

19 February 2021

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Strong financial results - business well positioned to deliver continued earnings and dividend growth.

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

“SEGRO delivered another strong set of financial results in 2020, with record lettings driven by our customer focus and the increasing demand for prime industrial properties from a wide occupier base.

“The pandemic has reinforced the importance of efficient and resilient distribution networks to facilitate the provision of a wide variety of goods and services, leading to increased demand for warehouse space. 2020 saw a record level of investment for SEGRO as we seek to capitalise on these favourable trends, giving us confidence in our ability to drive further growth in rental income, earnings and dividends over the coming years.

“We have also reviewed, challenged and refreshed our approach to sustainability. Today we are re-launching our Responsible SEGRO framework, with three long-term priorities that outline our commitment to society and position us to truly deliver on our Purpose of ‘creating the space that enables extraordinary things to happen’.”

HIGHLIGHTS^A:

- **Adjusted pre-tax profit of £296.5 million up 10.8 per cent compared with the prior year (2019: £267.5 million).** Adjusted EPS is 25.4 pence (2019: 24.4 pence).
- **Adjusted NAV per share is up 16.3 per cent to 814 pence** (2019: 700 pence) mainly due to a 10.3 per cent increase in the valuation of the portfolio driven by asset management, our development activity and yield compression.
- **A record leasing and asset management performance with £77.9 million of new headline rent in 2020**, including £41.1 million of new pre-let agreements.
- **Net capital investment of £1.3 billion** through key strategic asset acquisitions, development projects and land purchases.
- **Near-term earnings prospects underpinned by 1.2 million sq m of development projects under construction or in advanced pre-let discussions** equating to £81 million of potential rent, of which 75 per cent has been pre-let, substantially de-risking the 2021 pipeline.
- **Over £1 billion of new equity and debt financing**, helping to strengthen the balance sheet for further, development-led growth. **LTV of 24 per cent** at 31 December 2020.
- **2020 full year dividend increased by 6.8 per cent to 22.1 pence** (2019: 20.7 pence). Final dividend increased by 5.6 per cent to 15.2 pence (2019: 14.4 pence).

RE-LAUNCHING OUR RESPONSIBLE SEGRO FRAMEWORK: NEW FOCUS AREAS AND MORE AMBITIOUS GOALS

Today we also re-launch our Responsible SEGRO framework with three new long-term focus areas where we believe we can make the greatest business, environmental and social impact and where we are setting challenging and ambitious goals.

- **We will Champion low-carbon growth and will be net-carbon neutral by 2030** driven by changes in our development activity and the operation of our existing buildings.
- **We will Invest in our local communities and environments** through the creation and implementation of Community Investment Plans for every key market in our portfolio. These will focus on supporting local business and economies, the development of training and employment opportunities and enhancing the local environment.
- **We will Nurture talent** and will provide a healthy and supportive working environment, develop fulfilling and rewarding careers, foster an inclusive culture and build a more diverse workforce.

FINANCIAL SUMMARY

Income statement metrics	2020	2019	Change per cent
Adjusted ¹ profit before tax (£m)	296.5	267.5	10.8
IFRS profit before tax (£m)	1,464.1	902.0	62.3
Adjusted ² earnings per share (pence)	25.4	24.4	4.1
IFRS earnings per share (pence)	124.1	79.3	56.5
Dividend per share (pence)	22.1	20.7	6.8

Balance sheet metrics	31 December 2020	31 December 2019	Change per cent
Portfolio valuation (SEGRO share, £m)	12,995	10,251	10.3 ³
Adjusted ^{4 5} net asset value per share (pence, diluted)	814	700	16.3
IFRS net asset value per share (pence, diluted)	809	697	16.1
Net debt (SEGRO share, £m)	2,325	1,811	–
Loan to value ratio including joint ventures at share (per cent)	24	24	–

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

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

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

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

5. Adjusted net asset value is in line with EPRA Net Tangible Assets (NTA) which was introduced for accounting periods starting from 1 January 2020 (see Table 5 in the Supplementary Notes for a NAV reconciliation). The 31 December 2019 adjusted net asset value has been restated to align with the definition of EPRA NTA. Calculations for EPRA performance measures are shown in the Supplementary Notes to the condensed financial information.

^A Figures quoted on pages 1 to 19 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 AND OPERATING HIGHLIGHTS

Strong valuation gains driven by rental value growth, development gains, yield compression and active asset management of the standing portfolio.

- **Portfolio capital valuation surplus of 10.3 per cent** driven by a 9.2 per cent increase in the like-for-like value of our UK portfolio (2019: 2.5 per cent) and 10.2 per cent in Continental Europe (2019: 13.5 per cent).
- **2.5 per cent rental value growth across the portfolio** (UK: 3.1 per cent, Continental Europe: 1.5 per cent)

Portfolio benefiting from increased customer demand for modern warehouse space whilst proving resilient to the impacts of the pandemic.

- **18.3 per cent increase in annualised new rent commitments during the period to £77.9 million (2019: £65.8 million)**, of which £41.1 million (2019: £33.2 million) is from new development.
- **2.1 per cent like-for-like net rental income growth** (0.9 per cent in the UK, 4.3 per cent in Continental Europe) aided by an average 19.1 per cent uplift on rent reviews and renewals. The UK figures include the significant impact of the final lease re-gear at the Heathrow Cargo Centre.
- **Vacancy rate remains low at 3.9 per cent** (31 December 2019: 4.0 per cent) and customer retention high at 86 per cent (2019: 88 per cent), due to increased demand for space in our high-quality, well located portfolio and focus on excellent customer service inherent within our platform.

Growing the rent roll through the active development pipeline with significant additions to the land bank securing opportunities for further growth.

- **835,900 sq m of development completions during 2020**, potentially adding £47 million of rent, of which £39 million has been secured. We are targeting BREEAM 'Excellent' or 'Very Good' (or local equivalent) on 93 per cent of the eligible completions.
- **£54 million of potential rent from current development pipeline, 66 per cent of which has been secured.** A further £27 million of potential rent from 'near-term' pre-let projects which are in advanced stages of negotiation.
- **£286 million added to our land bank during the period** across key markets.

£1.3 billion of net investment to position the business to respond to the acceleration of structural drivers.

- **£603 million of asset acquisitions in key strategic markets** as well as £817 million invested in development capex, infrastructure and land. Partially offset by £139 million of asset and land sales.
- **Development capex for 2021, including infrastructure, expected to exceed £700 million.**

Strong balance sheet provides significant capacity to invest for future growth.

- **SEGRO continues to be appropriately and efficiently financed.** The average cost of debt remains attractive at 1.6 per cent (2019: 1.7 per cent), with long average debt maturity of 9.9 years (2019: 10.0 years) and low look-through LTV ratio of 24 per cent (31 December 2019: 24 per cent).
- **Equity placing of £680 million** completed in June 2020 and **issuance of €450 million US Private Placement notes** ensures the balance sheet is positioned for further development-led growth.
- **SEGRO has £1.2 billion of cash and available facilities at its disposal.**

WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

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

<https://edge.media-server.com/mmc/p/f45hvpvp>

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

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

Dial-in: +44 (0)2071 928 338
Access code: 2663737

An audio recording of the conference call will be available until 26 February 2021 on:

UK & International: +44 (0) 3333 009785
Access code: 2663737

A video of David Sleath, Chief Executive and Soumen Das, Chief Financial Officer discussing the results will be available to view on www.segro.com, together with this announcement, the Full Year 2020 Property Analysis Report and other information about SEGRO.

CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

SEGRO	Soumen Das (Chief Financial Officer)	Mob: +44 (0) 7771 773 134 Tel: + 44 (0) 20 7451 9110 (after 11am)
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FINANCIAL CALENDAR

2020 final dividend ex-div date	18 March 2021
2020 final dividend record date	19 March 2021
2020 final dividend scrip dividend price announced	25 March 2021
2020 final dividend payment date	4 May 2021
2021 First Quarter Trading Update	22 April 2021
Half Year 2021 Results (provisional)	29 July 2021

ABOUT SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), listed on the London Stock Exchange and Euronext Paris, and is a leading owner, manager and developer of modern warehouses and industrial property. It owns or manages 8.8 million square metres of space (95 million square feet) valued at £15.3 billion serving customers from a wide range of industry sectors. Its properties are located in and around major cities and at key transportation hubs in the UK and in seven other European countries.

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

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 performance, 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 you are cautioned not to place undue reliance on the forward-looking statements. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The information contained in this announcement is provided as at the date of this announcement and is subject to change without notice. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), SEGRO does not undertake to update forward-looking statements, including to reflect any new information or changes in events, conditions or circumstances on which any such statement is based. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit estimate or profit forecast. The information in this announcement does not constitute an offer to sell or an invitation to buy securities in SEGRO plc or an invitation or inducement to engage in or enter into any contract or commitment or other investment activities.

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

CHIEF EXECUTIVE'S REVIEW

Our business is driven by a clear purpose 'to create the space that enables extraordinary things to happen' and 2020 has certainly been a year of the extraordinary. We started the year confident in the outlook for our business, believing that our prime portfolio of modern industrial properties in key strategic markets and our pan-European platform would continue to perform well. At the same time we were looking forward to celebrating our Centenary year.

The onset of the Covid-19 pandemic caused widespread disruption and brought with it much uncertainty in the early months of 2020 but, despite all of this, our business has proved to be strong and resilient. We have been pleased to be able to use this relative strength to support those stakeholders who needed it most, from the customers to whom we've been able to offer targeted support, to our local communities who we were able to help through the launch of our £10 million Centenary Fund.

The pandemic has highlighted the importance of modern, efficient, resilient logistics supply chains and has also accelerated the digitalisation of our economies, most notably through e-commerce. This has resulted in increased occupier and investor demand for our asset class and has helped to drive another year of strong financial and operational performance by SEGRO.

Looking back on 2020, the main highlights included:

- The professionalism shown by all of our people in the keeping the business running as everyone at SEGRO adapted to the new working from home environment.
- Being able to offer additional support to our customers and other stakeholders through these challenging times and particularly bringing forward the launch of our £10 million Centenary Fund. We dedicated the first year's funding to support those in our local communities most negatively impacted by the pandemic.
- A record performance in securing new rents, aided by the strength of our customer relationships. £77.9 million (2019: £65.8 million) was signed in the period, including £41.1 million (2019: £33.2 million) of rent from new pre-lets.
- Continued growth of our portfolio with the addition of prime, sustainable warehouses through our development programme. Despite the disruption caused by the pandemic we completed 835,900 sq m of space, just short of our 2019 record (2019: 871,800 sq m). When fully occupied this space will generate £47 million of new income and it was 84 per cent let at 31 December 2020. We are targeting BREEAM 'Very Good' or 'Excellent' (or local equivalent) for 93 per cent of the eligible development completions.
- Acquisitions of urban warehouse parks in prime locations such as London and Paris, adding further space with the potential to generate attractive returns through our platform's active asset management and development capabilities.
- Successful pilots of Smart technology and photo-voltaic panels on assets across Europe, helping us to develop our strategy in these areas to help with our aim of being net carbon zero by 2030.
- Securing over £1 billion of new funding which has given us the capacity to continue to add to our development pipeline and help us to grow our rental income organically.

This activity has been reflected in significant growth across the board in all of our key operating metrics and our balance sheet remains in good shape and is positioned to support further growth.

The combination of a strong set of financial results in 2020 and our confident outlook for 2021 and beyond means that we are recommending a 5.6 per cent increase in final dividend to 15.2 pence per share, resulting in a total distribution of 22.1 pence for 2020 as a whole (2019: 20.7 pence).

I will now turn to focus on some of the key themes that have emerged in 2020, to provide you with a deeper understanding of how we think about our business today, what it might look like tomorrow and how we intend to continue to 'create the space that enables extraordinary things to happen'.

LONGER TERM IMPACTS OF COVID-19

The Covid-19 pandemic has had a profound impact on all of our lives and it will likely change the way that our world functions. The Board and I would first like to thank all of our colleagues at SEGRO for the dedication and commitment that they have shown throughout this very difficult period. The fact that our business has come through such an event so well is a real testament to all of the hard work that has been done this year and in the past decade to anticipate and respond to our customers' needs.

Positioning our portfolio to benefit from the structural changes to society which have been driving demand for our asset class has been a key part of our strategy for a number of years, and in 2020 we have seen an acceleration of these trends.

The increase in e-commerce penetration has been much talked about and there has been some debate over where it will settle once the pandemic has passed. We believe there has been a step-change in consumer behaviour. Some of the factors that were considered as barriers to increased levels of online sales penetration (for example concerns about the quality of food bought online and reluctance to share financial information over the internet) have been overcome and habits have potentially changed irrevocably. Our customers certainly do not expect there to be a significant retreat and are already preparing to adapt their businesses to respond to levels of online sales that are well ahead of previous expectations.

Whilst the pandemic may change the way that cities such as London, Paris and Berlin operate, we continue to believe that they will act as centres of commerce, innovation and culture and, in our opinion, that they will continue to attract people to work, live and 'play'. The nature of our urban warehouses, being mostly located inside or on the edges of cities, also means that they attract businesses servicing the commuter belt and beyond. For example, our Heathrow portfolio has for some time been used to provide goods and services for those living in the surrounding area and outside the M25 as well as to service the airport.

Finally, we expect that localisation and the renewed focus on supply chain resilience will also contribute to occupier demand over the coming years.

We expect these trends to benefit our entire business in the years ahead. In the UK we have been seeing their effects for a number of years as e-commerce has taken off and our customers have modernised their supply chains and distribution networks to respond to it. On the Continent however, our customers are much less advanced in this journey and e-commerce has been lagging in the UK. The pandemic has accelerated the need for them to make these changes. We see this as a significant opportunity going forward and are well-placed to respond to it with our strong operating platform across France, Germany, Italy, Spain, Poland, the Netherlands and the Czech Republic.

The pandemic has also impacted the way that we will run our business going forwards. One of the most significant changes is that it is now very clear that our people do not need to be based in an office five days a week to do their jobs efficiently.

Although there are obvious benefits to an office work environment in terms of ease of communication and collaboration, as well as supporting company culture, there are also times when it is more appropriate to work quietly at home. We have always enabled flexible working, which allowed us to transition from office working to home working quickly and seamlessly and we have now formally introduced a company-wide Agile Working Policy that gives our employees the autonomy to decide where they work. This change has the potential to enhance everyone's quality of life and also provides greater flexibility that should help us to increase diversity in our business and ensure that we continue to retain talent.

One thing that the pandemic has not changed, and in fact has reiterated, is the importance of our close relationships with our customers, our suppliers, our investors, our communities and other business partners and we continue to place the utmost importance on developing and growing these partnerships.

NEW RESPONSIBLE SEGRO TARGETS

'ESG', 'Purpose', 'Culture' and other similar terms have all become more common words in the past couple of years, and rightly so. Good businesses need to recognise that their actions are far reaching, and in order to drive sustainable growth, the considerations of wider stakeholders need to be taken into account when making decisions that may impact them.

However, this is not something that is new to SEGRO. Throughout the 100 years that we have been operating as a company we have had a rich history of making a positive contribution to the society around us. It is also something that will be just as important to us for the 100 years to come. We have always prided ourselves on being a company that people want to work for and with, which is reflected in our goal of being the partner 'of choice' for our people, our customers, our suppliers, our investors and all of our other stakeholders. We believe that this will enable us to create long-term economic and social value.

What is new to us is talking about it and measuring it – a genuine culture is something intangible; something that is embedded within an organisation. It is integral to the way a business operates day-to-day and guides our actions and decisions.

Trying to capture it and write it down in black and white can be challenging, but we recognise that there is a growing interest from our various audiences to understand how and why we do business using more than purely financial and quantitative means. In recognition of this we have, for the first time, integrated our wider stakeholder considerations into the main body of the 2020 Annual Report & Accounts, reflecting the way that we run our business and make decisions.

We also launch alongside our Full Year 2020 results our new Responsible SEGRO focus areas and targets, which address the key areas where we believe that we can make the greatest business, environmental and social contribution, and will also help to position SEGRO for another 100 years of success.

Our three priorities are:

- Championing low-carbon growth – we recognise the world faces a climate emergency and are committed to playing our part in tackling climate change.
- Investing in our local communities and environments – as a long-term investor we are committed to contributing to the vitality of the communities in which we operate.
- Nurturing talent – our people are vital to and inseparable from our success and we are committed to attracting, creating and retaining talented individuals from diverse backgrounds.

Within each area we have also set ambitious new targets, including being net carbon zero by 2030. We have thought long and hard about these goals, wanting to make sure that, as with everything else we do as a business, they are authentic and really challenge us to make a tangible impact.

What is also important to note in respect of these targets is that, for us at least, it's how we get there that matters as much as the end goal itself. For example, we cannot completely eliminate carbon from our buildings as physical assets inherently produce carbon, but we intend to reduce those carbon emissions as much as is physically possible through our own actions before we will consider offsetting.

This framework is a further stepping-stone in a long journey and we look forward to sharing more of it with you as we travel through it, learning from and adapting to the inevitable twists and turns ahead.

POSITIONING OUR BUSINESS FOR SUSTAINABLE LONG-TERM PERFORMANCE

The world around us is changing at a great pace and we are in continuous dialogue with our customers as we strive to understand and prepare to meet the longer-term trends within our industry. By doing this we are able to ensure that our portfolio continues to meet the needs of, and play an integral part in, our customers' operations and that our business remains relevant.

We have embedded a culture of continuous improvement within SEGRO and are constantly questioning how and why we do things while pushing ourselves to do better – this is reflected in some of our values such as 'does it make the boat go faster?' and 'if the door is closed'.

This means we are constantly refining not just our existing portfolio but also how we design, plan and build our assets, with sustainability and technology at the heart of our thinking.

The creation of our Strategy, Innovation and Investment team at the start of 2020 was an important part of this process, reflecting our belief that we should consider investments in data and technology in the same way that we consider investments in physical assets.

The industry within which we operate offers significant opportunities to make changes that not only help improve inefficiencies, but also help us make better and more informed decisions.

Key to this is the use of data and analytics – just as data centres are becoming a more significant part of our portfolio, so the use of data itself is becoming a more important part of the way that we do business. We are excited about the opportunities we believe it will present once we are able to fully capture and understand this data and its potential.

Over the course of 2020 we worked on a number of exciting projects which we hope will improve the way we do business, enhance the way our buildings are used and reduce their impact on the environment, while positioning our business for sustainable long term success.

OUTLOOK

We remain confident in the outlook for our business, its resilience and its ability to deliver growth.

We believe that the already prevalent structural drivers, which have been accelerated by the pandemic, will continue to drive both occupier and investor demand for our prime portfolio of modern industrial properties for the foreseeable future. However, we remain alert to potential macroeconomic headwinds such as the ongoing Covid-19 pandemic as well as the departure of the UK from the European Union.

Market rental growth has continued, driven by increased occupier demand and a shortage of modern warehouse space, particularly in our urban markets.

Our development pipeline continues to expand, allowing us to both modernise our portfolio and generate additional rental income, enhanced by the rental growth from the active asset management of our existing estate. Whilst structural trends continue to drive occupier demand we expect to be able to develop to both meet this elevated level of requirements and maintain our approach of de-risking the majority of our pipeline through pre-leasing.

We continue to keep one eye on the horizon, staying close to our customers so that we can anticipate their changing needs and adapt our portfolio to meet them. We are also very aware of our wider responsibility to society and believe that our new Responsible SEGRO targets will position us to make a material difference to the areas in which we can make the most impact and help us to truly create the space which enables extraordinary things to happen... for our people, our customers, our communities, our investors and our many other stakeholders.

A STRATEGY TO GENERATE ATTRACTIVE, SUSTAINABLE RETURNS

Our goal is to be the leading owner-manager and developer of industrial properties in Europe and the partner of choice for our customers and other stakeholders.

While our business model describes what we do as a company, our strategy describes how we do it.

Our strategy operates within the context of our Purpose, our culture, our Business Model and our Responsible SEGRO approach to doing business, with all of these factors influencing both how we operate on a day-to-day basis and also when making key strategic decisions on how to position our business for the future.

This ensures not only that we manage risk appropriately but it also means that the decisions that we make take into account the interests of all relevant parties. It is this that allows us to 'create the space that enables extraordinary things to happen' and also ensures that SEGRO is positioned to do so over the longer term.

At the heart of it are the relationships that we build with our customers, helped by the fact that we manage the majority of our portfolio internally and therefore really get to know their businesses. The insights that we gain from the partnerships that we build with our customers help us to anticipate longer term trends and make strategic decisions that shape our portfolio and ensure the continued success of our business.

Our goal is to be the leading owner-manager and developer of industrial properties in Europe and the partner 'of choice' for our customers and other stakeholders. The use of the words 'of choice' reflects that we recognise that our customers, employees and other partners have the option to choose whether they work with SEGRO so we need to continuously improve and adapt to stay relevant and ensure that they choose to work with us not only today but also in the future.

On a property level our goal reflects our ambition to create a portfolio of high-quality industrial properties in the strongest markets – a portfolio that generates attractive, low risk, income-led returns while providing above average growth (both in terms of rent and capital values) when market conditions are positive, and that proves to be 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 the returns that we seek:

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

The combination of these elements should translate into sustainable, attractive returns for our shareholders in the form of progressive dividends and net asset value growth over time. This is in addition to all of the other value that is created in the process of managing and building our portfolio.

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 vacancy rate and relatively low-intensity asset management requirements. Our assets are concentrated in the strongest European submarkets which display attractive property market characteristics, including good growth prospects, limited supply availability and where we already have critical mass, or believe we will be able to achieve it in a reasonable timeframe.

DELIVERING ON OUR STRATEGY IN 2020

We have continued to follow our strategy during 2020 which has been a significant contributor to the continued performance of our business during very challenging times.

OPERATIONAL EXCELLENCE

We have a well-established operating platform that strives for operational excellence, both in the approach that we take to managing our existing portfolio as well as in the execution of our development pipeline.

We pride ourselves on the strength of our customer relationships and these have been built as a result of the excellent customer service that our property and asset management teams provide. This has been extremely important throughout the Covid-19 pandemic and has meant that we have been able to help our customers respond to the various challenges that they have faced and it also helped us to quickly understand the level of risk within our portfolio.

Our long-standing focus on the active asset management of our portfolio meant that we went into the crisis in good shape in terms of low vacancy rates and strong customer covenants. As a result of this the pandemic has had very little impact on our portfolio and we have been able to continue to grow the rent roll in 2020 helped by a record lettings performance, as well as the re-gear of leases and the capture some of the reversionary potential that has built up over recent years.

Operational Excellence was also important in keeping our development pipeline on track in 2020 and our strong working relationships with our contractors meant that we were able to catch up on delays caused by the lockdown without compromising on safety measures and all of the projects that were due to complete during the year have done so, with some even finishing ahead of schedule.

DISCIPLINED APPROACH TO CAPITAL ALLOCATION

Over recent years we have focused more of our investment into our development pipeline, as we see better returns from this than investing our capital in completed assets.

This continued in 2020 and we once again increased our spend on development capex and made some significant land acquisitions, helping us to replenish the land bank and ensure that we can continue to grow our business.

We did, however, also identify opportunities to acquire some attractive assets in 2020 and as a result have been more active in the investment markets than in recent years.

This included the purchase of two urban warehouse estates in London and another in Paris that we believe offer attractive long-term returns. All three assets complement our existing portfolio and provide us with a great opportunity to offer our customers a wider range of choice in these supply constrained markets.

We have continued with the annual review of our portfolio to identify assets where we believe have maximised our returns and to dispose of these when the opportunity arises. As a result of this we disposed of our remaining assets and land in Austria as well as making some other stand alone disposals with the proceeds recycled into our future investment.

EFFICIENT CAPITAL AND CORPORATE STRUCTURE

In a year where we have invested over £1.4 billion in the growth of our business we have also needed to take steps to maintain our Efficient Capital and Corporate Structure.

We aim to balance operational and financial risk by keeping the loan to value ratio ('LTV') low, making sure that should the property cycle turn we can absorb lower valuations and also giving us the capacity to take advantage of any resulting investment opportunities. In 2020 this resulted in us raising £680 million of new equity and €450 million of US Private Placement debt. Our LTV at 31 December 2020 was 24 per cent.

In order for us to protect the efficiency of our corporate structure we also launched a Secondary Listing on Euronext Paris in November 2020 to ensure that we maintained a listing within the European Union once the UK left following the end of the Brexit transition period on 31 December 2020.

STRONG PORTFOLIO GROWTH – VALUATION UPDATE

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

Warehouse property values across Europe increased throughout the year with the UK, France and Germany seeing the strongest growth. Investment volumes continued to be healthy, with the UK hitting record levels and Continental Europe almost level with 2019 figures. Both investor and occupier demand for the asset class remained strong.

The Group's property portfolio was valued at £13.0 billion at 31 December 2020 (£15.3 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, increased by 10.3 per cent on a like-for-like basis (adjusting for capital expenditure and asset recycling during the year) compared to 7.5 per cent in 2019.

This primarily comprises a 9.5 per cent increase in the assets held throughout the year (2019: 5.8 per cent), driven by strong yield compression in most markets (30 basis points across the whole portfolio) and a 2.5 per cent increase in our valuer's estimate of the market rental value of our portfolio (ERV). In total, our portfolio generated a total property return of 14.6 per cent (2019: 10.5 per cent).

Assets held throughout the year in the UK increased in value by 9.2 per cent (2019: 2.5 per cent), outperforming the MSCI Real Estate UK All Industrial Quarterly 2020 index which increased by 4.6 per cent. The performance was due to yield compression and the continued capture of reversionary potential in lease reviews and renewals, particularly in London. The true equivalent yield applied to our UK portfolio was 4.3 per cent, 30 basis points lower than at 31 December 2019 (4.6 per cent) reflecting yield compression, the acquisition of some low yielding assets, rental growth and the impact of newly completed developments. Rental values improved by 3.1 per cent (2019: 2.6 per cent).

Assets held throughout the year in Continental Europe increased in value by 10.2 per cent (2019: 13.5 per cent) on a constant currency basis, reflecting a combination of yield compression to 4.8 per cent (31 December 2019: 5.2 per cent) and rental value growth of 1.5 per cent (2018: 0.7 per cent).

More details of our property portfolio can be found in the 2020 Property Analysis Report available at www.segro.com/investors.

Valuations: What to expect in 2021

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

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

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

Property portfolio metrics at 31 December 2020¹

	Portfolio value, £m					Yield ³			
	Lettable area sq m (AUM)	Completed	Land & development	Combined property portfolio	Combined property portfolio (AUM)	Valuation movement ^{2 3} %	Topped -up net initial %	Net true equivalent %	Vacancy (ERV) ⁴ %
UK									
Greater London	1,215,206	4,727.0	140.9	4,867.9	4,867.9	10.0	3.5	4.0	5.2
Thames Valley	572,300	1,856.3	140.4	1,966.7	1,996.7	6.8	4.2	4.7	3.0
National Logistics	546,252	831.5	391.8	1,223.3	1,223.3	10.2	5.0	4.6	-
UK Total	2,333,758	7,414.8	673.1	8,087.9	8,087.9	9.2	3.8	4.3	4.0
Continental Europe									
Germany	1,499,481	1,277.1	100.6	1,377.7	2,090.9	18.1	3.9	4.1	4.0
Netherlands	219,897	140.0	21.9	161.9	306.1	4.7	4.0	4.7	14.4
France	1,466,481	1,378.8	136.5	1,515.3	1,969.9	9.8	4.5	4.9	4.3
Italy	1,311,999	755.0	151.1	906.1	1,268.5	5.7	4.9	4.8	-
Spain	311,056	199.4	60.9	260.3	398.3	9.4	4.8	4.8	-
Poland	1,453,583	564.2	33.2	597.4	1,050.5	2.1	6.3	6.0	5.2
Czech Republic	169,515	77.9	10.7	88.6	170.8	0.4	5.3	5.5	3.0
Continental Europe Total	6,432,132	4,392.4	514.9	4,907.3	7,255.0	10.2	4.6	4.8	3.7
GROUP TOTAL	8,765,890	11,807.2	1,188.0	12,995.2	15,342.9	9.5	4.1	4.5	3.9

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

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

3 In relation to completed properties only.

4 Vacancy rate excluding short term lettings for the Group at 31 December 2020 is 3.9 per cent.

CREATING VALUE THROUGH OPERATIONAL EXCELLENCE – ASSET MANAGEMENT UPDATE

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

Urban Warehouses

Urban warehouses account for 66 per cent of our portfolio value. They tend to be smaller warehouses, and are located mainly in and on the edges of major cities where land supply is restricted and there is strong demand for warehouse space, particularly catering for the needs of last mile delivery and, around London, from data centre users.

Our urban portfolio is concentrated in London and South-East England (80 per cent) and major cities in Continental Europe (20 per cent), including Paris, Düsseldorf, Frankfurt, Berlin and Warsaw. These locations share similar characteristics in terms of limited (and shrinking) supply of industrial land and growing populations, while occupiers are attracted to modern warehouses with plenty of yard space to allow easy and safe vehicle circulation. We believe that this enduring occupier demand and limited supply bodes well for future rental growth.

Big Box Warehouses

Big box warehouses account for 32 per cent of our portfolio value. They tend to be used for storage, processing and distribution of goods on a regional, national or international basis and are, therefore, much larger than urban warehouses.

They are focused on the major logistics hubs and corridors in the UK (South-East and Midlands regions), France (the logistics 'spine' linking Lille, Paris, Lyon and Marseille), Germany (Düsseldorf, Berlin, Frankfurt and Hamburg) and Poland (Warsaw, Łódź, Poznań, and the industrial region of Silesia). 26 per cent of our big box warehouses are in the UK and the remaining 74 per cent are in Continental Europe.

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

There was a fairly high level of competing supply in the UK big box market at the start of 2020 but record levels of take-up during the year have meant that most of this has been absorbed (and as a result vacancy levels have come down). On the Continent supply has continued to broadly keep up with occupier demand.

Overall, we believe the prospects for significant rental growth in big box warehouses are, and have always been, limited but this asset class brings other benefits including lower asset management intensity and long leases which help to ensure a sustainable level of income. In addition, by holding the majority of our Continental European big box warehouses in SELP, we receive additional income from managing the joint venture which increases total returns.

Growing Rental Income from Letting Existing Space and New Developments

At 31 December 2020, our portfolio generated passing rent of £462 million, rising to £508 million once rent free periods expire ('headline rent'). During the year, we contracted £77.9 million of new headline rent, a new record level for SEGRO. New pre-let agreements continue to contribute strongly to this number but in 2020 we also grew rent on our existing space significantly, helped by the last of the lease re-gears at the Heathrow Cargo Centre.

Our customer base remains well diversified, reflecting the multitude of uses of warehouse space. Our top 20 customers account for 31 per cent of total headline rent, and Amazon became our largest customer during 2020, accounting for 5 per cent of the total.

Just over half of our customers are involved in businesses affected by e-commerce, including third party logistics and parcel delivery businesses, and retailers. These businesses accounted for almost 60 per cent of our take-up during the year.

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

- **Rental growth from lease reviews and renewals.** These generated an uplift of 19.1 per cent (2019: 17.8 per cent) for the portfolio as a whole compared to previous headline rent. During the year, new rents agreed at review and renewal were 28.2 per cent higher in the UK (2019: 25.1 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £10.5 million of headline rent. In Continental Europe, rents agreed on renewal were 0.5 per cent higher (2019: 0.7 per cent lower), turning positive for the first time in a number of years as market rental growth starts to outpace the indexation provisions that have accumulated over recent years.
- **High levels of customer satisfaction.** Although the quality and location of our portfolio is important to our customers, we believe that the service we provide is crucial to maintaining high customer retention and low vacancy. We carry out a rolling survey of our customer base throughout the year to identify and rectify issues promptly. In 2020, we surveyed 200 customers and 99 per cent of the respondents said that they would recommend SEGRO to others (2019: 96 per cent) and 87 per cent said they rated their experience with SEGRO as 'Excellent' or 'Very Good' (2019: 88 per cent).
- **Vacancy has remained low.** The vacancy at 31 December 2020 was 3.9 per cent (31 December 2019: 4.0 per cent). This reduction was mainly due to a very strong performance in letting recently completed speculatively developed space, particularly in Germany and Spain. The vacancy rate on our standing stock remains low at 2.5 per cent (2019: 2.6 per cent). The vacancy rate is now at the bottom end of our target range of between 4 and 6 per cent. The average vacancy rate during the period was 4.8 per cent (2019: 4.6 per cent).

- **High retention rate of 86 per cent.** During the period, space equating to £12.4 million (2019: £11.0 million) of rent was returned to us, including £1.5 million of rent lost due to insolvency (2019: £1.1 million). We took back space equating to £4.0 million of rent for redevelopment. Approximately £60 million of headline rent was at risk from a break or lease expiry during the period of which we retained 85 per cent in existing space, with a further 1 per cent retained but in new premises.
- **98 per cent of Group rents collected.** Rent collection understandably came into focus during 2020. The diversity of our customer base meant that whilst some of their businesses benefited from the acceleration of structural drivers as a result of the pandemic, others whose business were fundamentally sound suffered cash flow issues and we were pleased to be able to support them. This mostly took the form of moving them from quarterly rents in advance, to monthly payment agreements. 98 per cent of the 2020 rent due has now been paid with the remaining 2 per cent due in early 2021.
- **Lease terms continue to offer attractive income security.** The level of incentives agreed for new leases (excluding those on developments completed in the period) represented 6.8 per cent of the headline rent (2019: 6.6 per cent). The portfolio's weighted average lease length was maintained with 7.5 years to first break and 8.8 years to expiry (31 December 2019: 7.8 years to first break, 9.2 years to expiry). Lease terms are longer in the UK (8.8 years to break) than in Continental Europe (5.9 years to break), reflecting the market convention of shorter leases in countries such as France and Poland.
- **£16.1 million of net new rent from existing assets.** We generated £15.6 million of headline rent from new leases on existing assets (2019: £13.2 million) and £12.9 million from rent reviews, lease renewals and indexation (2019: £11.9 million). This was offset by rent from space returned of £12.4 million (2019: £11.0 million).
- **Continued strong demand from customers for pre-let agreements.** In addition to increased rents from existing assets, we contracted £41.1 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2019: £33.2 million). Included in this within the UK are three new data centres on the Slough Trading Estate, our first letting at SEGRO Park Hayes and two further big boxes at SEGRO Logistics Park East Midlands Gateway. On the Continent we signed our largest ever pre-let in Germany for an e-commerce homewares provider, over 370,000 of space in Southern Europe for customers including a leading global online retailer and three big box warehouses in Poznan, helping us to build scale in this attractive market.
- **Rent roll growth increased to £60.1 million.** An important element of achieving our goal of being a leading income-focused REIT is to grow our rent roll, primarily through increasing rent from our existing assets and then from generating new rent through development. Rent roll growth, which reflects net new headline rent from existing space (adjusted for takebacks of space for development), take-up of developments and pre-lets agreed during the period, increased to £60.1 million in 2020, from £54.5 million in 2019.

Asset Management: What to expect in 2021

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

Summary of key leasing data for 2020

Summary of key leasing data ¹ for the year to 31 December		2020	2019
Take-up of existing space ² (A)	£m	15.6	13.2
Space returned ³ (B)	£m	(12.4)	(11.0)
NET ABSORPTION OF EXISTING SPACE² (A-B)	£m	3.2	2.2
Other rental movements (rent reviews, renewals, indexation) ² (C)	£m	12.9	11.9
RENT ROLL GROWTH FROM EXISTING SPACE	£m	16.1	14.1
Take-up of pre-let developments completed in the year (signed in prior years) ² (D)	£m	32.9	36.3
Take-up of speculative developments completed in the past two years ² (D)	£m	10.2	9.0
TOTAL TAKE-UP² (A+C+D)	£m	71.6	70.4
Less take-up of pre-lets and speculative lettings signed in prior years ²	£m	(34.8)	(37.8)
Pre-lets signed in the year for future delivery ²	£m	41.1	33.2
RENTAL INCOME CONTRACTED IN THE YEAR²	£m	77.9	65.8
Takeback of space for redevelopment	£m	(4.0)	(0.3)
Known Takeback/letting from acquisition	£m	(1.4)	—
Retention rate ⁴	%	86	88

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

² Headline rent.

³ Headline rent, excluding space taken back for redevelopment.

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

GROWING THROUGH DEVELOPMENT – DEVELOPMENT ACTIVITY AND PIPELINE UPDATE

Development Activity

During 2020, we invested £817 million in our development pipeline which comprised £531 million (2019: £409 million) in development spend, of which £74 million was for infrastructure, and a further £286 million to replenish our land bank to enable future development.

Development Projects Completed

We completed 835,900 sq m of new space during the year, with all of our projects completing on time (or in some cases ahead of schedule) despite the pandemic. These projects were 71 per cent pre-let prior to the start of construction and were 84 per cent let as at 31 December 2020, generating £39 million of headline rent, with a potential further £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 6.8 per cent when fully let.

We completed 652,400 sq m of big box warehouse space, including a further unit at SEGRO Logistics Park East Midlands Gateway and our first unit at SEGRO Logistics Park Kettering Gateway. Within this was also 614,000 sq m of big box warehouses across all of our major European markets, let to customers such as third party logistics operators, online retailers, food retailers and businesses linked to electronic vehicles.

We completed 170,000 sq m of urban warehouses, of which 65 per cent is already let. This included SEGRO Park Enfield in North London, which has set a new benchmark for industrial and warehouse space and has been designed to take the wellness of its occupiers into account. In the UK we also completed three new data centres on the Slough Trading Estate and our largest London pre-let in a decade. On the Continent we completed urban warehouse parks in the key markets of Frankfurt, Düsseldorf and Paris as well as a number of delivery stations for a global online retailer in Southern Europe.

Of the eligible space completed in 2020, 93 per cent has been, or is in the process of being, accredited as BREEAM 'Excellent' or 'Very Good' (or a local equivalent).

Development also helped us to increase our renewable energy capacity by 45 per cent in 2020, bringing it to 26.8 MW, enough to power over 8,000 homes.

Current Development Pipeline

At 31 December 2020, we had development projects approved, contracted or under construction totalling 838,100 sq m, representing £397 million of future capital expenditure to complete and £54 million of annualised gross rental income when fully let. 66 per cent of this rent has already been secured and these projects should yield 6.5 per cent on total development cost when fully occupied.

- In the UK, we have 207,300 sq m of space approved or under construction. Within this are three more data centres on the Slough Trading Estate (taking the total number to 32), developments in all of our key London markets and two large pre-lets at our big box logistics park SEGRO Logistics Park East Midlands Gateway.
- In Continental Europe, we have 570,000 sq m of space approved or under construction. This includes pre-let big box warehouses for a variety of different occupiers, from retailers to manufacturers, across all of our European markets. We are also developing further phases of our successful urban warehouse parks in Berlin, Cologne and Düsseldorf.
- In addition to the above projects that we are developing ourselves, we also have 60,800 sq m of space under construction as part of forward-funded agreements with local developers. This is proving to be a very effective way to get access to opportunities in competitive markets where accessing land is more difficult.

We continue to focus our speculative developments primarily on urban warehouse projects, particularly in the UK, France and Germany, where modern space is in short supply and occupier demand is strong. In the UK, our speculative projects are focused in London and on the Slough Trading Estate. In Continental Europe, we continue to build scale in Germany, where projects are underway in a number of major cities. Within our Continental European development programme, approximately £15.5 million of potential gross rental income is associated with big box warehouses developed outside our SELP joint venture. Under the terms of the joint venture, SELP has the option, but not the obligation, to acquire these assets shortly after completion. Assuming SELP exercises its option, we would retain a 50 per cent share of the rent after disposal. In 2020, SEGRO sold £93 million of completed assets to SELP, representing a net disposal of £47 million.

FUTURE DEVELOPMENT PIPELINE

Near-Term Development Pipeline

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

These projects total 385,500 sq m of space, equating to approximately £302 million of additional capital expenditure and £27 million of additional rent.

Land Bank

Our land bank identified for future development (including the near-term projects detailed above) totalled 654 hectares at 31 December 2020, valued at £636 million, roughly 5 per cent of our total portfolio value. We invested £286 million in acquiring new land during the year, including land associated with developments already underway or expected to start in the short term.

We estimate that our land bank can support 2.8 million sq m of development over the next five years. The prospective capital expenditure associated with the future pipeline is approximately £1.6 billion. It could generate £157 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of around 6-7 per cent. These figures are indicative based on our current expectations and are dependent on our ability to secure pre-let agreements, planning permissions, construction contracts and on our outlook for occupier conditions in local markets.

Conditional Land Acquisitions and Land Held Under Option Agreements

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

The options are held on the balance sheet at a value of £16 million (including joint ventures at share). Those we expect to exercise over the next two to three years are for land capable of supporting just under 1.0 million sq m of space and generating approximately £62 million of headline rent (SEGRO share) for a blended yield of approximately 6-7 per cent.

Development: What to expect in 2021

We have 838,100 sq m of development projects under way, capable of generating £54 million of new headline rent, of which 66 per cent has been secured.

We expect to invest in excess of £700 million in development capex, including approximately £90 million of infrastructure expenditure.

A RECORD YEAR OF INVESTMENT IN OUR BUSINESS – INVESTMENT UPDATE

We invested £1.4 billion in our portfolio during 2020: development capital expenditure of £531 million, £603 million of assets and £286 million of land. This was partly offset by £139 million of disposals.

Acquisitions Focused on Building Scale in Urban Warehousing

We found a number of compelling acquisition opportunities in 2020 and as a result were more active on the investment front than we have been in recent years.

We bought two very attractive urban warehouse parks in London, one close to our existing assets in Park Royal and the other that complements our East Plus portfolio and is now our most centrally located asset in London.

We also acquired a further 75 per cent of the shares of the listed French urban warehouse company Sofibus Patrimoine SA whose main asset is a large industrial warehouse estate close to the centre of Paris.

Other acquisitions included an urban warehouse park that adjoins the Slough Trading Estate and a big box warehouse in Łódź.

The consideration for the asset acquisitions was £603 million, reflecting a blended topped-up initial yield of 4.0 per cent.

Acquisitions completed in 2020

Asset type	Purchase price (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	9.3	6.7	6.7
Urban warehousing	556.2	3.9	4.0
Other	37.5	3.5	3.5
Land ²	285.9	—	—
Acquisitions completed in 2020³	888.9	3.9	4.0

1 Yield excludes land transactions.

2 Land acquisitions are discussed in Future Development Pipeline.

3 A reconciliation of acquisitions completed to the Financial Statements is provided in the EPRA capital expenditure analysis on page 24.

Asset Recycling to Improve Portfolio Focus

During 2020, we sold £139 million of land and assets, taking advantage of strong investor demand to realise profits and release capital to reinvest in our business.

These disposals included our land and assets in Austria, some older big box warehouses in France and an urban warehouse in West London where we believe we had maximised the potential returns and could take advantage of a strong investor market to crystallise some profits.

As in previous years, we sold a portfolio of Continental European big box warehouses developed by SEGRO to SELP for which we received £47 million net proceeds from an effective sale of a 50 per cent interest.

The consideration for the asset disposals was £123 million, reflecting a blended topped-up initial yield of 4.7 per cent. The disposals generated a modest gain on sale compared to book values at 31 December 2019.

Additionally, we disposed of £16 million of land, primarily comprising plots in non-core markets (including the land mentioned in Austria above).

Disposals completed in 2020

Asset type	Disposal proceeds (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	49.7	5.0	5.0
Urban warehousing	73.5	4.2	4.2
Land	15.6	—	—
Disposals completed in 2020²	138.8	4.7	4.7

1 Yield excludes land transactions.

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

Investments: What to expect in 2021

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

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

FINANCE REVIEW: AN ACTIVE YEAR OF FINANCING AND STRONG FINANCIAL RESULTS

Financial highlights

	31 December 2020	31 December 2019
IFRS ¹ net asset value (NAV) per share (diluted) (p)	809	697
Adjusted ¹ NAV per share (diluted) (p)	814	700
IFRS profit before tax (£m)	1,464.1	902.0
Adjusted ² profit before tax (£m)	296.5	267.5
IFRS earnings per share (EPS) (p)	124.1	79.3
Adjusted ² EPS (p)	25.4	24.4

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

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

Presentation of financial information

The condensed financial 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 EPRA earnings as set out the Best Practices Recommendations Guidelines of the European Public Real Estate Association (EPRA) which are widely used alternate metrics to their IFRS equivalents within the European real estate sector (further details can be found at www.epra.com). In calculating Adjusted profit, the Directors may also exclude additional items considered to be non-recurring, unusual, or significant by virtue of size and nature. In the current and prior periods there have been no such adjustments and therefore Adjusted profit and EPRA earnings are the same.

A detailed reconciliation between Adjusted profit after tax and IFRS profit after tax is provided in Note 2 to the condensed financial statements. This is not on a proportionally consolidated basis. The Adjusted NAV per share measure reflects the EPRA Net Tangible Asset metric and based on the updated EPRA Best Practice Reporting Guidelines as discussed further in Note 11.

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

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

ADJUSTED PROFIT

Adjusted profit

	2020 £m	2019 £m
Gross rental income	392.9	362.0
Property operating expenses	(88.3)	(80.7)
Net rental income	304.6	281.3
Joint venture fee income	21.6	20.4
Administration expenses	(51.5)	(51.5)
Share of joint ventures' Adjusted profit ¹	61.5	54.0
Adjusted operating profit before interest and tax	336.2	304.2
Net finance costs (including adjustments)	(39.7)	(36.7)
Adjusted profit before tax	296.5	267.5
Tax on Adjusted profit	(4.0)	(3.2)
Non-controlling interests share of Adjusted profit	(0.2)	(0.2)
Adjusted profit after tax	292.3	264.1

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

Adjusted profit before tax increased by 10.8 per cent to £296.5 million (2019: £267.5 million) during 2020 as a result of the movements described below (see Note 2).

Net rental income

Net rental income increased by £23.3 million to £304.6 million (or by £32.7 million to £385.1 million including joint ventures at share), reflecting the positive net impact of like-for-like rental growth, development completions and investment activity during the period, offset by the impact of disposals.

Rent collection levels across the real estate industry were significantly impacted by the Covid-19 pandemic. Within our business, rent collections in the second quarter were initially lower than typical levels as our customers reacted to the lockdown, and we offered help on a case-by-case basis to those customers who most required support. However, collection levels increased during the year, and 98 per cent of 2020 rent has been collected so far. Much of the remainder is expected to be collected through payment plans during 2021, but having assessed the unpaid balance, a provision for bad debts (being loss allowance and impairment of receivables) including joint ventures at share of £4.1 million (1 per cent of the total rent roll) has been made.

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 £6.7 million, or 2.1 per cent, compared to 2019 (increased by £9.3 million, or 2.9 per cent before the impact of bad debts). This is due to strong rental performance across our portfolio in the UK: 0.9 per cent increase and Continental Europe: 4.3 per cent increase (or UK: 2.0 per cent increase and Continental Europe: 4.6 per cent increase before bad debts).

	2020 £m	2019 £m	Change %
Like-for-like net rental income (including JVs at share)			
UK	205.8	204.0	0.9
Continental Europe	119.9	115.0	4.3
Like-for-like net rental income before other items¹	325.7	319.0	2.1
Other ²	(5.9)	(5.9)	
Like-for-like net rental income (after other)	319.8	313.1	2.1
Development lettings	46.0	15.0	
Properties taken back for development	2.3	3.3	
Like-for-like net rental income plus developments	368.1	331.4	
Properties acquired	9.5	2.1	
Properties sold	3.1	14.0	
Net rental income before surrenders, dilapidations and exchange	380.7	347.5	
Lease surrender premiums and dilapidations income	1.0	0.5	
Other items and rent lost from lease surrenders	13.0	14.1	
Impact of exchange rate difference between periods	–	(1.1)	
Net rental income (including joint ventures at share)	394.7	361.0	
Share of joint venture management fees	(9.6)	(8.6)	
Net rental income after SEGRO share of joint venture fees	385.1	352.4	

¹ Includes expense for loss allowance and impairment receivables for the Group of £3.8 million (2019: £1.2 million); UK £2.7 million (2019: £0.5 million); CE £1.1 million (2019: £0.7 million). Excluding these expenses, the like-for-like change would be Group 2.9%; UK 2.0%; CE 4.6%.

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

Income from joint ventures

Joint venture fee income increased by £1.2 million to £21.6 million. This increase is due to an increase in the SELP management fee as the size of the portfolio has grown.

In 2018 SEGRO received a performance fee from SELP, of which £26.2 million is subject to possible clawback and consequently has been not been recognised as income but deferred until such time that the risk of clawback becomes less likely (see Note 6 for further details). The performance fee is calculated and receivable on the fifth and tenth year anniversaries of the joint venture, should the SELP property portfolio meet certain performance criteria. It does not meet the recognition criteria in this period due to the volatility and uncertainty around its measurements.

SEGRO's share of joint ventures' Adjusted profit after tax increased by £7.5 million from £54.0 million in 2019 to £61.5 million in 2020 almost entirely from the growth in the SELP joint venture.

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 2020 has improved to 21.1 per cent compared to 22.9 per cent in 2019, but still above our 20 per cent target. The calculation is set out in Table 8 of the Supplementary Notes to the condensed financial statements.

Excluding share-based payments, the cost ratio would be 18.8 per cent, an improvement from 19.9 per cent in 2019.

The cost ratio calculation is detailed in Table 8, which shows that the reduction in the ratio has been primarily caused by the increase in gross rental income by £33.5 million to £448.4 million reflecting the growth through development and like-for-like income discussed in the Net Rental Income section above. Total costs in respect of the TCR remained relatively stable at £94.8 million compared to £95.2 million in 2019. Whilst wholly-owned administration expenses have remained flat at £51.5 million, property operating expenses have increased by £7.6 million to £88.3 million in 2020, primarily from the increase in service charge expenses, which are netted against service charge income in the cost ratio calculation (as detailed in Table 8). Costs grew less than anticipated as a result of our response to the pandemic, with lower levels of travel and a slowdown in the pace of recruitment.

Total costs (see Note 5) have decreased by £19.6 million to £104.3 million. This balance includes trading property cost of sales which have decreased by £27.2 million.

Net finance costs

Net finance costs (including adjustments) increased by £3.0 million in 2020 to £39.7 million primarily as a result of higher debt levels compared to the prior period primarily funding our development programme.

Taxation

The tax charge on Adjusted profit of £4.0 million (2019: £3.2 million) reflects an effective tax rate of 1.3 per cent (2019: 1.2 per cent), consistent with a Group target tax rate of less than 3 per cent. The Group's target tax rate reflects the fact that over three-quarters of its assets are located in the UK and France and qualify for REIT and SIIC status respectively in those countries. This status means that income from rental profits and gains on disposals of assets in the UK and France are exempt from corporation tax, provided SEGRO meets a number of conditions including, but not limited to, distributing 90 per cent of UK taxable profits.

Adjusted earnings per share

Adjusted earnings per share are 25.4 pence compared to 24.4 pence in 2019. The lower growth rate compared to Adjusted profit reflects the increase in the average number of shares (the denominator in the earnings per share calculation) by 69 million shares compared to 2019 primarily due to the equity placing undertaken in June 2020.

IFRS PROFIT

IFRS profit before tax in 2020 was £1,464.1 million (2019: £902.0 million), equating to basic post-tax IFRS earnings per share of 124.1 pence compared with 79.3 pence for 2019, principally reflecting higher realised and unrealised gains in the property portfolio.

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 properties of £975.7 million in 2020 (2019: £483.9 million) and realised and unrealised gains on trading and other property interests of £14.1 million (2019: £12.2 million) have been recognised in the Income Statement as the value of our portfolio increased during the year. These primarily relate to an unrealised valuation surplus on invested properties of £970.6 million (2019: £476.7 million).

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £215.6 million (2019: £214.2 million) largely in respect of the SELP portfolio and is further analysed in Note 6.

The cost of closing out debt in the year was £10.9 million (2019: £18.6 million) following the buy-back of the small outstanding amount of the SEGRO bonds maturing in 2021 and 2022. IFRS earnings were also impacted by a net fair value gain on interest rate swaps and other derivatives of £13.7 million (2019: £7.9 million) and a tax charge of £35.0 million (2019: £41.4 million) of which £31.0 million (2019: £38.2 million) arises in respect of adjustments, primarily in relation to property valuation movements.

BALANCE SHEET

Adjusted net asset value

	£m	Shares million	Pence per share
Adjusted NAV attributable to ordinary shareholders at 31 December 2019	7,712.1	1,102.1	700
Realised and unrealised property gain	1,205.4		
Adjusted profit after tax and non-controlling interests	292.3		
Dividend net of scrip shares issued (2019 final and 2020 interim)	(179.5)		
Early repayment of debt	(10.9)		
Issue of shares	672.1		
Other including exchange rate movement	33.7		
Adjusted NAV attributable to ordinary shareholders at 31 December 2020	9,725.2	1,194.7	814

At 31 December 2020, IFRS net assets attributable to ordinary shareholders were £9,659.2 million (31 December 2019: £7,677.6 million), reflecting 809 pence per share (31 December 2019: 697 pence) on a diluted basis.

Adjusted NAV per share at 31 December 2020 was 814 pence (31 December 2019: 700 pence). The 16.3 per cent increase primarily reflects property gains in the period. Note that the comparative balance has changed from the amount previously reported of 708 pence in respect of EPRA NAV, following the issuance of new EPRA guidance applicable in the current period (see Note 11 for further details). The table above highlights the other principal factors behind the increase. A reconciliation between IFRS and Adjusted NAV is available in Note 11 to the condensed financial statements.

Cash flow and net debt reconciliation

Cash flows from operating activities of £233.2 million are £58.4 million lower than the prior year. This is primarily due to the impact of trading properties, for which there was an outflow of £19.6 million in the current year, following an acquisition and development expenditure, compared to an inflow of £30.9 million in the prior period following a disposal. Excluding trading properties, which are transaction driven and therefore not consistent year on year by their nature, the cashflows from operations is £252.8 million in the current year which is £7.9 million below the prior year primarily due to the deferral rentals agreed with certain tenants in light of the Covid-19 pandemic.

The Group made net investments of £1,100.7 million of investment and development properties (including options and loans to joint ventures) during the year on a cash flow basis (2019: £217.2 million). This is principally driven by expenditure of £1,215.9 million (2019: £602.9 million) to purchase and develop investment properties to deliver our strategy of growth. Disposals of investment properties reduced by £253.2 million to £159.2 million compared to the prior period (2019: £412.4 million).

The largest financing cash flow arose in respect of net proceeds from the issue of shares of £672.1 million primarily from an equity placing undertaken in June 2020. Other significant cash flows include dividends paid of £179.5 million (2019: £141.7 million) where cash flows are lower than the total dividend due to the level of scrip uptake.

Overall, net debt has increased in the year from £1,811.0 million to £2,325.0 million.

Cash flow and net debt reconciliation

	2020 £m	2019 £m
Opening net debt	(1,811.0)	(2,177.0)
Cash flow from operating activities	233.2	291.6
Finance costs (net)	(51.6)	(44.6)
Debt close out costs	(10.9)	(23.1)
Dividends received (net)	33.8	33.3
Tax paid	(5.2)	(46.9)
Net cash received from operating activities	199.3	210.3
Dividends paid	(179.5)	(141.7)
Acquisitions and development of investment properties	(1,215.9)	(602.9)
Sale of investment properties	159.2	412.4
Acquisition of interests in property and other investments	(4.2)	(14.5)
Net investment in joint ventures	(39.8)	(12.2)
Net settlement of foreign exchange derivatives	(55.0)	26.9
Proceeds from issue of ordinary shares	672.1	444.0
Other items	(4.4)	4.1
Net funds flow	(468.2)	326.4
Non-cash movements	(2.4)	(20.9)
Exchange rate movements	(31.3)	60.5
Gross debt acquired	(12.1)	-
Closing net debt	(2,325.0)	(1,811.0)

Capital expenditure

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

Total spend for the year was £1,548.4 million, an increase of £655.6 million compared to 2019.

Development capital expenditure of £531.4 million was spent in the year (2019: £408.7 million) across all our Business Units, particularly Southern Europe and National Logistics, reflecting our development-led growth strategy.

Development spend incorporates interest capitalised of £7.5 million (2019: £9.0 million) including joint ventures at share.

Spend on existing completed properties, totalled £40.1 million (2019: £30.8 million), of which £24.2 million (2019: £17.4 million) was for major refurbishment, infrastructure and fit-out costs prior to re-letting. The balance mainly comprises more minor refurbishment and fit-out costs, which equates to 5 per cent of Adjusted profit before tax and less than 1 per cent of total spend. Of the total spend £2.5 million (2019: £nil) increased lettable space.

EPRA capital expenditure analysis

	2020			2019		
	Wholly owned £m	Joint ventures £m	Total £m	Wholly owned £m	Joint ventures £m	Total £m
Acquisitions	858.5 ¹	82.0	940.5 ⁷	233.9	164.1	398.0
Development ⁴	484.9 ²	46.5	531.4	345.2	63.5	408.7
Completed properties ⁶	34.0 ³	6.1	40.1	25.2	5.6	30.8
Other ⁵	27.0	9.4	36.4	44.7	10.6	55.3
Total	1,404.4	144.0	1,548.4	649.0	243.8	892.8

1 Being £824.3 million investment property and £34.2 million trading property (2019: £233.9 million and £nil respectively) see Note 12.

2 Being £471.0 million investment property and £13.9 million trading property (2019: £336.8 million and £8.4 million respectively) see Note 12.

3 Being £34.0 million investment property and £nil trading property (2019: £25.2 million and £nil respectively) see Note 12.

4 Includes wholly-owned capitalised interest of £7.0 million (2019: £8.2 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.5 million (2019: £0.8 million).

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

6 Being £37.6 million expenditure used for enhancing existing space (2019: £30.8 million) and £2.5 million used for creation of additional lettable space (2019: £nil).

7 Total acquisitions completed in 2020 detailed in the Investment Update above of £888.9 million excludes share of assets acquired by SELP from SEGRO of £46.5 million (all of which was completed property, see Note 12) and certain land acquisitions relating to trading properties of £5.1 million.

FINANCING

In May 2020, SEGRO extended the maturity of €1.1 billion of revolving credit facilities for a further year to 2025. This was followed by amendments to transition the facilities from sterling LIBOR to SONIA in anticipation of the ending of LIBOR in 2021.

In June 2020, SEGRO issued 83 million new shares, raising £680 million of gross proceeds to help to fund our development programme while also retaining an appropriate capital structure. The shares were issued at 820.0 pence per share, a 4.5 per cent discount to the prior day's closing share price.

In July 2020, SEGRO agreed a third US private placement debt issue of €450 million across four tranches with a number of institutional investors. The notes have an average maturity of 16.8 years and a weighted average coupon of 1.6 per cent. Closing took place in August 2020 followed by funding in October and December 2020.

In August 2020, SEGRO redeemed its £79.3 million 6.75 per cent sterling bonds due to mature in 2021, followed by redemption in September of its £39.1 million 7.0 per cent sterling bonds due to mature in 2022. The combined cash settlement for the bonds redeemed was £130.5 million, which included £1.4 million of accrued interest.

In November 2020, SEGRO completed its secondary listing on Euronext Paris. The Secondary Listing reflects the growth and importance to the Company of its Continental European investor base and operations and ensures that SEGRO maintains an optimum and efficient holding structure following the end of the Brexit transition period on 31 December 2020.

As 31 December 2020, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures totalled £3,201.2 million (31 December 2019: £2,637.8 million), of which only £21.1 million (31 December 2019: £27.6 million) are secured by way of legal charges over specific assets. The remainder of gross borrowings are unsecured. Cash and cash equivalent balances were £113.2 million (31 December 2019: £153.5 million). Average debt maturity was 9.9 years (31 December 2019: 10.0 years) and average cost of debt (excluding non-cash interest and commitment fees) was 1.6 per cent (31 December 2019: 1.7 per cent).

Funds available to SEGRO Group (including its share of joint venture funds) at 31 December 2020 totalled £1,189.3 (31 December 2019: £1,370.0 million), comprising £113.2 million cash and short term investments and £1,076.1 million of undrawn revolving credit facilities of which only £11.6 million was uncommitted. Cash and cash equivalent balances, together with the Group's interest rate and foreign exchange derivatives portfolio, are spread amongst a strong group of banks, all of which have a credit rating of A- or better.

Financial Position and Funding

	31 December 2020		31 December 2019	
	SEGRO Group	SEGRO Group and JVs at share	SEGRO Group	SEGRO Group and JVs at share
Net borrowings (£m)	2,325.0	3,088.0	1,811.0	2,484.3
Available cash and undrawn facilities (£m)	1,061.4	1,189.3	1,173.2	1,370.0
Balance sheet gearing (%)	24	N/A	23	N/A
Loan to value ratio (%)	22	24	22	24
Weighted average cost of debt ¹ (%)	1.7	1.6	1.8	1.7
Interest cover ² (times)	6.6	6.5	6.2	6.3
Average duration of debt (years)	11.7	9.9	11.6	10.0

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

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

TREASURY POLICIES AND GOVERNANCE

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

GEARING AND FINANCIAL COVENANTS

The key leverage metric for SEGRO is its proportionally consolidated ('look-through') loan to value ratio (LTV) which incorporates assets and net debt on SEGRO's balance sheet and SEGRO's share of assets and net debt on the balance sheets of its joint ventures. The LTV at 31 December 2020 on this basis was 24 per cent (31 December 2019: 24 per cent).

SEGRO's borrowings contain gearing covenants based on Group net debt and net asset value, excluding debt in joint ventures. The gearing ratio of the Group at 31 December 2020, as defined within the principal debt funding arrangements of the Group, was 24 per cent (31 December 2019: 23 per cent). This is significantly lower than the Group's tightest financial gearing covenant within these debt facilities of 160 per cent.

Property valuations would need to fall by around 64 per cent from their 31 December 2020 values to reach the gearing covenant threshold of 160 per cent. A 64 per cent fall in property values would equate to an LTV ratio of approximately 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 2020, the Group comfortably met this ratio at 6.6 times. Net property rental income would need to fall by around 81 per cent from 2020 levels to reach the interest cover covenant threshold of 1.25 times. On a proportionally consolidated basis, including joint ventures, the interest cover ratio was 6.5 times.

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

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

At 31 December 2020, the only debt maturity falling due within 12 months is a €1 million principal repayment on an amortising loan, acquired with Sofibus Patrimoine SA. The weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 9.9 years. With the majority of the Group's revolving credit facilities not due to mature until 2025, and no material Group debt maturities until 2024, this long average debt maturity translates into a favourable, well spread debt funding maturity profile which reduces future refinancing risk.

INTEREST RATE RISK

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

At 31 December 2020, including the impact of derivative instruments, 70 per cent (2019: 89 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures) were at fixed or capped rates. The fixed only level of debt is 44 per cent at 31 December 2020 (31 December 2019: 57 per cent).

As a result of the fixed rate cover in place, if short-term interest rates had been 1 per cent higher throughout the year to 31 December 2020, the adjusted net finance cost of the Group would have increased by approximately £12.6 million representing around 4 per cent of Adjusted profit after tax.

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

FOREIGN CURRENCY TRANSLATION RISK

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

The Group seeks to limit its exposure to volatility in foreign exchange rates by hedging its foreign currency gross assets using either borrowings or derivative instruments. The Group targets a hedging range of between the last reported LTV ratio (31 December 2020: 24 per cent) and 100 per cent. At 31 December 2020, the Group had gross foreign currency assets which were 61 per cent hedged by gross foreign currency denominated liabilities (31 December 2019: 65 per cent).

Including the impact of forward foreign exchange and currency swap contracts used to hedge foreign currency denominated net assets, if the value of the other currencies in which the Group operates at 31 December 2020 weakened by 10 per cent against sterling (to €1.23, in the case of euros), net assets would have decreased by approximately £158 million and there would have been a reduction in gearing of approximately 1.7 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2020 into sterling within the consolidated income statement of the Group was €1.13:£1. Based on the hedging position at 31 December 2020, and assuming that this position had applied throughout 2020, if the euro had been 10 per cent weaker than the average exchange rate (€1.24:£1), Adjusted profit after tax for the year would have been approximately £9.7 million (3.3 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £11.9 million (4.1 per cent) higher than reported.

GOING CONCERN

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

- In 2020, the Group has raised £680 million of new equity and secured €450 million of new debt as well as extending the term of €1.1 billion of revolving credit facilities by one year, significantly enhancing its liquidity.
- Cash and available facilities at 31 December 2020 were £1.1 billion, well in excess of the Group's capex commitment of £0.6 billion.
- The Group continuously monitors its liquidity position compared to committed and expected capital and operating expenses on a rolling forward 18 month basis. The quantum of committed capital expenditure at any point in time is typically low due to the short timeframe to construct warehouse buildings.
- The Group also regularly stress-tests its financial covenants. As noted above, at 31 December 2020, property values would need to fall by around 64 per cent before breaching the gearing covenant. In terms of interest cover, net rental income would need to fall by 81 per cent before breaching the interest cover covenant. Both would be significantly in excess of the Group's experience during the financial crisis, its experience in 2020 and in 2021 to date, and the plausible scenarios modelled.
- Customer rent collections remain high, with 98 per cent of rent collected for the year ending 2020. The results of our Covid-19 stress test (modelling 20 per cent of customers delaying rent payments and 10 per cent of customer defaulting on their rent payments) was that the Group would continue as a going concern.

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

DIVIDEND INCREASE REFLECTS A STRONG YEAR AND CONFIDENCE FOR THE FUTURE

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share by 0.8 pence to 15.2 pence (2019: 14.4 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 2021 to shareholders on the register at the close of business on 19 March 2021.

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

- the policy of targeting a pay-out ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2020 and the outlook for earnings.

The total dividend for the year will, therefore, be 22.1 pence, a rise of 6.8 per cent versus 2019 (20.7 pence) and represents distribution of 87 per cent of Adjusted profit after tax.

The Board has decided to retain a scrip dividend option for the 2020 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2020, 35 per cent of the 2019 final dividend and 7 per cent of the 2020 interim dividend was paid in new shares, equating to £61 million of cash retained on the balance sheet.

STATEMENT OF PRINCIPAL RISKS

Dynamic risk management is embedded in our business and ensures we are able to adapt to the ever-changing environment in which we do business

The continually evolving circumstances caused by the Covid-19 pandemic, coupled with the backdrop of geopolitical and macroeconomic uncertainty, has, and continues to present a rapidly changing operating environment for the business to navigate. Despite this, the Group's performance has continued to be positive, as evidenced by our financial results, and demonstrates the importance of our risk process which is embedded within our business to enable effective, responsive decision-making.

Looking forward to 2021, whilst there is still much uncertainty, it is anticipated that Covid-19 will still be prevalent in society, notwithstanding the efficacy of the vaccine roll out. Therefore risk management and controls, and the Group's continued ability to be flexible in responding to the risks presented, will be fundamental to our ability to continue to operate successfully.

COVID-19

The impact of the pandemic continues to evolve and impact our entire risk landscape. We have incorporated commentary into each relevant principal risk and continue to monitor a new wave of infections and/or prolonged impact as an emerging risk. In most cases Covid-19 has acted to increase either the impact, the probability, or both in respect of risks already identified on the Risk Register. Major event/business disruption has been specifically identified and reported as a principal risk this year (as detailed further below).

During the year, the Group's Board and key Committees continued to meet regularly to identify, assess and record the Covid-19 related risks as they arose and evolved and to consider appropriate responses and mitigations accordingly.

Areas of particular concern relate to our people, customers, development programme, other suppliers, communities and financing and investor engagement. Some key areas specific to risk management include:

- **Our people:** The top priority was the health and well-being of our people. A central incident management team oversaw the process to ensure each local office maintained safe working conditions in line with local regulations and this was managed and regularly updated. As the working environment changed, staff were supplied with the necessary tools including IT equipment to be able to work effectively at home. This is detailed in the Health and Safety section and Principal Risk sections below.
- **Customers:** We maintained regular communication with our customers to ensure they were properly supported such as offering financial flexibility and facilities maintenance. The elevated risk of tenant default is covered further in the Operational Delivery and Compliance principal risk below.
- **Our development programme and other suppliers:** We worked closely with our supply chain during the pandemic with many sites subject to closure and other local regulations in the response to the outbreak. We reopened the sites as soon as it was possible and have worked collaboratively with our contractors to ensure a safe, compliant working environment on our sites. Whilst there were some delays in sourcing labour and raw materials, the mitigations such as sourcing locally where possible, have meant there have been no significant delays in delivering the projects. We have also continued to pay suppliers promptly. This is detailed further in the Development Plan Execution principal risk below. We have worked closely with our other suppliers even though face to face interactions have been less frequent and continue to pay suppliers promptly.
- **Operations and financing:** A full, detailed assessment of our key operations was undertaken to ensure we could continue to operate under the new working environment and that appropriate process and controls were in place, including the robustness of our IT systems. For example, during the year we worked closely with our banks and other providers of finance in order to undertake various fund raises remotely thanks to the internal processes in place supported by our IT systems. For more information please refer to the Operational Delivery and Compliance principal risk below.

Disciplined Capital Allocation

We have continued to pursue opportunities to invest capital in line with the Group's investment stance and appetite for risk. In 2020, this focused again on our development pipeline (bearing in mind our appetite for non-income producing assets – discussed further below) but was notably supplemented by a small number of large acquisitions in our key strategic markets. Relevant Key Risk Indicators are considered each month by the Investment Committee to inform its decisions.

We continue to manage our risk exposure by:

- utilising options on land whenever feasible;
- maintaining a balanced exposure to speculative development;
- using a broad range of key contractors and closely managing them during our developments;
- maintaining an efficient capital structure and liquidity position to fund the development activity; and
- planning for the combined impact of significant decisions – land acquisitions, infrastructure commitments and development commitments – that will be required by our pipeline of development opportunities.

Environmental Sustainability and Climate Change

Environmental sustainability is an ever more important risk for the business and has been separately reported on as a new Principal risk in the year.

The risk includes the short to medium-term impacts including transitional changes (for example legislation and financial) which we closely monitor and the long-term emerging risk of climate change (for example physical changes including the increased likelihood of extreme weather events) for which we have undertaken extensive research.

The environmental and climate change related risks are managed by our Group Sustainability Manager and his dedicated sustainability team, reporting to the Executive Committee and ultimately the Board.

BREXIT

Brexit and particularly a disruptive Brexit, was a key focus for the Group during the year. The UK and EU reached a trade agreement shortly before the end of the transition period, which redefined the UK's relationship with the EU on trade and other areas of cooperation. The risk of what might have been the most disruptive form of Brexit was, at least in part, mitigated. While the new arrangements bed in and their implications become better understood and more transparent, the risk that future issues may arise remain elevated. The Group continue to actively monitor and manage the identified risks and remain alert to new issues which may arise.

The responsibility for monitoring and managing the risk of a disruptive Brexit is the responsibility of a Brexit Committee made up of senior management from across the business, reporting to the Executive Committee. This Committee maintains a dedicated Risk Register to identify and prioritise key risks actions and mitigations.

Key elements of such risk included macro factors which would impact the Group's performance which we had to be aware of and responsive to but could do little to proactively mitigate. A small number of risks at a corporate level merited further focus, including compliance with a new regulatory regime, and actions were taken to mitigate their impact insofar as was possible and practicable. Other impacts were more indirect, such as those on our suppliers and customers, with whom we maintain a close and transparent dialogue.

The risk of a disruptive Brexit continues to be reported as a principal risk until the situation clarifies further, after which, it is envisaged the specific risks arising will be reported and monitored within their relevant areas of impact. To date, whilst we remain constantly vigilant, no elements of Brexit risk have come to light which would be outside the Group tolerance.

Financing

The Group's financing strategy is balanced between supporting investment in our growth, and to enable the Group to be well positioned and resilient against potential risks faced in both the short and long term, including the impact of the pandemic. The Group maintains a low appetite to liquidity and solvency risk.

The Group's management of its capital structure, including extending debt facilities and maturities, is described in the Finance Review.

Health and Safety

Health and Safety remains at the very heart of our business. The Health and Safety Working Group oversees the Health and Safety Policy and Safety Management System to ensure further proactive collaboration and communication to mitigate health and safety risk across the Group. During the year, the Health and Safety team was instrumental in the Group's response to the pandemic and the relevant regulations as they evolved, including in respect of employees as they worked away from the office and on our building sites.

Technology

The Group remains alert to the risks and opportunities that potentially disruptive technology could have on the business. We continued to engage with a number of external organisations – both in the property sector and in the wider technology realm – to assist us in identifying and assessing potentially disruptive technologies, none of which currently is believed to present an imminent significant risk to the Group.

During 2020 we created a Strategy, Investment and Innovation function to assess the potential impacts of a wide range of technologies; evolving our digital and technology strategy; and continuing to invest in this function in order to deliver that strategy.

OUR RISK APPETITE

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

The Group's risk appetite is reviewed annually and approved by the Board in order to guide management. As well as qualitative descriptions, the risk appetite defines tolerances and targets for key metrics. It is equally applicable to wholly-owned operations and joint ventures.

While our appetite for risk will vary over time and during the course of the property cycle, in general the Group maintains a fairly low appetite for risk, appropriate to our strategic objectives of delivering sustainable, attractive returns in the form of progressive dividends and net asset value growth over time.

Property Risk

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

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

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

Financial Risk

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

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

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

Corporate Risk

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

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

OUR INTEGRATED AND ROBUST APPROACH TO RISK MANAGEMENT

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

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

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

The Board recognises that it has limited control over many of the external risks it faces, such as the pandemic, as well as the macroeconomic, geopolitical, and regulatory environment, but it reviews the potential impact of such risks on the business and consequential decision making.

The Board also monitors internal risks and ensures that appropriately designed controls are in place and operate in order to manage them.

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

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

Finally, Internal Audit provides the third line of defence. Risks are considered within each area of the business to ensure that risk management is fully embedded within the Group's operations, culture and decision-making processes.

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

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

A Key Risk Indicator (KRI) dashboard is produced and monitored regularly to show actual and forecast performance against risk appetite metrics, allowing informed decision-making. KRIs are considered regularly by the relevant monitoring committees as well as being integral to the Group's Medium Term Plan.

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

PRINCIPAL RISKS

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

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

The current principal risks facing the Group are described across the following pages.

The descriptions indicate the potential areas of impact on the Group's strategy; the time-horizon and probability of the risk; the principal activities that are in place to mitigate and manage such risks; the committees that provide second line of defence oversight; changes in the level of risk during the course of 2020; whether the risk is within our appetite (after the application of our mitigations); and links to further relevant information in this report.

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

Two principal risks have been added in 2020 being the Major Event/Business Disruption risk in response to the pandemic arising during the year and Environmental Sustainability in light of its significance to the Group. Both risks have been specifically identified as standalone principal risks whereas previously they were part of the Operational Delivery and Compliance risk.

Two previously reported principal risks, Portfolio Strategy and Investment Plan Execution, have been combined below (called Portfolio Strategy and Execution) to recognise the congruent nature of the original risks as part of one contiguous process. The Market Cycle risk now also includes reference to macroeconomic impacts in order to highlight the external aspect of this risk. Furthermore, two of our risks, Political and Regulatory and Operational Delivery and Compliance have increased, as discussed further below, whilst the others have remained in line with the prior year.

<u>PRINCIPAL RISK</u>		<u>MITIGATIONS AND CURRENT YEAR ACTIVITY</u>	<u>IMPACT AND CHANGE IN 2020</u>
1. Macroeconomic impact on Market Cycle	The property market is cyclical and there is a continuous external risk that the Group could either misread the market or fail to react appropriately to changing market and wider related geopolitical conditions, which could result in capital being invested or disposals taking place at the wrong price or time in the cycle.	<p>The Board, Executive Committee and Investment Committee monitor the property market cycle on a continual basis and adapt the Group's investment/divestment stance in anticipation of changing market conditions. Multiple, diverse investment and occupier market intelligence is regularly reviewed and considered – both from internal 'on the ground' sources and from independent external sources. Upside and downside scenarios are incorporated into Investment Committee papers to assess the impact of differing market conditions.</p> <p>During the year, the pandemic has led to greater market volatility and less predictability and in response we have increased the regularity of our economic outlook assessments. Whilst we are not entirely immune to these fluctuations, the most material adverse impacts appear to be focussed in sectors where we do not have significant exposures.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>
2. Portfolio Strategy and Execution	<p>The Group's Total Property and/or Shareholder Returns could underperform in absolute or relative terms as a result of an inappropriate portfolio strategy. This could result from:</p> <ul style="list-style-type: none"> • Holding the wrong balance of prime or secondary assets; • Holding the wrong amounts or types of land, leading to diluted returns and/or constraints on development opportunities; • Holding the wrong mix of risk assets (for example between higher risk 'opportunity' assets and lower risk 'core' assets) or too many old or obsolete assets which dilute returns; and • Holding assets in the wrong geographical markets; missing opportunities in new markets or lacking critical mass in existing markets. 	<p>The Group's portfolio strategy is subject to regular review by the Board to consider the desired shape of the portfolio in order to meet the Group's overall objectives and to determine our response to changing opportunities and market conditions.</p> <p>The Group's Disciplined Capital Allocation is informed by comprehensive asset plans and independent external assessments of market conditions and forecasts.</p> <p>Regular portfolio analysis enables the portfolio to be correctly positioned in terms of location and asset type, and retains the right mix of core and opportunity assets. The annual asset planning exercise provides a bottom-up assessment of the performance and potential for all assets to identify underperforming assets that are considered for sale. Asset plans are prepared annually for all estates to determine where to invest capital in existing assets and to identify assets for disposal. Locally based property investment and operational teams provide market intelligence and networking to source attractive opportunities. Policies are in place to govern evaluation, due diligence, approval, execution and subsequent review of investment activity. Investment hurdle rates are regularly reappraised taking into account estimates of our weighted average cost of capital. Major capital investment and disposal decisions are subject to Board approval in line with portfolio strategy.</p> <p>During the year, the potential market volatility caused by the pandemic, discussed in the Macroeconomic Impact on Market Cycle risk, has led to a degree of caution in our approach to portfolio management and capital allocation. We do, however, continue to closely monitor the situation and take advantage of opportunities as they arise.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>

<p>3. Major event/business disruption</p>	<p>Unexpected global, regional or national events result in severe adverse disruption to SEGRO, such as sustained asset value or revenue impairment, solvency or covenant stress, liquidity or business continuity challenges. A global event or business disruptor may include, but is not limited to a global financial crisis, health pandemic, civil unrest, act of terrorism, cyber-attack or other IT disruption. Events may be singular or cumulative, and lead to acute/systemic issues in the business and/or operating environment.</p>	<p>In “normal” circumstances, the Group positions itself to withstand a global event and business disruption through its financing strategy (see separate principal risk); diverse portfolio strategy (see separate principal risk) including a diverse portfolio, staying close to customers to understand their changing needs, property insurance and strong customer base; organisational resilience of the work force; and detailed business continuity and disaster recovery plans. Going concern and viability is assessed through a detailed bottom up medium-term planning process including a business stress test and downside scenarios.</p> <p>During the year, the pandemic was a significant factor in the risks facing the Group, as detailed further above. This includes the instigation of our incident management team to oversee our initial response to the pandemic; ensuring employees were working in safe and secure conditions with the appropriate equipment; our Health and Safety team working closely with local teams to ensure compliance with local regulations both at our offices and building sites; working closely with our customers and being flexible for their requirements in both providing safe space and financially; working closely with our contractors to maintain safe building sites and reviewing our core processes in light of the new working conditions in order to maintain appropriate internal controls and operational resilience.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation, Operational Excellence and Efficient Capital and Corporate Structure</p> <p><u>Change in 2020:</u> New risk identified following pandemic impact during the year</p> <p>Risk is within appetite.</p>
<p>4. Disruptive Brexit</p>	<p>The agreement of the trade deal between the UK and the EU in December 2020 provided clarity around the future trade relationship between the EU and UK and consequently reduced but not fully mitigated the risk of disruption caused by Brexit. Ongoing risks around how this trade deal and the wider implications of Brexit may impact investment, capital, financial (including exchange rates), occupier and labour markets in the UK are yet to be fully understood.</p> <p>In the long-term, exit from the EU could impact levels of investor and occupier demand as a result of reduced trade, in particular those in industries more at risk to the impact of a disruptive Brexit, and/or the relocation of corporations and financial institutions away from the UK.</p> <p>Nevertheless, the likelihood of severe adverse impact on the Group is judged to be low</p>	<p>The Group is mindful of continuing political and economic uncertainties but remains focused on controlling what it can within its own business. Much of the potential short-term economic impact has been overshadowed by the pandemic. We continue to engage in dialogue with key customers, and with key suppliers to understand labour and material supply risks. To date, we have not observed significant adverse factors. Structural drivers of demand appear to have continued to outweigh any Brexit-related uncertainties.</p> <p>The Group has, however, continued to adopt a disciplined approach to land acquisition and speculative development.</p> <p>The Group’s strategy provides resilience through the market cycle. As well as the underlying quality and diversity (in terms of both asset type and location) of the portfolio, mitigations include substantial covenant headroom, access to diverse sources of funding, exchange rate and interest rate hedging, and short development lead-times.</p> <p>During the year, the Brexit Committee has continued to meet regularly to monitor risks and associated mitigating actions arising using a dedicated Brexit Risk Register. This includes a limited number of corporate level actions in response to the new regulatory regime. Whilst the Trade Agreement signed in December 2020 averted the most disruptive outcome, the Committee and wider business continue to monitor the position to ensure issues arising are appropriately identified and mitigated.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation and Operational Excellence</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>

5. Health and Safety	<p>Health and safety management processes could fail, leading to a loss of life, litigation, fines and serious reputational damage to the Group. This risk is somewhat increased by the scale of the Group's development activity</p>	<p>The Group manages an active health and safety management system, with a particular focus on managing the quality and compliance to good health and safety practice of all our suppliers. A published Health and Safety policy is supported by annual site inspections of existing assets, as part of proactive management, and development project inspections against SEGRO's Health & Safety Construction Standard.</p> <p>We continue to improve health and safety standards on our development sites and work more closely with our suppliers and health and safety consultants to increase understanding and implementation of SEGRO's requirements. The Health and Safety Working Group is responsible for overseeing the implementation of, and compliance with, the Health and Safety Policy and Safety Management System. We undertake continuous monitoring of health and safety practices, including incidents, inspections and training tracked across the Group. Legal guidance and further support is provided through local health and safety consultants who provide regulatory assurance support to the Group.</p> <p>During the year, the pandemic has meant the safety of the internal workforce in working away from the office and the management of available office space to the extent permitted by local regulations, has been a priority for the Health and Safety team. Furthermore, the team has also worked with our contractors to ensure that work on our development sites was undertaken in a safe and compliant manner.</p>	<p><u>Impact on strategy:</u> Operational Excellence</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>
6. Environmental Sustainability	<p>Failure to anticipate and respond to the impact of both physical and transitional risks from climate change on the sustainability of our environment as both a principal and emerging risk. Changes in social attitudes, laws, regulations, policies, taxation, obligations, and customer preferences associated with environmental sustainability could cause significant reputational damage and impact on our business, through non-compliance with laws and regulations, increased costs of tax and energy and loss of value through not meeting stakeholder expectations in addressing these challenges when reporting.</p>	<p>A dedicated sustainability team is in place who regularly update the Executive Committee and Board, including monitoring against our stated sustainability targets. We actively participate and engage in several Real Estate and Sustainability organisations (such as EPRA and the World Green Building Council) to ensure we are aware of future initiatives and challenges. We set minimum standards for developments to ensure all are undertaken to achieve, if not exceed, the highest environmental standards. All acquisitions include an assessment for climate related risk. The portfolio is reviewed against future climate related metrics such as increasing temperature to mitigate against future obsolescence. Group and local teams are constantly kept up to date with new laws and regulations as they become relevant through regular training and use of a panel of expert advisors.</p> <p>During the year, we have launched our "Responsible SEGRO" framework which details how we will rise to this challenge. We will lead a low carbon transformation in our industry to address climate change, working with our customers in order to achieve this. We have reviewed our targets including seeking to be Net Zero Carbon by 2030.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation and Operational Excellence</p> <p><u>Change in 2020:</u> This is a new risk rating which reflects the increased environmental challenges facing the business and wider communities</p> <p>Risk is within appetite.</p>

7. Development Plan execution	<p>The Group has an extensive current programme and future pipeline of developments. The Group could suffer significant financial losses from:</p> <ul style="list-style-type: none"> • Cost over-runs on larger, more complex projects, including for example, due to contractor default or poor performance and management. • Increased competition and/or construction costs (from labour market changes or supply chain pressures) leading to reduced or uneconomic development yields. • Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand. 	<p>Our appetite for exposure to non-income producing assets (including land, infrastructure and speculative developments) is monitored closely, for example when acquisition decisions are being made by the Investment Committee. We retain a high level of optionality in our future development programme including at the point of land acquisition, commitment to infrastructure and commitment to building. The development programme remains weighted towards pre-let opportunities. The risk of cost-overruns is mitigated by our experienced development teams and the use of trusted advisors and contractors. The risk of contractor default is mitigated by using a diversified selection of companies who have been through a rigorous onboarding process and closely monitoring their financial strength. Our short development lead-times enable a quick response to changing market conditions. During the year, development sites initially experienced delays following shutdowns due to the pandemic. As discussed above in our Health and Safety risk, our teams worked closely with contractors to ensure working practices on all sites complied with local regulations and were operated in a safe and compliant manner. We continue to regularly monitor the performance and financial strength of our contractors as contracts are awarded through the year.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation and Operational Excellence</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>
8. Financing Strategy	<p>The Group could suffer an acute liquidity or solvency crisis, financial loss or financial distress as a result of a failure in the design or execution of its financing strategy. Such an event may be caused by: a failure to obtain debt or equity funding (for example, due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; default on loan agreements as a result of a breach of financial or other covenants; or counterparty default.</p>	<p>The Group's financing strategy is aligned with our long-term business strategy, the Medium Term Plan and our risk appetite. The Treasury policy defines key policy parameters and controls to support execution of the strategy. The Group regularly reviews its changing financing requirements in light of opportunities and market conditions and maintains a good long-term relationship with a wide range of sources of finance. Liquidity remains strong and there is substantial headroom against all of our financial covenants. During the year, financing activity has strengthened the balance sheet, increased average debt maturity, lowered the average cost of debt, and demonstrated our ability to access a range of debt capital markets.</p>	<p><u>Impact on strategy:</u> Efficient Capital and Corporate Structure</p> <p><u>Change in 2020:</u> Similar risk</p> <p>Risk is within appetite.</p>

<p>9. Political and Regulatory</p>	<p>The Group could fail to anticipate significant political, legal, tax or regulatory changes, leading to a significant un-forecasted financial or reputational impact.</p> <p>In general, regulatory matters present medium- to long-term risks with a medium likelihood of causing significant harm to the Group.</p> <p>Political risks could impact business confidence and conditions in the short and longer terms.</p>	<p>Emerging risks in this category are reviewed regularly by the Executive Committee. Corporate heads of function consult with external advisers, attend industry and specialist briefings, and sit on key industry bodies such as EPRA and BPF.</p> <p>As countries respond to the economic impact of the pandemic, the likelihood of changes to taxation regulations increases. We continue to closely monitor the taxation regulations with our advisors to ensure changes which may impact the Group or our customers, are identified and addressed accordingly in a timely fashion.</p> <p>During the year, as detailed in the Brexit risk above, there has been heightened uncertainty around the future legal and regulatory environments. The situation has been closely monitored by the Brexit Committee who have sought flexible and pragmatic mitigations as the circumstances evolved.</p>	<p><u>Impact on strategy:</u> Efficient Capital and Corporate Structure</p> <p><u>Change in 2020:</u> Increased risk</p> <p>The increased rating reflects levels of political and regulatory uncertainty in response to the pandemic across our geographies and Brexit in the UK.</p> <p>Risk is within appetite.</p>
<p>10. Operational delivery and compliance</p>	<p>The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: failing to attract, retain and motivate key staff; major customer default; supply chain failure or the structural failure of one of our assets.</p> <p>Compliance failures, such as breaches of joint venture shareholders' agreements, loan agreements or tax legislation could also damage reputation, revenue and shareholder value.</p>	<p>The Group maintains a strong focus on Operational Excellence. The Executive, Operations, and Technology Committees regularly monitor the range of risks to property management, construction, compliance, organisational effectiveness and customer management.</p> <p>The Group's tax compliance is managed by an experienced internal tax team. REIT and SIIC tax regime compliance is demonstrated at least bi-annually. Compliance with joint venture shareholder agreements is managed by experienced property operations, finance and legal employees. The SELP joint venture additionally has comprehensive governance and compliance arrangements in place, including dedicated management, operating manuals, and specialist third-party compliance support.</p> <p>During the year, the working life of staff has been significantly impacted and we have continually monitored the organisational resilience to respond to this, for example ensuring that staff have the ability and resources to work away from the office for sustained periods, and that the resilience and security of our technology systems is fully maintained.</p> <p>We continue to work closely with our customers to manage rent collection whilst balancing the challenges they are facing. The depth of knowledge of our customers has enabled us to estimate the impact on our customers from the particular circumstances of this global event, based initially on the twice-yearly, customer-by-customer assessment of default risk.</p>	<p><u>Impact on strategy:</u> Operational Excellence</p> <p><u>Change in 2020:</u> Increased risk</p> <p>The increased rating reflects the impact of the pandemic on employees resilience in light of working conditions and elevated tenant default risk.</p> <p>Risk is within appetite.</p>

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 2020. Certain parts of the Annual Report and Accounts have not been included in this announcement as set out in Note 1 to the condensed financial information.

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

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

- (a) the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- (b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors on 18 February 2021 and signed on its behalf by:

David Sleath

Chief Executive

18 February 2021

Soumen Das

Chief Financial Officer

18 February 2021

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue	4	431.7	432.5
Costs	5	(104.3)	(123.9)
		327.4	308.6
Administration expenses		(51.5)	(51.5)
Share of profit from joint ventures after tax	6	236.5	203.1
Realised and unrealised property gain	7	988.6	489.2
Operating profit		1,501.0	949.4
Finance income	8	50.0	65.3
Finance costs	8	(86.9)	(112.7)
Profit before tax		1,464.1	902.0
Tax	9	(35.0)	(41.4)
Profit after tax		1,429.1	860.6
Attributable to equity shareholders		1,426.9	857.9
Attributable to non-controlling interests		2.2	2.7
Earnings per share (pence)			
Basic	11	124.1	79.3
Diluted	11	123.6	78.9

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year	1,429.1	860.6
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	111.9	(110.2)
Fair value movements on derivatives and borrowings in effective hedge relationships	(52.5)	57.6
	59.4	(52.6)
Tax on components of other comprehensive income/(expense)	–	–
Other comprehensive income/(expense)	59.4	(52.6)
Total comprehensive income for the year	1,488.5	808.0
Attributable to equity shareholders	1,486.9	804.7
Attributable to non-controlling interests	1.6	3.3

CONDENSED GROUP BALANCE SHEET

As at 31 December 2020

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Intangible assets		1.6	2.5
Investment properties	12	10,671.4	8,401.7
Other interests in property		16.2	28.3
Property, plant and equipment		26.6	23.0
Investments in joint ventures	6	1,423.0	1,121.4
Other investments		1.6	27.5
Other receivables		37.2	110.6
Derivative financial instruments		63.2	59.7
		12,240.8	9,774.7
Current assets			
Trading properties	12	52.1	20.2
Trade and other receivables		269.4	146.6
Derivative financial instruments		15.2	8.7
Cash and cash equivalents	13	89.0	132.5
		425.7	308.0
Total assets		12,666.5	10,082.7
Liabilities			
Non-current liabilities			
Borrowings	13	2,413.1	1,943.5
Deferred tax liabilities	9	87.0	53.2
Trade and other payables		109.4	102.9
Derivative financial instruments		5.2	–
		2,614.7	2,099.6
Current liabilities			
Trade and other payables		372.0	298.6
Borrowings	13	0.9	–
Derivative financial instruments		4.9	1.7
Tax liabilities		2.9	5.2
		380.7	305.5
Total liabilities		2,995.4	2,405.1
Net assets		9,671.1	7,677.6
Equity			
Share capital	14	119.1	109.6
Share premium		3,277.5	2,554.3
Capital redemption reserve		113.9	113.9
Own shares held		(1.1)	(2.6)
Other reserves		252.6	199.5
Retained earnings brought forward		4,702.9	4,056.9
Profit for the year attributable to owners of the parent		1,426.9	857.9
Other movements		(232.6)	(211.9)
Retained earnings		5,897.2	4,702.9
Total equity attributable to owners of the parent		9,659.2	7,677.6
Non-controlling interests		11.9	–
Total equity		9,671.1	7,677.6
Net assets per ordinary share (pence)			
Basic	11	811	700
Diluted	11	809	697

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the parent											Non-controlling interests ¹	Total equity £m
	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Other reserves			Merger reserve £m	Retained earnings £m	Total equity attributable to equity shareholders £m			
					Share payments reserves £m	Translation, hedging and other reserves £m							
Balance at 1 January 2020	109.6	2,554.3	113.9	(2.6)	28.8	1.6	169.1	4,702.9	7,677.6	–	7,677.6		
Profit for the year	–	–	–	–	–	–	–	1,426.9	1,426.9	2.2	1,429.1		
Other comprehensive income	–	–	–	–	–	60.0	–	–	60.0	(0.6)	59.4		
Total comprehensive income for the year	–	–	–	–	–	60.0	–	1,426.9	1,486.9	1.6	1,488.5		
Transactions with owners of the Company													
Issue of shares	8.7	663.4	–	–	–	–	–	–	672.1	–	672.1		
Own shares acquired	–	–	–	(2.0)	–	–	–	–	(2.0)	–	(2.0)		
Equity-settled share-based transactions	–	–	–	3.5	(6.9)	–	–	8.9	5.5	–	5.5		
Dividends	0.8	59.8	–	–	–	–	–	(240.1)	(179.5)	–	(179.5)		
Movement in non-controlling interest ¹	–	–	–	–	–	–	–	(1.4)	(1.4)	10.3	8.9		
Total transaction with owners of the Company	9.5	723.2	–	1.5	(6.9)	–	–	(232.6)	494.7	10.3	505.0		
Balance at 31 December 2020	119.1	3,277.5	113.9	(1.1)	21.9	61.6	169.1	5,897.2	9,659.2	11.9	9,671.1		

¹ Non-controlling interests relate to Vailog S.r.l. and Sofibus Patrimoine SA. During the year non-controlling interests of £11.9 million were recognised upon the acquisition of Sofibus Patrimoine SA, see Note 7 for further details.

For the year ended 31 December 2019

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

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

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities	15(i)	233.2	291.6
Interest received		42.6	47.1
Dividends received		33.8	33.3
Interest paid		(94.2)	(91.7)
Cost of new interest rate derivatives transacted		(12.4)	(11.4)
Proceeds from early close out of interest rate derivatives		12.4	6.9
Cost of early close out of debt		(10.9)	(18.6)
Tax paid		(5.2)	(46.9)
Net cash received from operating activities		199.3	210.3
Cash flows from investing activities			
Purchase and development of investment properties ¹		(1,215.9)	(602.9)
Sale of investment properties		159.2	412.4
Acquisition of other interests in property		(3.9)	(13.3)
Purchase of plant and equipment and intangibles		(4.9)	(2.7)
Acquisition of other investments		(0.3)	(1.2)
Investment and loans to joint ventures		(39.8)	(148.6)
Divestment and repayment of loans from joint ventures		–	136.4
Net cash used in investing activities		(1,105.6)	(219.9)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		(179.5)	(141.7)
Proceeds from borrowings		550.6	10.2
Repayment of borrowings		(122.1)	(251.1)
Principal element of lease payments		(1.6)	(0.9)
Settlement of foreign exchange derivatives		(55.0)	26.9
Purchase of non-controlling interest		–	(7.9)
Proceeds from issue of ordinary shares		672.1	444.0
Purchase of ordinary shares		(2.0)	(3.4)
Net cash generated from financing activities		862.5	76.1
Net (decrease)/increase in cash and cash equivalents		(43.8)	66.5
Cash and cash equivalents at the beginning of the year		132.5	66.5
Effect of foreign exchange rate changes		0.3	(0.5)
Cash and cash equivalents at the end of the year	13	89.0	132.5

¹ Cash payment for the purchase and development of investment properties of £1,215.9 million (2019: £602.9 million) represents total costs for property acquisitions and additions to existing investment properties per Note 12 of £1,329.3 million (2019: £595.9 million) adjusted for the following cash and non-cash movements: deducts interest capitalised of £6.8 million (2019: £8.2 million); deducts net movement in capital accruals and prepayments of £29.8 million (2019: adds back £15.2 million); deducts other non-cash movements of £76.8 million (2019: £nil) mainly for transfers from other interests in properties and investments and the acquisition of Sofibus Patrimoine SA.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated statutory accounts for the years ended 31 December 2020 and 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 (approved by the Board on 18 February 2021) will be delivered following the Company's annual general meeting. The external auditor has reported on the accounts and their reports did not contain any modifications.

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

The financial information set out in this announcement is based on the consolidated financial statements which are prepared in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 2019 financial statements apart from as detailed below.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of IAS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, this announcement does not itself contain sufficient information to comply with IASs and IFRSs. The Company expects to publish full financial statements that comply with IASs and IFRSs by March 2021.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.12 (31 December 2019: £1 = €1.18) and Income statement: £1 = €1.13 (31 December 2019: £1 = €1.14).

New and amended standards adopted by the Group

A number of new or amended standards become applicable for the current reporting year.

Amendments to IFRS 3 'Business Combinations', Definition of a Business, provides a revised framework for evaluating a business and introduces an optional 'concentration test'. The amendment impacts the assessment and judgements used in determining whether property transactions represent an asset acquisition or business combination. As a result of the amendment it is expected that future transactions are more likely to be treated as an asset acquisition. The optional 'concentration test' has been applied for the acquisition of Sofibus Patrimoine SA in the year, see Note 7 for further details.

The other standards and amendments did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

2. ADJUSTED PROFIT

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

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

The Directors may also exclude from the EPRA profit measure additional items (gains and losses) which are considered by them to be non-recurring, unusual or significant by virtue of size and nature. No non-EPRA adjustments to underlying profit were made in the current or prior period.

	Notes	2020 £m	2019 £m
Gross rental income	4	392.9	362.0
Property operating expenses	5	(88.3)	(80.7)
Net rental income		304.6	281.3
Joint venture fee income	4	21.6	20.4
Administration expenses		(51.5)	(51.5)
Share of joint ventures' Adjusted profit after tax ¹	6	61.5	54.0
Adjusted operating profit before interest and tax		336.2	304.2
Net finance costs (including adjustments)	8	(39.7)	(36.7)
Adjusted profit before tax		296.5	267.5
Adjustments to reconcile to IFRS:			
Adjustments to the share of profit from joint ventures after tax ¹	6	175.0	149.1
Realised and unrealised property gain	7	988.6	489.2
Gain on sale of trading properties	12	1.2	6.9
Cost of early close out of debt	8	(10.9)	(18.6)
Net fair value gain on interest rate swaps and other derivatives	8	13.7	7.9
Total adjustments		1,167.6	634.5
Profit before tax		1,464.1	902.0
Tax			
On Adjusted profit	9	(4.0)	(3.2)
In respect of adjustments	9	(31.0)	(38.2)
Total tax adjustments		(35.0)	(41.4)
Profit after tax before non-controlling interests		1,429.1	860.6
Non-controlling interests:			
Less: share of adjusted profit attributable to non-controlling interests		(0.2)	(0.2)
: share of adjustments attributable to non-controlling interests		(2.0)	(2.5)
Profit after tax and non-controlling interests		1,426.9	857.9
Of which:			
Adjusted profit after tax and non-controlling interests		292.3	264.1
Total adjustments after tax and non-controlling interests		1,134.6	593.8
Profit attributable to equity shareholders		1,426.9	857.9

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

3. SEGMENTAL ANALYSIS

The Group's reportable segments are the geographical Business Units: Greater London, Thames Valley, 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 2020	Gross rental income £m	Net rental income £m	Share of joint ventures' Adjusted profit £m	Adjusted PBIT ² £m	Total directly owned property assets £m	Investments in joint ventures £m	Capital expenditure ³ £m
Thames Valley	83.7	78.3	–	75.8	1,996.7	–	57.5
National Logistics	34.1	33.9	(0.1)	33.3	1,223.3	0.6	267.1
Greater London	160.3	140.3	–	137.7	4,867.0	–	453.9
Northern Europe	29.4	17.9	25.2	47.7	682.3	803.3	29.2
Southern Europe	74.8	43.9	30.4	79.5	1,803.3	914.3	566.0
Central Europe	10.6	4.2	22.0	30.3	150.9	495.7	3.7
Other ¹	–	(13.9)	(16.0)	(68.1)	–	(790.9)	5.0
Total	392.9	304.6	61.5	336.2	10,723.5	1,423.0	1,382.4

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

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

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

3 Capital expenditure includes additions and acquisitions of investment and trading properties but does not include tenant incentives, letting fees and rental guarantees. Part of the capital expenditure incurred is in response to climate change including the reduction of the carbon footprint of the Group's existing investment properties and developments. The 'Other' category includes non-property related spend, primarily IT.

4. REVENUE

	2020 £m	2019 £m
Rental income from investment and trading properties	335.6	306.9
Rent averaging	18.2	25.1
Service charge income*	35.0	27.6
Management fees*	3.3	1.4
Surrender premiums and dividend income from property related investments	0.8	1.0
Gross rental income¹	392.9	362.0
Joint venture fee income - management fees*	21.6	20.4
Proceeds from sale of trading properties*	17.2	50.1
Total revenue	431.7	432.5

* The above income streams reflect revenue recognition under IFRS 15 'Revenue from Contracts with Customers' and total £77.1 million (2019: £99.5 million).

1 Net rental income of £304.6 million (2019: £281.3 million) is calculated as gross rental income of £392.9 million (2019: £362.0 million) less total property operating expenses of £88.3 million (2019: £80.7 million) shown in Note 5.

5. COSTS

	2020 £m	2019 £m
Vacant property costs	3.4	4.8
Letting, marketing, legal and professional fees	10.1	8.5
Loss allowance and impairment of receivables	3.8	1.0
Service charge expense	35.0	27.6
Other expenses	8.7	10.5
Property management expenses	61.0	52.4
Property administration expenses ¹	36.0	35.6
Costs capitalised ²	(8.7)	(7.3)
Total property operating expenses	88.3	80.7
Trading properties cost of sales	16.0	43.2
Total costs	104.3	123.9

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

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

6. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

6(i) Profit from joint ventures after tax

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

	SELP £m	Roxhill £m	Other £m	At 100% 2020 £m	At 100% 2019 £m	At 50% 2020 £m	At 50% 2019 £m
Revenue¹	242.4	6.9	–	249.3	223.5	124.7	111.8
Gross rental income	242.4	–	–	242.4	214.1	121.2	107.1
Property operating expenses							
-underlying property operating expenses	(11.1)	–	(0.2)	(11.3)	(8.5)	(5.7)	(4.2)
-vacant property costs	(2.8)	–	–	(2.8)	(2.1)	(1.4)	(1.1)
-property management fees ²	(19.2)	–	–	(19.2)	(17.1)	(9.6)	(8.6)
-service charge expense	(48.0)	–	–	(48.0)	(44.1)	(24.0)	(22.1)
Net rental income	161.3	–	(0.2)	161.1	142.3	80.5	71.1
Administration expenses	(3.2)	–	–	(3.2)	(3.3)	(1.6)	(1.6)
Finance costs	(24.5)	–	–	(24.5)	(20.1)	(12.3)	(10.0)
Adjusted profit/(loss) before tax	133.6	–	(0.2)	133.4	118.9	66.6	59.5
Tax	(10.3)	–	–	(10.3)	(10.9)	(5.1)	(5.5)
Adjusted profit/(loss) after tax	123.3	–	(0.2)	123.1	108.0	61.5	54.0
Adjustments:							
Profit/(loss) on sale of investment properties	1.9	–	–	1.9	(1.1)	1.0	(0.6)
Valuation surplus on investment properties	424.0	–	–	424.0	437.0	212.0	218.6
Impairment of other interests in properties	–	–	–	–	(9.7)	–	(4.9)
Profit on sale of trading properties	–	0.1	–	0.1	2.1	–	1.1
Other investment income	–	5.2	–	5.2	–	2.6	–
Tax in respect of adjustments	(81.2)	–	–	(81.2)	(130.2)	(40.6)	(65.1)
Total adjustments	344.7	5.3	–	350.0	298.1	175.0	149.1
Profit/(loss) after tax	468.0	5.3	(0.2)	473.1	406.1	236.5	203.1
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income/(expense) for the year	468.0	5.3	(0.2)	473.1	406.1	236.5	203.1

1 Total revenue at 100% of £249.3 million (2019: £223.5 million) includes: Gross rental income £242.4 million (2019: £214.1 million) and proceeds from sale of trading properties £6.9 million (2019: £9.4 million). Proceeds from sale of trading properties is presented net of cost of sale and shown in the line item 'Profit on sale of trading properties' in the table above.

2. Property management fees paid to SEGRO.

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

	SELP £m	Roxhill £m	Other £m	At 100% 2020 £m	At 100% 2019 £m	At 50% 2020 £m	At 50% 2019 £m
Investment properties	4,695.3	–	–	4,695.3	3,796.7	2,347.7	1,898.3
Other interests in property	–	0.2	–	0.2	16.6	0.1	8.3
Total non-current assets	4,695.3	0.2	–	4,695.5	3,813.3	2,347.8	1,906.6
Trading properties	–	–	–	–	1.9	–	1.0
Other receivables	111.2	0.9	2.5	114.6	127.3	57.3	63.7
Cash and cash equivalents	46.6	0.1	1.6	48.3	42.0	24.2	21.0
Total current assets	157.8	1.0	4.1	162.9	171.2	81.5	85.7
Total assets	4,853.1	1.2	4.1	4,858.4	3,984.5	2,429.3	1,992.3
Borrowings	(1,574.4)	–	–	(1,574.4)	(1,338.4)	(787.2)	(669.2)
Deferred tax	(345.5)	–	–	(345.5)	(243.2)	(172.8)	(121.6)
Total non-current liabilities	(1,919.9)	–	–	(1,919.9)	(1,581.6)	(960.0)	(790.8)
Borrowings	–	–	–	–	(50.1)	–	(25.1)
Other liabilities	(92.6)	–	–	(92.6)	(110.0)	(46.3)	(55.0)
Total current liabilities	(92.6)	–	–	(92.6)	(160.1)	(46.3)	(80.1)
Total liabilities	(2,012.5)	–	–	(2,012.5)	(1,741.7)	(1,006.3)	(870.9)
Net assets	2,840.6	1.2	4.1	2,845.9	2,242.8	1,423.0	1,121.4

The external borrowings of the joint ventures are non-recourse to the Group. At 31 December 2020, the fair value of £1,574.4 million (2019: £1,388.4 million) of borrowings was £1,651.0 million (2019: £1,427.3 million). This results in a fair value adjustment decrease in EPRA NDV net asset value of £76.6 million (2019: £38.9 million decrease), at share £38.3 million (2019: £19.4 million), see Table 5 of the Supplementary Notes.

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

In 2018 SELP paid a £52.4 million performance fee including the amount subject to clawback (fee denominated in euros). Only £26.2 million, representing the 50 per cent of the performance fee paid not subject to future clawback, was recognised by SEGRO in the 2018 Income Statement (SELP recognised a corresponding performance fee expense of £26.2 million (at share £13.1 million) in the SELP 2018 Income Statement).

SEGRO has not recognised the 50 per cent of the performance fee income subject to future clawback in the Income Statement as management have judged the revenue recognition criteria has not been met (accordingly the performance fee expense has not been recognised in the share of profits from joint ventures in table 6(i)). The IRR calculation to determine whether the hurdle rates will be met when the performance period ends in October 2023 is an estimation and sensitive to movements and assumptions in property valuations over the remaining performance period. Due to the estimation uncertainties that exist in calculating the IRR management do not consider it highly probable there will not be a significant reversal of the fee subject to clawback over the remaining performance period. The performance fee subject to clawback has been recognised by SEGRO as a contract liability within Trade and other payables at 31 December 2020 and 31 December 2019.

6(iii) Investments by Group

	2020 £m	2019 £m
Cost or valuation at 1 January	1,121.4	999.9
Exchange movement	62.0	(65.2)
Net investments ¹	39.8	16.9
Disposals	(2.9)	–
Dividends received ²	(33.8)	(33.3)
Share of profit after tax	236.5	203.1
Cost or valuation at 31 December	1,423.0	1,121.4

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

2 Dividends received from SELP and Roxhill.

7. REALISED AND UNREALISED PROPERTY GAIN

	2020 £m	2019 £m
Profit on sale of investment properties	5.1	7.2
Valuation surplus on investment properties ¹	970.6	476.7
(Increase)/decrease in provision for impairment of trading properties	(0.1)	1.4
Increase in provision for impairment of other interests in property	(0.6)	(0.4)
Valuation surplus on other investments ²	13.6	4.3
Total realised and unrealised property gain	988.6	489.2

1 Includes £971.1 million valuation surplus on investment properties (2019: £477.1 million) less £0.5 million valuation loss on head lease ROU asset (2019: £0.4 million).

2. On 15 December 2020 SEGRO acquired an additional 74.9 per cent of the share capital of Sofibus Patrimoine SA (Sofibus) for €178.6 million. This increased SEGRO's total shareholding in Sofibus to 94.4 per cent and as a result Sofibus is now controlled by the Group. As control of Sofibus was achieved in stages, the carrying value of the previously held 19.5 per cent equity interest which was classified as Other investments has been remeasured to fair value at the acquisition date. This resulted in a fair value gain of £13.6 million which has been recognised in the Income Statement within realised and unrealised property gain and shown in the table above. The transaction has been treated as an asset acquisition and therefore the property acquired is reflected in the 'Property acquisitions' line in the tables shown in Note 12. In February 2021 SEGRO filed a draft offer document with the French financial market authority as part of the process to acquire the remaining 5.6% shares in Sofibus at a price of €313.71 per share (€13.7 million in total). SEGRO intends to enter Sofibus into the French SIIC regime during 2021.

Total valuation surplus on investment and trading properties total £1,182.5 million (2019: £696.7 million). This comprises £970.6 million surplus from investment properties (2019: £476.7 million), £0.1 million impairment from trading properties (2019: £1.4 million surplus) and £212.0 million surplus from joint ventures at share (2019: £218.6 million).

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

8. NET FINANCE COSTS

	2020 £m	2019 £m
Finance income		
Interest received on bank deposits and related derivatives	27.0	32.0
Fair value gain on interest rate swaps and other derivatives	23.0	33.1
Exchange differences	–	0.2
Total finance income	50.0	65.3

	2020 £m	2019 £m
Finance costs		
Interest on overdrafts, loans and related derivatives	(68.0)	(71.8)
Cost of early close out of debt	(10.9)	(18.6)
Amortisation of issue costs	(2.4)	(2.3)
Interest on lease liabilities	(3.1)	(3.0)
Total borrowing costs	(84.4)	(95.7)
Less amount capitalised on the development of properties	7.0	8.2
Net borrowing costs	(77.4)	(87.5)
Fair value loss on interest rate swaps and other derivatives	(9.3)	(25.2)
Exchange differences	(0.2)	–
Total finance costs	(86.9)	(112.7)
Net finance costs	(36.9)	(47.4)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £39.7 million (2019: £36.7 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £13.7 million gain (2019: £7.9 million gain) and the cost of early close out of debt of £10.9 million (2019: £18.6 million).

9. TAX

9(i) Tax on profit

	2020 £m	2019 £m
Tax:		
On Adjusted profit	(4.0)	(3.2)
In respect of adjustments	(31.0)	(38.2)
Total tax charge	(35.0)	(41.4)
Current tax		
United Kingdom		
Current tax credit	0.9	0.3
Total UK current tax credit	0.9	0.3
Overseas		
Current tax charge	(8.1)	(12.0)
Adjustments in respect of earlier years	4.4	(0.3)
Total overseas current tax charge	(3.7)	(12.3)
Total current tax charge	(2.8)	(12.0)
Deferred tax		
Origination and reversal of temporary differences	(3.2)	(6.1)
Released in respect of property disposals in the year	5.0	4.7
On valuation movements	(39.0)	(39.2)
Total deferred tax in respect of investment properties	(37.2)	(40.6)
Other deferred tax	5.0	11.2
Total deferred tax charge	(32.2)	(29.4)
Total tax charge on profit on ordinary activities	(35.0)	(41.4)

9(ii) Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January 2020 £m	Exchange movement £m	Acquisitions /disposals £m	Recognised in income £m	Balance 31 December 2020 £m
Valuation surpluses and deficits on properties/accelerated tax allowances	51.4	3.6	(1.9)	31.3	84.4
Deferred tax asset on revenue losses	(0.5)	–	–	–	(0.5)
Others	2.3	0.1	(0.2)	0.9	3.1
Total deferred tax liabilities	53.2	3.7	(2.1)	32.2	87.0

10. DIVIDENDS

	2020 £m	2019 £m
Ordinary dividends paid		
Interim dividend for 2020 @ 6.90 pence per share	82.2	–
Final dividend for 2019 @ 14.40 pence per share	157.9	–
Interim dividend for 2019 @ 6.30 pence per share	–	68.9
Final dividend for 2018 @ 13.25 pence per share	–	143.7
Total dividends	240.1	212.6

The Board recommends a final dividend for 2020 of 15.2 pence which is estimated to result in a distribution of up to £181.1 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2020 is 22.1 pence (2019: 20.7 pence).

The total dividend in 2020 of £240.1 million (2019: £212.6 million) was paid: £179.5 million as cash (2019: £141.7 million) and £60.6 million in scrip dividends (2019: £70.9 million).

11. EARNINGS AND NET ASSETS PER ORDINARY SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 0.4 million shares (2019: 0.4 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.3 million shares (2019: 0.6 million) being the actual number of shares held on trust for employee share schemes at year end.

11(i) Earnings per ordinary share (EPS)

	2020			2019		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic EPS	1,426.9	1,149.8	124.1	857.9	1,081.3	79.3
Dilution adjustments:						
Share and save as you earn schemes	–	4.7	(0.5)	–	5.8	(0.4)
Diluted EPS	1,426.9	1,154.5	123.6	857.9	1,087.1	78.9
Basic EPS	1,426.9	1,149.8	124.1	857.9	1,081.3	79.3
Adjustments to profit before tax ¹	(1,167.6)		(101.6)	(634.5)		(58.7)
Tax in respect of Adjustments	31.0		2.7	38.2		3.6
Non-controlling interest on Adjustments	2.0		0.2	2.5		0.2
Adjusted Basic EPS	292.3	1,149.8	25.4	264.1	1,081.3	24.4
Adjusted Diluted EPS	292.3	1,154.5	25.3	264.1	1,087.1	24.3

¹ Details of adjustments are included in Note 2.

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

In October 2019, EPRA issued new Best Practices Recommendations guidelines for Net Asset Value (NAV) metrics, these recommendations are effective for accounting periods starting on 1 January 2020 and have been adopted by the Group in reporting the 31 December 2020 position.

EPRA have introduced three new NAV metrics: EPRA Net Tangible Assets (NTA), EPRA Net Reinstatement Value (NRV) and EPRA Net Disposal Value (NDV).

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

A reconciliation from IFRS NAV to Adjusted NAV as at 31 December 2020 is set out in the table below along with the net asset per share metrics. The 31 December 2019 position has been represented on a comparable basis.

Table 5 of the Supplementary Notes provides more details of the changes and the calculation for each of the three new EPRA net asset value metrics.

	2020			2019		
	Equity attributable to ordinary shareholders £m	Shares million	Pence per share	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic NAV	9,659.2	1,191.3	811	7,677.6	1,096.1	700
Dilution adjustments:						
Share and save as you earn schemes	–	3.4	(2)	–	6.0	(3)
Diluted NAV	9,659.2	1,194.7	809	7,677.6	1,102.1	697
Fair value adjustment in respect of interest rate derivatives – Group	(61.0)		(5)	(50.5)		(5)
Fair value adjustment in respect of trading properties – Group	0.9		–	–		–
Fair value adjustment in respect of trading properties – Joint ventures	–		–	0.9		–
Deferred tax in respect of depreciation and valuation surpluses – Group ¹	42.2		3	26.0		2
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures ¹	85.5		7	60.6		6
Intangible assets	(1.6)		–	(2.5)		–
Adjusted NAV	9,725.2	1,194.7	814	7,712.1	1,102.1	700

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

12. PROPERTIES

12(i) Investment properties

	Completed £m	Development £m	Total £m
At 1 January 2020	7,407.2	807.9	8,215.1
Exchange movement	75.9	20.9	96.8
Property acquisitions	564.0	260.3	824.3
Additions to existing investment properties	34.0	471.0	505.0
Disposals	(140.3)	(14.6)	(154.9)
Transfers on completion of development	620.6	(620.6)	–
Transfer from trading properties	–	1.5	1.5
Revaluation surplus during the year	835.6	135.5	971.1
At 31 December 2020	9,397.0	1,061.9	10,458.9
Add tenant lease incentives, letting fees and rental guarantees	135.6	–	135.6
Investment properties excluding head lease ROU assets at 31 December 2020	9,532.6	1,061.9	10,594.5
Add head lease liabilities (ROU assets) ¹	76.9	–	76.9
Total investment properties at 31 December 2020	9,609.5	1,061.9	10,671.4

¹ At 31 December 2020 investment properties included £76.9 million (2019: £70.2 million) for the head lease liabilities recognised under IFRS 16.

Investment properties are stated at fair value as at 31 December 2020 based on external valuations performed by professionally qualified, independent valuers. The Group's wholly-owned and joint venture property portfolio is valued by CBRE Ltd on a half-yearly basis. The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties. In estimating the fair value of the properties, the valuers consider the highest and best use of the properties. There has been no change to the valuation technique during the year.

CBRE Ltd also undertakes some professional and agency work on behalf of the Group, although this is limited relative to the activities provided by other advisors to the Group as a whole.

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.

The carrying value of investment properties situated on land held under leaseholds is £178.9 million (excluding head lease ROU assets) (2019: £151.5 million).

The disposals of investment properties during the year include properties with a carrying value of £92.1 million (2019: £221.0 million) sold to the SELP joint venture. Total proceeds received by SEGRO was £92.9 million (2019: £229.0 million).

12(ii) Trading properties

	2020 £m	2019 £m
At 1 January	20.2	51.7
Exchange movement	1.4	(1.2)
Property acquisitions	34.2	–
Additions to existing trading properties	13.9	8.4
Disposals ¹	(16.0)	(43.2)
(Increase)/decrease in provision for impairment during the year	(0.1)	1.4
Transfer (to)/from investment properties	(1.5)	3.1
At 31 December	52.1	20.2

¹ Gain on sale of trading properties of £1.2 million in the year (2019: £6.9 million) have been generated from total proceeds of £17.2 million (2019: £50.1 million), see Note 4, less costs of £16.0 million (2019: £43.2 million), see Note 5.

Trading properties were externally valued, as detailed in Note 12(i), resulting in an increase in the provision for impairment of £0.1 million (2019: decrease of £1.4 million). Based on the fair value at 31 December 2020, the portfolio has unrecognised surplus of £0.9 million (2019: £nil).

13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2020 £m	2019 £m
In one year or less	0.9	–
In more than one year but less than two	0.9	79.3
In more than two years but less than five	217.8	120.6
In more than five years but less than ten	934.2	896.5
In more than ten years	1,260.2	847.1
In more than one year	2,413.1	1,943.5
Total borrowings	2,414.0	1,943.5
Cash and cash equivalents	(89.0)	(132.5)
Net borrowings	2,325.0	1,811.0

Total borrowings is split between secured and unsecured as follows:

Secured (on land, buildings and other assets)	14.5	2.6
Unsecured	2,399.5	1,940.9
Total borrowings	2,414.0	1,943.5

Currency profile of total borrowings after derivative instruments

Sterling	179.5	184.7
Euros	2,234.5	1,758.8
Total borrowings	2,414.0	1,943.5

Maturity profile of undrawn borrowing facilities

In one year or less	18.8	8.5
In more than one year but less than two	–	–
In more than two years	953.6	1,032.2
Total available undrawn facilities	972.4	1,040.7

During the year the Group undertook a debt refinancing exercise including issuing €450 million of US Private Placement notes and redeemed £118 million of sterling bonds due in 2021 and 2022 at a cost of £10.9 million above carrying value (see Note 8). The debt refinancing is discussed in more detail in the Finance Review.

14. SHARE CAPITAL

	Number of shares m	Par value of shares £m
Issued and fully paid ordinary shares at 10p each:		
At 1 January 2020	1,096.7	109.6
Issue of shares – placing	82.9	8.3
Issue of shares – scrip dividends	8.2	0.8
Issue of shares – other	3.8	0.4
At 31 December 2020	1,191.6	119.1

On 9 June 2020 the Company announced the placing of 82.9 million ordinary shares of 10 pence each in the capital of the Company at a price of 820 pence per share. The Company raised £680.0 million, before £8.7 million expenses and as a result the Company's share capital increased by £8.3 million and share premium by £663.0 million.

15. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

15(i) Reconciliation of cash generated from operations

	2019 £m	2019 £m
Operating profit	1,501.0	949.4
Adjustments for:		
Depreciation of property, plant and equipment	3.6	3.4
Share of profit from joint ventures after tax	(236.5)	(203.1)
Profit on sale of investment properties	(5.1)	(7.2)
Revaluation surplus on investment properties	(970.6)	(476.7)
Valuation gain on other investments	(13.6)	(4.3)
Other provisions	3.9	8.2
	282.7	269.7
Changes in working capital:		
(Increase)/decrease in trading properties	(19.6)	30.9
Increase in debtors and tenant incentives	(52.4)	(59.3)
Increase in creditors	22.5	50.3
Net cash inflow generated from operations	233.2	291.6

15(ii) Analysis of net debt

	Cash movements				Non-cash adjustments				At 31 December 2020 £m
	At 1 January 2020 £m	Acquired ⁴ £m	Cash inflow ¹ £m	Cash outflow ² £m	Exchange movement £m	Fair value changes £m	Cost of early close out of debt £m	Other non-cash Adjustment ³ £m	
Bank loans and loan capital	1,958.3	12.1	550.6	(133.0)	31.6	–	10.9	–	2,430.5
Capitalised finance costs	(14.8)	–	–	(4.1)	–	–	–	2.4	(16.5)
Total borrowings	1,943.5	12.1	550.6	(137.1)	31.6	–	10.9	2.4	2,414.0
Cash in hand and at bank	(132.5)	(19.6)	–	63.4	(0.3)	–	–	–	(89.0)
Net debt	1,811.0	(7.5)	550.6	(73.7)	31.3	–	10.9	2.4	2,325.0

1 Proceeds from borrowings of £550.6 million.

2 Group cash outflow of £137.1 million, comprises the repayment of borrowings of £122.1 million, cash settlement for early repayment of debt of £10.9 million and capitalised issue costs of £4.1 million.

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

4 Acquired represents cash and borrowings assumed from the acquisition of Sofibus detailed further in Note 7.

16. RELATED PARTY TRANSACTIONS

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

SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

	Notes	2020		2019	
		£m	Pence per share	£m	Pence per share
EPRA Earnings	Table 4	292.3	25.4	264.1	24.4
EPRA NTA	Table 5	9,725.2	814	7,712.1	700
EPRA NRV	Table 5	10,571.2	885	8,370.7	760
EPRA NDV	Table 5	9,155.3	766	7,425.8	674
EPRA net initial yield	Table 6		3.8%		3.8%
EPRA 'topped up' net initial yield	Table 6		4.1%		4.3%
EPRA vacancy rate	Table 7		3.9%		4.0%
EPRA cost ratio (including vacant property costs)	Table 8		21.1%		22.9%
EPRA cost ratio (excluding vacant property costs)	Table 8		20.1%		21.5%

TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

	Notes	2020			2019		
		Group £m	JV £m	Total £m	Group £m	JV £m	Total £m
Gross rental income	2,6	392.9	121.2	514.1	362.0	107.1	469.1
Property operating expenses	2,6	(88.3)	(31.1)	(119.4)	(80.7)	(27.4)	(108.1)
Net rental income		304.6	90.1	394.7	281.3	79.7	361.0
Joint venture fee income ¹	2	21.6	(9.6)	12.0	20.4	(8.6)	11.8
Administration expenses	2,6	(51.5)	(1.6)	(53.1)	(51.5)	(1.6)	(53.1)
Adjusted operating profit before interest and tax		274.7	78.9	353.6	250.2	69.5	319.7
Net finance costs (including adjustments)	2,6	(39.7)	(12.3)	(52.0)	(36.7)	(10.0)	(46.7)
Adjusted profit before tax		235.0	66.6	301.6	213.5	59.5	273.0
Tax on adjusted profit	2,6	(4.0)	(5.1)	(9.1)	(3.2)	(5.5)	(8.7)
Adjusted/EPRA earnings before non-controlling interests		231.0	61.5	292.5	210.3	54.0	264.3
Non-controlling interest on adjusted profit	2,6	(0.2)	–	(0.2)	(0.2)	–	(0.2)
Adjusted/EPRA earnings after non-controlling interests		230.8	61.5	292.3	210.1	54.0	264.1
Number of shares, million	11			1,149.8			1,081.3
Adjusted/EPRA EPS, pence per share				25.4			24.4
Number of shares, million	11			1,154.5			1,087.1
Adjusted/EPRA EPS, pence per share – diluted				25.3			24.3

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

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

TABLE 3: BALANCE SHEET, PROPORTIONAL CONSOLIDATION

	Notes	2020			2019		
		Group £m	JV £m	Total £m	Group £m	JV £m	Total £m
Investment properties	12,6	10,671.4	2,347.7	13,019.1	8,401.7	1,898.3	10,300.0
Trading properties	12,6	52.1	–	52.1	20.2	1.0	21.2
Total properties		10,723.5	2,347.7	13,071.2	8,421.9	1,899.3	10,321.2
Investment in joint ventures	6	1,423.0	(1,423.0)	–	1,121.4	(1,121.4)	–
Other net liabilities		(162.3)	(161.7)	(324.0)	(54.7)	(104.6)	(159.3)
Net borrowings	13,6	(2,325.0)	(763.0)	(3,088.0)	(1,811.0)	(673.3)	(2,484.3)
Total shareholders' equity¹		9,659.2	–	9,659.2	7,677.6	–	7,677.6
EPRA adjustments	11			66.0			34.5
Adjusted NAV	11			9,725.2			7,712.1
Number of shares, million	11			1,194.7			1,102.1
Adjusted NAV, pence per share	11			814			700

¹ After non-controlling interests.

Loan to value of 23.8 per cent is calculated as net borrowings of £3,088.0 million divided by total properties (excluding head lease ROU asset of £76.9 million) of £12,994.3 million (2019: 24.2 per cent; £2,484.3 million net borrowings; £10,251.0 million total properties).

The portfolio valuation uplift of 10.3 per cent shown in the Investment Update section cannot be directly derived from the Financial Statements and is calculated to be comparable with published MSCI Real Estate indices against which we are measured. Based on the Financial Statements there is a valuation surplus of £1,182.5 million (see Note 7) and property value of £12,994.3 million (paragraph above) giving a valuation uplift of 10.0 per cent. The primary differences are that the uplift excludes the impact of rent free incentives (£23.5 million, +0.2 per cent) and other movements (£7.0 million, +0.1 per cent) primarily due to foreign exchange based on closing rate as opposed to average used in the Financial Statements.

Total assets under management of £15,342.8 million (2019: £12,220.5 million) includes Group total properties of £10,647.5 million (which excludes head lease ROU asset of £76.9 million and includes valuation surpluses not recognised on trading properties of £0.9 million) and 100 per cent of total properties owned by joint ventures of £4,695.3 million (see Note 6 (ii)).

Total disposals completed in 2020 of £138.8 million shown in the Investment Update section includes: Carrying value of investment properties disposed by SEGRO Group of £154.9 million (see Note 12) and profit generated on disposal of £5.1 million (see Note 7); proceeds from the sale of trading properties by SEGRO Group of £17.2 million (see Note 4); share of joint venture disposal proceeds of £7.6 million; carrying value of lease incentives, letting fees and rental guarantees disposed by SEGRO Group and joint venture (at share) of £3.0 million; and excludes 50 per cent of the disposal proceeds for assets sold by SEGRO to SELP JV of £46.5 million (see Note 12) and certain proceeds from the sale of trading properties of £2.5 million.

TABLE 4: EPRA EARNINGS

	Notes	2020 £m	2019 £m
Earnings per IFRS income statement		1,426.9	857.9
Adjustments to calculate EPRA Earnings, exclude:			
Valuation surplus on investment properties	7	(970.6)	(476.7)
Profit on sale of investment properties	7	(5.1)	(7.2)
Gain on sale trading properties	12	(1.2)	(6.9)
Increase/(decrease) in provision for impairment of trading properties	7	0.1	(1.4)
Increase in provision for impairment of other interests in property	7	0.6	0.4
Valuation surplus on other investments	7	(13.6)	(4.3)
Tax on profits on disposals ¹		(0.3)	9.2
Costs of early close out of debt	8	10.9	18.6
Net fair value gain on interest rate swaps and other derivatives	8	(13.7)	(7.9)
Deferred tax charge in respect of EPRA adjustments ¹		31.3	29.0
Adjustments to the share of profit from joint ventures after tax	6	(175.0)	(149.1)
Non-controlling interests in respect of the above	2	2.0	2.5
EPRA earnings		292.3	264.1
Basic number of shares, million	11	1,149.8	1,081.3
EPRA Earnings per Share (EPS)		25.4	24.4
Company specific adjustments:			
Non-EPRA adjustments	2	–	–
Adjusted earnings		292.3	264.1
Adjusted EPS	11	25.4	24.4

1. Total tax charge in respect of adjustments per Note 2 of £31.0 million (2019: £38.2 million charge) comprises tax credit on profits on disposals of £0.3 million (2019: £9.2 million charge) and deferred tax charge of £31.3 million (2019: £29.0 million charge).

TABLE 5: EPRA NET ASSET MEASURES

In October 2019, the European Public Real Estate Association (EPRA) published new Best Practices Recommendations (BPR) for financial disclosures by public real estate companies. The BPR introduced three new measures of net asset value: EPRA net tangible assets (NTA), EPRA net reinstatement value (NRV) and EPRA net disposal value (NDV).

These recommendations are effective for accounting periods starting on 1 January 2020 and have been adopted by the Group in reporting the 31 December 2020 position.

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

A reconciliation of the three new EPRA NAV metrics from IFRS NAV is shown in the table below. The previously reported EPRA NAV and EPRA NNNAV have also been included for comparative purposes.

	Current measures			Previously reported measures	
	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	EPRA NAV £m	EPRA NNNAV £m
As at 31 December 2020					
Equity attributable to ordinary shareholders	9,659.2	9,659.2	9,659.2	9,659.2	9,659.2
Fair value adjustment in respect of interest rate derivatives – Group	(61.0)	(61.0)	-	(61.0)	-
Fair value adjustment in respect of trading properties – Group	0.9	0.9	0.9	0.9	0.9
Fair value adjustment in respect of trading properties – Joint ventures	-	-	-	-	-
Deferred tax in respect of depreciation and valuation surpluses – Group ¹	42.2	84.4	-	84.4	-
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures ¹	85.5	171.0	-	171.0	-
Intangible assets	(1.6)	-	-	-	-
Fair value adjustment in respect of debt – Group	-	-	(466.5)	-	(466.5)
Fair value adjustment in respect of debt – Joint ventures	-	-	(38.3)	-	(38.3)
Real estate transfer tax ²	-	716.7	-	-	-
Net assets	9,725.2	10,571.2	9,155.3	9,854.5	9,155.3
Diluted shares (million)	1,194.7	1,194.7	1,194.7	1,194.7	1,194.7
Diluted new assets per share	814	885	766	825	766

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

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

	Current measures			Previously reported measures	
	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	EPRA NAV £m	EPRA NNNAV £m
As at 31 December 2019					
Equity attributable to ordinary shareholders	7,677.6	7,677.6	7,677.6	7,677.6	7,677.6
Fair value adjustment in respect of interest rate derivatives – Group	(50.5)	(50.5)	-	(50.5)	-
Fair value adjustment in respect of trading properties – Group	-	-	-	-	-
Fair value adjustment in respect of trading properties – Joint ventures	0.9	0.9	0.9	0.9	0.9
Deferred tax in respect of depreciation and valuation surpluses – Group ¹	26.0	51.9	-	51.9	-
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures ¹	60.6	121.1	-	121.1	-
Intangible assets	(2.5)	-	-	-	-
Fair value adjustment in respect of debt – Group	-	-	(233.3)	-	(233.3)
Fair value adjustment in respect of debt – Joint ventures	-	-	(19.4)	-	(19.4)
Real estate transfer tax ²	-	569.7	-	-	-
Net assets	7,712.1	8,370.7	7,425.8	7,801.0	7,425.8
Diluted shares (million)	1,102.1	1,102.1	1,102.1	1,102.1	1,102.1
Diluted new assets per share	700	760	674	708	674

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

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

TABLE 6: EPRA NET INITIAL YIELD AND TOPPED-UP NET INITIAL YIELD

	Notes	UK £m	Continental Europe £m	Total £m
Combined property portfolio including joint ventures at share – 2020				
Total properties per financial statements	Table 3	8,087.0	4,984.2	13,071.2
Add valuation surplus not recognised on trading properties ¹	12	0.9	–	0.9
Less head lease ROU assets	12	–	(76.9)	(76.9)
Combined property portfolio per external valuers' report		8,087.9	4,907.3	12,995.2
Less development properties (investment, trading and joint ventures)		(673.1)	(514.9)	(1,188.0)
Net valuation of completed properties		7,414.8	4,392.4	11,807.2
Add notional purchasers' costs		501.6	215.1	716.7
Gross valuation of completed properties including notional purchasers' costs	A	7,916.4	4,607.5	12,523.9
Income				
Gross passing rents ²		282.3	198.5	480.8
Less irrecoverable property costs		(3.0)	(7.5)	(10.5)
Net passing rents	B	279.3	191.0	470.3
Adjustment for notional rent in respect of rent frees		23.7	22.2	45.9
Topped up net rent	C	303.0	213.2	516.2
Including fixed/minimum uplifts ⁴		10.8	0.1	10.9
Total topped up net rent		313.8	213.3	527.1
Yields – 2020				
		%	%	%
EPRA net initial yield ³	B/A	3.5	4.1	3.8
EPRA topped up net initial yield ³	C/A	3.8	4.6	4.1
Net true equivalent yield		4.3	4.8	4.5

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

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

3 In accordance with the Best Practices Recommendations of EPRA.

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

TABLE 7: EPRA VACANCY RATE

	2020 £m	2019 £m
Annualised estimated rental value of vacant premises	21.8	19.2
Annualised estimated rental value for the completed property portfolio	560.9	474.2
EPRA vacancy rate	3.9%	4.0%

TABLE 8: TOTAL COST RATIO/EPRA COST RATIO

	Notes	2020 £m	2019 £m
Costs			
Property operating expenses ¹	5	88.3	80.7
Administration expenses		51.5	51.5
Share of joint venture property operating and administration expenses	6	42.3	37.6
Less:			
Joint venture property management fee income, service charge income, management fees and other costs recovered through rents but not separately invoiced ²		(87.3)	(74.6)
Total costs (A)		94.8	95.2
Gross rental income			
Gross rental income	4	392.9	362.0
Share of joint venture property gross rental income	6	121.2	107.1
Less:			
Service charge income, management fees and other costs recovered through rents but not separately invoiced ²		(65.7)	(54.2)
Total gross rental income (B)		448.4	414.9
Total cost ratio (A)/(B)		21.1%	22.9%
Total costs (A)			
Share based payments		(10.4)	(12.5)
Total costs after share based payments (C)		84.4	82.7
Total cost ratio after share based payments (C)/(B)		18.8%	19.9%
EPRA cost ratio			
Total costs (A)			
Non-EPRA adjustments	2	–	–
EPRA total costs including vacant property costs (D)		94.8	95.2
Group vacant property costs	5	(3.4)	(4.8)
Share of joint venture vacant property costs	6	(1.4)	(1.1)
EPRA total costs excluding vacant property costs (E)		90.0	89.3
Total gross rental income (B)		448.4	414.9
Total EPRA cost ratio (including vacant property costs) (D)/(B)		21.1%	22.9%
Total EPRA cost ratio (excluding vacant property costs) (E)/(B)		20.1%	21.5%

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £8.7 million (2019: £7.3 million) (see Note 5 for further detail on the nature of costs capitalised).

2 Total deduction of £87.3 million (2019: £74.6 million) from costs includes: joint venture management fees income of £21.6 million (2019: £20.4 million), service charge income including joint ventures of £59.0 million (2019: £49.7 million) and management fees and other costs recovered through rents but not separately invoiced, including joint ventures, of £6.7 million (2019: £4.5 million). These items have been represented as an offset against costs rather than a component of income in accordance with EPRA BPR Guidelines as they are reimbursing the Group for costs incurred. Gross rental income of £392.9 million (2019: £362.0 million) does not include joint venture management fees income of £21.6 million (2019: £20.4 million) and are not included in the total deduction to income of £65.7 million (2019: £54.2 million).

GLOSSARY OF TERMS

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

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

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

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

Estimated rental value (ERV): The estimated annual market rental value of lettable space as determined biannually by the Group's valuers.

This will normally be different from the rent being paid.

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

Gross rental income: Contracted rental income recognised in the period in the Income Statement, including surrender premiums.

Lease incentives, initial costs and any contracted future rental increases are amortised on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rent roll: See Passing Rent.

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

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

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

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

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

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

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

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

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

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

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

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