0.3)**	**170.1**	312.9	**85.1**	156.5
Other comprehensive (loss)/income	**–**	**(4.2)**	**–**	**–**	**(4.2)**	2.7	**(2.1)**	1.3
Total comprehensive income for the year	**88.1**	**78.4**	**(0.3)**	**(0.3)**	**165.9**	315.6	**83.0**	157.8

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

	SEGRO European Logistics Partnership £m	Airport Property Partnership £m	Roxhill £m	Other £m	At 100% 2016 £m	At 100% 2015 £m	At 50% 2016 £m	At 50% 2015 £m
Investment properties	**2,113.2**	**1,096.8**	**–**	**–**	**3,210.0**	2,607.0	**1,605.0**	1,303.5
Other interests in property	**–**	**–**	**13.3**	**–**	**13.3**	–	**6.6**	–
Other assets	**–**	**0.2**	**–**	**–**	**0.2**	0.3	**0.1**	0.1
Total non-current assets	**2,113.2**	**1,097.0**	**13.3**	**–**	**3,223.5**	2,607.3	**1,611.7**	1,303.6
Trading properties	**–**	**–**	**–**	**1.1**	**1.1**	11.6	**0.6**	5.8
Other receivables	**54.4**	**9.3**	**4.5**	**12.7**	**80.9**	37.7	**40.4**	18.9
Cash and cash equivalents	**100.7**	**23.2**	**–**	**–**	**123.9**	82.8	**62.0**	41.4
Total current assets	**155.1**	**32.5**	**4.5**	**13.8**	**205.9**	132.1	**103.0**	66.1
Total assets	**2,268.3**	**1,129.5**	**17.8**	**13.8**	**3,429.4**	2,739.4	**1,714.7**	1,369.7
Borrowings	**(745.9)**	**(363.2)**	**–**	**–**	**(1,109.1)**	(485.9)	**(554.6)**	(242.9)
Deferred tax	**(76.0)**	**–**	**–**	**–**	**(76.0)**	(55.0)	**(38.0)**	(27.5)
Other liabilities	**–**	**(2.1)**	**(3.2)**	**–**	**(5.3)**	(3.9)	**(2.6)**	(2.0)
Total non-current liabilities	**(821.9)**	**(365.3)**	**(3.2)**	**–**	**(1,190.4)**	(544.8)	**(595.2)**	(272.4)
Borrowings	**–**	**–**	**–**	**–**	**–**	(370.4)	**–**	(185.2)
Other liabilities	**(67.6)**	**(30.1)**	**(0.1)**	**(2.0)**	**(99.8)**	(86.7)	**(49.9)**	(43.3)
Derivative financial instruments	**–**	**(6.9)**	**–**	**–**	**(6.9)**	(3.0)	**(3.4)**	(1.5)
Total current liabilities	**(67.6)**	**(37.0)**	**(0.1)**	**(2.0)**	**(106.7)**	(460.1)	**(53.3)**	(230.0)
Total liabilities	**(889.5)**	**(402.3)**	**(3.3)**	**(2.0)**	**(1,297.1)**	(1,004.9)	**(648.5)**	(502.4)
Net assets	**1,378.8**	**727.2**	**14.5**	**11.8**	**2,132.3**	1,734.5	**1,066.2**	867.3

The external borrowings of the joint ventures are non-recourse to the Group.

6(iii) – Investments by the Group

	2016 £m	2015 £m
Cost or valuation at 1 January	**867.3**	855.5
Exchange movement	**87.8**	(20.7)
Acquisitions	**13.2**	–
Additions	**47.1**	28.0
Disposals	**(5.7)**	(132.5)
Dividends received	**(26.5)**	(20.8)
Share of profit after tax	**85.1**	156.5
Items taken directly to reserves	**(2.1)**	1.3
Cost or valuation at 31 December	**1,066.2**	867.3

7. REALISED AND UNREALISED PROPERTY GAIN

	2016 £m	2015 £m
Profit on sale of investment properties	**16.4**	23.0
Valuation surplus on investment properties	**231.3**	439.8
Gain/(loss) on sale of trading properties	**0.3**	(0.1)
Increase in provision for impairment of trading properties	**(2.0)**	(1.2)
Total realised and unrealised property gain	**246.0**	461.5

8. NET FINANCE COSTS

Finance income	2016 £m	2015 £m
Interest received on bank deposits and related derivatives	**32.0**	42.3
Fair value gain on interest rate swaps and other derivatives	**13.8**	0.6
Net interest income on defined benefit asset	**0.9**	–
Exchange differences	**–**	0.5
Total finance income	**46.7**	43.4

Finance costs	2016 £m	2015 £m
Interest on overdrafts, loans and related derivatives	**(103.4)**	(109.0)
Cost of early close out of debt	**(1.0)**	–
Net interest expense on defined benefit obligation	**–**	(0.2)
Amortisation of issue costs	**(2.9)**	(3.8)
Total borrowing costs	**(107.3)**	(113.0)
Less amounts capitalised on the development of properties	**5.0**	2.9
Net borrowing costs	**(102.3)**	(110.1)
Fair value loss on interest rate swaps and other derivatives	**(16.4)**	(24.3)
Exchange differences	**(0.3)**	–
Total finance costs	**(119.0)**	(134.4)
Net finance costs	**(72.3)**	(91.0)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £68.7 million (2015: £67.3 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £2.6 million loss (2015: £23.7 million gain) and the cost of early close out of debt of £1.0 million (2015: £nil).

9. TAX

9(i) – Tax on profit

	2016 £m	2015 £m
Tax:		
On Adjusted profit	**(1.8)**	(1.3)
In respect of adjustments	**(5.9)**	(2.4)
Total tax charge	**(7.7)**	(3.7)
Current tax		
United Kingdom		
Current tax charge	**(1.7)**	–
Total current tax charge	**(1.7)**	–
Overseas		
Current tax charge	**(3.9)**	(5.9)
Adjustments in respect of earlier years	**0.1**	(0.1)
	(3.8)	(6.0)
Total current tax charge	**(5.5)**	(6.0)
Deferred tax		
Origination and reversal of temporary differences	**(1.1)**	21.6
Released in respect of property disposals in the year	**4.8**	6.2
On valuation movements	**(5.1)**	(23.5)
Total deferred tax in respect of investment properties	**(1.4)**	4.3
Other deferred tax	**(0.8)**	(2.0)
Total deferred tax (charge)/credit	**(2.2)**	2.3
Total tax charge on profit on ordinary activities	**(7.7)**	(3.7)

9(ii) – Deferred tax liabilities

Movement in deferred tax was as follows:

2016	Balance 1 January £m	Exchange movement £m	Acquisitions/ disposals £m	Recognised in income £m	Balance 31 December £m
Valuation surpluses and deficits on properties	**3.8**	**0.7**	**(0.3)**	**4.0**	**8.2**
Accelerated tax allowances	**8.0**	**0.7**	**–**	**(2.6)**	**6.1**
Deferred tax asset on revenue losses	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Others	**1.1**	**0.4**	**–**	**0.8**	**2.3**
Total deferred tax liabilities	**12.6**	**1.8**	**(0.3)**	**2.2**	**16.3**

10. DIVIDENDS

	2016 £m	2015 £m
Ordinary dividends paid		
Interim dividend for 2016 @ 5.2 pence per share	**39.2**	–
Final dividend for 2015 @ 10.6 pence per share	**79.3**	–
Interim dividend for 2015 @ 5.0 pence per share	**–**	37.4
Final dividend for 2014 @ 10.2 pence per share	**–**	75.7
Total dividends	**118.5**	113.1

The Board recommends a final dividend for 2016 of 11.2 pence which will result in a distribution of up to £93.0 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2016 is 16.4 pence (2015: 15.6 pence).

11. EARNINGS AND NET ASSETS PER SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 1.5 million shares (2015: 1.3 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 1.4 million shares (2015: 1.5 million) being the actual number of shares held on trust for employee share schemes at year end.

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

	2016			2015		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic EPS	**417.7**	**774.3**	**53.9**	682.5	744.4	91.7
Dilution adjustments:						
Share options and save as you earn schemes	**–**	**4.4**	**(0.3)**	–	0.1	–
Diluted EPS	**417.7**	**778.7**	**53.6**	682.5	744.5	91.7
Basic EPS	**417.7**	**774.3**	**53.9**	682.5	744.4	91.7
Adjustments to profit before tax[1]	**(271.9)**		**(35.1)**	(547.9)		(73.6)
Tax adjustments:						
– deferred tax on investment property which does not crystallise unless sold	**1.4**		**0.2**	(2.4)		(0.3)
– other tax	**4.5**		**0.6**	4.8		0.6
Non-controlling interest on adjustments	**0.9**		**0.1**	0.3		–
Adjusted EPS	**152.6**	**774.3**	**19.7**	137.3	744.4	18.4

1 Details of adjustments are included in Note 2.

11(ii) – Net assets per share (NAV)

	2016			2015		
	Equity attributable to ordinary shareholders £m	**Shares million**	**Pence per share**	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic NAV	**4,182.1**	**828.7**	**505**	3,489.9	746.2	468
Dilution adjustments:						
Share options and save as you earn schemes	**–**	**4.5**	**(3)**	–	0.1	–
Diluted NAV	**4,182.1**	**833.2**	**502**	3,489.9	746.3	468
Fair value adjustment in respect of trading properties – Group	**–**		**–**	0.1		–
Fair value adjustment in respect of trading properties – Joint ventures	**–**		**–**	1.6		–
Fair value adjustment in respect of interest rate swap derivatives – Group	**(76.5)**		**(9)**	(79.7)		(11)
Fair value adjustment in respect of interest rate swap derivatives – Joint ventures	**3.4**		**–**	1.5		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**14.3**		**2**	11.8		2
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**38.8**		**5**	28.2		4
EPRA NAV	**4,162.1**	**833.2**	**500**	3,453.4	746.3	463
Fair value adjustment in respect of debt – Group	**(359.7)**		**(43)**	(289.1)		(39)
Fair value adjustment in respect of debt – Joint ventures	**0.2**		**–**	(6.6)		(1)
Fair value adjustment in respect of interest rate swap derivatives – Group	**76.5**		**9**	79.7		11
Fair value adjustment in respect of interest rate swap derivatives – Joint ventures	**(3.4)**		**–**	(1.5)		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**(14.3)**		**(2)**	(11.8)		(2)
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**(38.8)**		**(5)**	(28.2)		(4)
EPRA triple net NAV (NNNAV)	**3,822.6**	**833.2**	**459**	3,195.9	746.3	428

12. PROPERTIES

12(i) – Investment properties

	Completed £m	**Development £m**	**Total £m**
At 1 January 2015	3,181.0	223.9	3,404.9
Exchange movement	(20.3)	(4.9)	(25.2)
Property acquisitions	44.8	27.9	72.7
Additions to existing investment properties	317.4	212.4	529.8
Disposals	17.7	143.6	161.3
Transfers on completion of development	(248.3)	(20.3)	(268.6)
Transfers from trading properties	134.9	(134.9)	–
Transfers from owner occupied properties	29.3	2.5	31.8
Revaluation surplus during the year	407.4	32.4	439.8
At 31 December 2015	3,863.9	482.6	4,346.5
Add tenant lease incentives, letting fees and rental guarantees	77.5	–	77.5
Total investment properties	3,941.4	482.6	4,424.0
Total investment properties – continuing	3,655.3	462.8	4,118.1
Total investment properties – held for sale	286.1	19.8	305.9

	Completed £m	Development £m	Total £m
At 1 January 2016	**3,863.9**	**482.6**	**4,346.5**
Exchange movement	**90.5**	**30.9**	**121.4**
Property acquisitions	**82.0**	**172.2**	**254.2**
Additions to existing investment properties	**17.2**	**261.6**	**278.8**
Disposals	**(526.8)**	**(62.5)**	**(589.3)**
Transfers on completion of development	**349.8**	**(349.8)**	**–**
Revaluation surplus during the year	**168.6**	**62.7**	**231.3**
At 31 December 2016	**4,045.2**	**597.7**	**4,642.9**
Add tenant lease incentives, letting fees and rental guarantees	**71.5**	**–**	**71.5**
Total investment properties	**4,116.7**	**597.7**	**4,714.4**

Investment properties are stated at fair value as at 31 December 2016 based on external valuations performed by professionally qualified valuers. The Group's wholly-owned and joint venture property portfolio is valued by CBRE Ltd. In 2015 the valuation for the APP joint venture properties was performed by Jones Lang LaSalle Limited. 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 undertake some professional and agency work on behalf of the Group, although this is limited in relation to the activities of the Group as a whole. The firms advise us that the total fees paid by the Group represent less than 5 per cent of their total revenue in any year.

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

Trading properties of £nil (2015: £31.8 million) were transferred to investment properties in line with the accounting policy set out in Note 1.

Long-term leasehold values within investment properties amount to £34.1 million (2015: £34.6 million). All other properties are freehold.

Prepaid operating lease incentives at 31 December 2016 were £48.6 million (2015: £51.6 million).

12(ii) – Trading properties

	Completed £m	Development £m	Total £m
At 1 January 2015	51.1	26.6	77.7
Exchange movement	(3.1)	(1.4)	(4.5)
Additions	0.4	0.5	0.9
Disposals	(3.8)	–	(3.8)
Transfers to investment properties	(29.3)	(2.5)	(31.8)
Increase in provision for impairment during the year	(1.1)	(0.1)	(1.2)
At 31 December 2015	14.2	23.1	37.3
Add tenant lease incentives, letting fees and rental guarantees	0.3	–	0.3
Total trading properties	14.5	23.1	37.6

	Completed £m	Development £m	Total £m
At 1 January 2016	**14.2**	**23.1**	**37.3**
Exchange movement	**2.2**	**3.1**	**5.3**
Additions	**0.2**	**3.8**	**4.0**
Disposals	**(0.5)**	**(19.1)**	**(19.6)**
Increase in provision for impairment during the year	**(1.0)**	**(1.0)**	**(2.0)**
At 31 December 2016	**15.1**	**9.9**	**25.0**
Add tenant lease incentives, letting fees and rental guarantees	**0.4**	**–**	**0.4**
Total trading properties	**15.5**	**9.9**	**25.4**

Trading properties were externally valued, as detailed in Note 12(i), resulting in an increase in the provision for impairment of £2.0 million (2015: £1.2 million). Based on the fair value at 31 December 2016, the portfolio has an unrecognised surplus of £nil million (2015: £0.1 million).

13. NET BORROWINGS

	2016 £m	2015 £m
Secured borrowings:		
Euro mortgages (repayable in more than two years but less than five)	**3.9**	3.6
Total secured (on land, buildings and other assets)	**3.9**	3.6
Unsecured borrowings:		
Bonds		
5.5% bonds 2018	**199.6**	199.4
6.0% bonds 2019	**174.6**	173.6
5.625% bonds 2020	**248.8**	248.5
6.75% bonds 2021	**298.0**	297.7
7.0% bonds 2022	**149.4**	149.3
6.75% bonds 2024	**222.5**	222.2
5.75% bonds 2035	**198.3**	198.3
	1,491.2	1,489.0
Bank loans and overdrafts	**135.3**	330.3
Total unsecured	**1,626.5**	1,819.3
Total borrowings	**1,630.4**	1,822.9
Cash and cash equivalents	**(32.0)**	(16.4)
Net borrowings	**1,598.4**	1,806.5

The maturity profile of borrowings is as follows:

	2016 £m	2015 £m
In one year or less	**–**	–
In more than one year but less than two	**199.6**	103.2
In more than two years but less than five	**860.6**	852.2
In more than five years but less than ten	**371.9**	669.2
In more than ten years	**198.3**	198.3
In more than one year	**1,630.4**	1,822.9
Total borrowings	**1,630.4**	1,822.9
Cash and cash equivalents	**(32.0)**	(16.4)
Net borrowings	**1,598.4**	1,806.5

Maturity profile of undrawn borrowing facilities	2016 £m	2015 £m
In one year or less	**5.0**	5.0
In more than one year but less than two	**–**	102.9
In more than two years but less than five	**529.9**	110.0
Total available undrawn borrowing facilities	**534.9**	217.9

14. FINANCIAL INSTRUMENTS AND FAIR VALUES

Derivative assets

	2016 £m	2015 £m
Current		
Fair value of interest rate swaps – non-hedge	**11.1**	–
Fair value of forward foreign exchange and currency swap contracts – non-hedge	**1.5**	0.7
Total current derivative financial instruments	**12.6**	0.7
Non-current		
Fair value of interest rate swaps – non-hedge	**80.1**	80.8
Total non-current derivative financial instruments	**80.1**	80.8

Derivative liabilities

	2016 £m	2015 £m
Current		
Fair value of forward foreign exchange and currency swap contracts – non-hedge	**10.2**	7.2
Fair value of forward foreign exchange and currency swap contracts – hedge	**0.9**	17.4
Total current derivative financial instruments	**11.1**	24.6
Non-current		
Fair value of interest rate swaps – non-hedge	**14.7**	1.1
Total non-current derivative financial instruments	**14.7**	1.1

15. NOTES TO THE CASH FLOW STATEMENTS

15(i) – Reconciliation of cash generated from operations

	2016 £m	2015 £m
Operating profit	**498.7**	777.5
Adjustments for:		
Depreciation of property, plant and equipment	**3.1**	3.5
Share of profit from joint ventures after tax	**(85.1)**	(156.5)
Profit on sale of investment properties	**(16.4)**	(23.0)
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**0.2**	3.8
Revaluation surplus on investment and owner occupied properties	**(231.3)**	(439.8)
Profit on sale of available-for-sale investments	**–**	(6.6)
Pension past service credit and settlement costs	**(2.3)**	4.8
Pensions and other provisions	**(1.2)**	(16.0)
	165.7	147.7
Changes in working capital:		
Decrease in trading properties	**17.6**	3.5
Increase in debtors and tenant incentives	**(31.2)**	(21.6)
Increase/(decrease) in creditors	**4.6**	(5.7)
Net cash inflow generated from operations	**156.7**	123.9

15(ii) – Analysis of net debt

	At 1 January 2016 £m	Exchange movement £m	Cash flow £m	Non-cash Adjustments[1] £m	**At 31 December 2016 £m**
Bank loans and loan capital	1,837.0	28.8	(223.0)	–	**1,642.8**
Capitalised finance costs	(14.1)	–	(2.2)	3.9	**(12.4)**
Total borrowings	1,822.9	28.8	(225.2)	3.9	**1,630.4**
Cash in hand and at bank	(16.4)	(0.2)	(15.4)	–	**(32.0)**
Net debt	1,806.5	28.6	(240.6)	3.9	**1,598.4**

1 The non-cash adjustments relate to the amortisation of issue costs offset against borrowings and the cost of early close out of debt.

SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

Table 1: EPRA performance measures summary

		2016		2015	
	Notes	**£m**	**Pence per share**	£m	Pence per share
EPRA Earnings	Table 2	**152.6**	**19.7**	132.5	17.8
EPRA NAV	Table 3	**4,162.1**	**500**	3,453.4	463
EPRA NNNAV	11	**3,822.6**	**459**	3,195.9	428
EPRA net initial yield	Table 4		**4.8%**		5.0%
EPRA 'topped-up' net initial yield	Table 4		**5.3%**		5.5%
EPRA vacancy rate	Table 5		**5.7%**		4.8%
EPRA cost ratio (including vacant property costs)	Table 6		**23.0%**		23.9%
EPRA cost ratio (excluding vacant property costs)	Table 6		**20.8%**		22.2%

Table 2: Income Statement, proportionally consolidated

		2016			2015		
	Notes	**Group £m**	**Joint ventures £m**	**Total £m**	Group £m	Joint ventures £m	Total £m
Gross rental income	2,6	**225.5**	**82.7**	**308.2**	210.7	73.2	283.9
Property operating expenses	2,6	**(44.9)**	**(12.6)**	**(57.5)**	(37.7)	(13.5)	(51.2)
Net rental income		**180.6**	**70.1**	**250.7**	173.0	59.7	232.7
Joint venture management fee income	2	**18.6**	**–**	**18.6**	17.0	–	17.0
Administration expenses	2,6	**(31.4)**	**(0.8)**	**(32.2)**	(28.5)	(1.1)	(29.6)
Pension settlement costs		**–**	**–**	**–**	(4.8)	–	(4.8)
Operating profit before interest and tax		**167.8**	**69.3**	**237.1**	156.7	58.6	215.3
Net finance costs (including adjustments)	2,6	**(68.7)**	**(12.2)**	**(80.9)**	(67.3)	(13.3)	(80.6)
Profit before tax		**99.1**	**57.1**	**156.2**	89.4	45.3	134.7
Tax on EPRA earnings	2,6	**(1.8)**	**(1.7)**	**(3.5)**	(1.3)	(0.9)	(2.2)
EPRA earnings		**97.3**	**55.4**	**152.7**	88.1	44.4	132.5
Less: non-controlling interest on EPRA earnings	2	**(0.1)**	**–**	**(0.1)**	–	–	–
EPRA earnings after non-controlling interest		**97.2**	**55.4**	**152.6**	88.1	44.4	132.5
Number of shares, million	11			**774.3**			744.4
EPRA EPS, pence per share - basic				**19.7**			17.8
Number of shares	11			**778.7**			774.5
EPRA EPS, pence per share – diluted				**19.6**			17.8
Company adjustment:							
Exclude pension settlement costs	2			**–**	4.8	–	4.8
Adjusted profit after tax	11	**97.2**	**55.4**	**152.6**	92.9	44.4	137.3
Number of shares, million	11			**774.3**			744.4
Adjusted EPS, pence per share	11			**19.7**			18.4

Table 3: Balance Sheet, proportionally consolidated

	Notes	2016 Group £m	2016 Joint ventures £m	2016 Total £m	2015 Group £m	2015 Joint ventures £m	2015 Total £m
Investment properties	12,6	**4,714.4**	**1,605.0**	**6,319.4**	4,424.0	1,303.5	5,727.5
Trading properties	12,6	**25.4**	**0.6**	**26.0**	37.6	5.8	43.4
Total properties		**4,739.8**	**1,605.6**	**6,345.4**	4,461.6	1,309.3	5,770.9
Investment in joint ventures	6	**1,066.2**	**(1,066.2)**	**–**	867.3	(867.3)	–
Other net assets/(liabilities)		**(25.5)**	**(46.8)**	**(72.3)**	(32.5)	(55.3)	(87.8)
Net borrowings	13,6	**(1,598.4)**	**(492.6)**	**(2,091.0)**	(1,806.5)	(386.7)	(2,193.2)
Total shareholders' equity[1]		**4,182.1**	**–**	**4,182.1**	3,489.9	–	3,489.9
EPRA adjustments				**(20.0)**			(36.5)
EPRA NAV	11			**4,162.1**			3,453.4
Number of shares, million	11			**833.2**			746.3
EPRA NAV, pence per share	11			**500**			463

1 After non-controlling interests.

2 Loan to value of 33% is calculated as net borrowings of £2,091.0 million divided by total properties £6,345.4 million (2015: 38%: net borrowings: £2,193.2 million; £5,770.9 million total properties).

Table 4: EPRA net initial yield and 'topped-up' net initial yield

Combined property portfolio including joint ventures at share 31 December 2016		**UK £m**	**Continental Europe £m**	**Total £m**
Total properties per financial statements		**4,317.4**	**2,028.0**	**6,345.4**
Add valuation surplus not recognised on trading properties[1]		–	–	–
Combined property portfolio per external valuers' reports		**4,317.4**	**2,028.0**	**6,635.4**
Less development properties (investment, trading and joint ventures)		(337.3)	(341.9)	(679.2)
Net valuation of completed properties		**3,980.1**	**1,686.1**	**5,666.2**
Add notional purchasers' costs		268.3	84.2	352.5
Gross valuation of completed properties including notional purchasers' costs	A	**4,248.4**	**1,770.3**	**6,018.7**
Income		**£m**	**£m**	**£m**
Gross passing rent[2]		182.5	112.9	295.4
Less irrecoverable property costs		(2.9)	(5.3)	(8.2)
Net passing rent	B	**179.6**	**107.6**	**287.2**
Adjustment for notional rent in respect of rent frees		22.0	9.7	31.7
Topped up net rent	C	**201.6**	**117.3**	**318.9**
Including fixed/minimum uplifts[3]		8.5	0.7	9.2
Total topped up net rent		**210.1**	**118.0**	**328.1**
Yields – 2016		**%**	**%**	**%**
EPRA net initial yield	B/A	4.2	6.1	4.8
EPRA topped up net yield	C/A	4.7	6.6	5.3
Net true equivalent yield		5.6	6.6	5.9

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

Table 5: EPRA vacancy rate

	2016 £m	2015 £m
Annualised potential rental value of vacant premises	**20.3**	15.9
Annualised potential rental value for the completed property portfolio	**354.0**	328.2
EPRA vacancy rate	**5.7%**	4.8%

Table 6: EPRA cost ratio/Total cost ratio

	Notes	**2016 £m**	2015 £m
Costs			
Property operating expenses[1]	5	**44.9**	37.7
Administration expenses		**31.4**	28.5
Pension settlement costs	2	**–**	4.8
Share of joint venture property operating and administration expenses[2]	6	**13.1**	11.4
Less:			
Joint venture property management fee income and management fees[5]		**(18.9)**	(14.8)
Total costs (A)		**70.5**	67.6
Group vacant property costs		**(5.6)**	(3.4)
Share of joint venture vacant property costs		**(1.1)**	(1.3)
Total costs excluding vacant property costs (B)		**63.8**	62.9
Gross rental income			
Gross rental income	4	**225.5**	210.7
Less management fees[5]	4	**(1.2)**	(1.0)
Share of joint venture property gross rental income	6	**82.7**	73.2
Total gross rental income (C)		**307.0**	282.9
Total EPRA cost ratio (including vacant property costs) (A)/(C)		**23.0%**	23.9%
Total EPRA cost ratio (excluding vacant property costs) (B)/(C)		**20.8%**	22.2%
Total costs (A)		**70.5**	67.6
Pension settlement costs	2	**–**	(4.8)
Total costs after non-EPRA adjustments (D)		**70.5**	62.8
Total cost ratio[3] (including vacant property costs) (D)/(C)		**23.0%**	22.2%
Total costs after non-EPRA adjustments (D)		**70.5**	62.8
Share based payments		**(6.1)**	(2.3)
Total costs after non-EPRA adjustments and share based payments (E)		**64.4**	60.5
Total cost ratio after non-EPRA adjustments and share based payments (E)/(C)[4]		**21.0%**	21.4%

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £3.6 million (FY15: £2.7 million) (see Note 5 for further detail on the nature of costs capitalised).
2 Share of joint venture property operating and administration expenses after deducting costs related to performance and other fees.
3 Adjusted for pension settlement costs in 2015.
4 Adjusted for pension settlement costs and share based payments.
5 Includes joint venture management fees income of £17.7 million (2015: £13.8 million) and, furthermore, management fees of £1.2 million (2015: £1.0 million) which have been represented as an offset against costs rather than a component of income in accordance with EPRA BPR Guidelines as they are reimbursing the Group for costs incurred. As a result the 2015 comparative cost ratio shown above has reduced by 0.3% accordingly.

Table 7: EPRA capital expenditure analysis

	2016			2015		
	Wholly-owned £m	**Joint ventures £m**	**Total £m**	Wholly-owned £m	Joint ventures £m	Total £m
Acquisitions	**254.2[1]**	**105.1**	**359.3**	602.5[1]	72.8	675.3
Development[4]	**265.4[2]**	**36.2**	**301.6**	144.1[2]	20.3	164.4
Completed properties[4]	**17.4[3]**	**4.6**	**22.0**	18.1[3]	6.9	25.0
Other[5]	**19.8**	**6.8**	**26.6**	13.4	3.9	17.3
Total	**556.8**	**152.7**	**709.5**	778.1	103.9	882.0

1 Being £254.2 million investment property and £nil trading property (2015: £602.5 million and £nil respectively) see Note 12.

2 Being £261.6 million investment property and £3.8 million trading property (2015: £143.6 million and £0.5 million respectively) see Note 12.

3 Being £17.2 million investment property and £0.2 million trading property (2015: £17.7 million and £0.4 million respectively) see Note 12.

4 Includes wholly-owned capitalised interest of £5.0 million (2015: £2.9 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.8 million (2015: £0.1 million).

5 Tenant incentives, letting fees and rental guarantees.

GLOSSARY OF TERMS

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

Completed portfolio: The completed investment and trading properties (including properties held throughout the period, acquisitions during the period and developments completed during the period), including the Group's share of joint ventures' completed investment and trading properties.

Current development pipeline: The Group's current programme of developments authorised or in the course of construction at the Balance Sheet date.

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

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

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

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

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

Headline rent: Passing rent once rent-free periods have expired.

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

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

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

Loan to value (LTV): Net borrowings divided by the carrying value of total property assets (investment, owner occupied, trading properties and, at 31 December 2015, includes the Bath Road office portfolio categorised as Assets held for sale in the balance sheet). This is reported on a 'look-through' basis (including joint ventures at share).

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

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

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

Net true equivalent yield: 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 completion of a development.

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

Rent roll: See Passing Rent.

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

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

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

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

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.