

18 February 2022

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

PAN-EUROPEAN PLATFORM CAPTURES RECORD DEMAND TO DRIVE OUTPERFORMANCE AND SUPPORT A POSITIVE OUTLOOK

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

“2021 was a highly successful year for SEGRO as reflected in our full year results which include a £4.1 billion portfolio valuation uplift and record levels of rental growth. Investor and occupier supply-demand dynamics in the industrial and logistics sector remain very favourable, led by the long-term trends of digitalisation, supply chain resilience and an increasing focus on sustainability.

“Our Responsible SEGRO ambitions have been received positively by our customers, employees and other stakeholders and are becoming well integrated into the way that we run and grow the business. During 2021 we made important progress with our three priority areas of Championing low-carbon growth, Investing in our communities and environments and Nurturing talent.

“Our established and experienced pan-European operating platform remains focused on delivering excellence in customer service which, when combined with the strong relationships and reputation that we have with our stakeholders, provides us with a distinct advantage in an increasingly competitive sector. These capabilities enabled us to invest almost £2 billion in 2021 to further expand our pipeline of opportunities to support future growth. This pipeline, alongside the high quality of our existing portfolio, the compounding effect of rental growth and the strong start we have made in 2022, gives us continued confidence in our ability to drive further sustainable growth in earnings and dividends over the coming years.”

HIGHLIGHTS^A:

- **Adjusted pre-tax profit of £356 million up 20 per cent compared with the prior year (2020: £296 million).** Adjusted EPS is 29.1 pence, up 15 per cent (2020: 25.4 pence) including 1.1 pence relating to recognition of performance fees from our SELP joint venture.
- **Adjusted NAV per share up 40 per cent to 1,137 pence** (31 December 2020: 814 pence) driven by portfolio valuation growth of 29 per cent, including ERV growth of 13.1 per cent (2020: 2.5 per cent), yield compression, portfolio asset management initiatives and development profits.
- **Strong occupier demand, our customer focus and active management of the portfolio generated £95 million of new headline rent commitments during the period** (2020: £78 million), including £49 million of new pre-let agreements, and a 13 per cent average uplift on rent reviews and renewals
- **Net capital investment of £1.5 billion** (2020: £1.3 billion) in asset acquisitions, development projects and land purchases, less disposals.
- **Continued momentum in the development pipeline with 1.1 million sq m of projects under construction or in advanced pre-let discussions** equating to £82 million of potential rent, of which 70 per cent has been pre-let, providing growth in earnings this year and next.

- **Balance sheet well positioned to support further, development-led growth** with access to £1.1 billion of available liquidity and an LTV of 23 per cent at 31 December 2021 (31 December 2020: 24 per cent).
- **2021 full year dividend increased 10 per cent to 24.3 pence** (2020: 22.1 pence). Final dividend increased by 11 per cent to 16.9 pence (2020: 15.2 pence).

FINANCIAL SUMMARY

	2021	2020	Change per cent
Adjusted ¹ profit before tax (£m)	356	296	20.3
IFRS profit before tax (£m)	4,355	1,464	-
Adjusted ² earnings per share (pence)	29.1	25.4	14.6
IFRS earnings per share (pence)	339.0	124.1	-
Dividend per share (pence)	24.3	22.1	10.0
Total Accounting Return (%) ³	42.5	19.3	-
	2021	2020	Change per cent
Assets under Management (£m)	21,286	15,343	-
Portfolio valuation (SEGRO share, £m)	18,377	12,995	28.8 ⁴
Adjusted ^{5 6} net asset value per share (pence, diluted)	1,137	814	39.7
IFRS net asset value per share (pence, diluted)	1,115	809	-
Net debt (SEGRO share, £m)	4,201	3,088	-
Loan to value ratio including joint ventures at share (per cent)	23	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. Total Accounting Return is calculated based on the opening and closing adjusted NAV per share adding back dividends paid during the period.
4. 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.
5. 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.
6. Adjusted net asset value is in line with EPRA Net Tangible Assets (NTA) (see Table 5 in the Supplementary Notes for a NAV reconciliation).

^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.

OPERATING SUMMARY & KEY METRICS

		2021	2020
STRONG PORTFOLIO PERFORMANCE (see page 9):			
Valuation increase driven by rental value growth, yield compression and active asset management of the standing portfolio, supplemented by gains recognised on completed development and buildings under construction.			
Portfolio valuation uplift (%):	Group	28.8	10.3
	UK	32.2	9.6
	CE	22.5	11.5
Estimated rental value (ERV) growth (%):	Group	13.1	2.5
	UK	18.8	3.1
	CE	4.1	1.5
RECORD RENTAL GROWTH FROM ACTIVE ASSET MANAGEMENT (see page 11):			
Operational performance captured significant new rent, including leases signed with existing and new customers from a wide range of sectors, highlighting the versatility of our urban portfolio.			
Total new rent signed during the period (£m)		95	78
Pre-lets signed during the period (£m)		49	41
Like-for-like net rental income growth (%):	Group	4.9	2.1
	UK	5.6	0.9
	CE	3.6	4.3
Uplift on rent reviews and renewals (%):	Group	13.0	19.1
	UK	18.7	28.2
	CE	1.5	0.5
Vacancy rate (%)		3.2	3.9
Customer retention (%)		77	86
Visibility of customer energy use (%)		54	41
Operating carbon emission (tonnes CO2e)		280,575	312,115
RECORD LEVEL OF INVESTMENT ACTIVITY FOCUSED ON SECURING PROFITABLE GROWTH (see page 19):			
Capital investment continues to focus on development and acquisition of assets with opportunities for future growth, as well as sourcing land to extend our development pipeline. Development capex for 2022, including infrastructure, expected to be c.£700 million.			
Development capex (£m)		649	531
Asset acquisitions (£m)		997	603
Land acquisitions (£m)		326	286
Disposals (£m)		515	139
EXECUTING AND GROWING OUR DEVELOPMENT PIPELINE (see page 14):			
Our active and largely pre-let development pipeline continues to be a key driver of rent roll growth with a record year of completions. Potential rent of £82 million from projects currently on site or expected to commence shortly.			
Development completions:			
– Space completed (sq m)		839,200	835,900
– Potential rent (£m) (Rent secured, %)		52 (93%)	47 (84%)
Embodied carbon emissions (kgCO2e/m ²)		391	400
Current development pipeline potential rent (£m) (Rent secured, %)		62 (60%)	54 (66%)
Near-term development pipeline potential rent (£m)		20	27

OUTLOOK

We enter 2022 with considerable confidence in the outlook for the business and its ability to deliver continued growth. The effects of the pandemic are ongoing, and we remain mindful of macroeconomic and geopolitical risks, but the world is adapting quickly and learning how to function alongside Covid-19 with the lasting impacts on the way that we live and work strengthening occupier demand. It has highlighted the importance of global supply chains facilitated by high-quality logistics space and we have positioned our business to take advantage of these structural tailwinds.

Against a backdrop of strong demand from an increasingly diverse range of businesses, combined with historically low vacancy rates across Europe, we expect rental growth to continue across our markets. We believe that the growth rate will be highest where developable land is in short supply, for example in urban markets such as London and Paris. This acute supply-demand imbalance delivered record rental growth during 2021, resulting in significant accumulated rental reversion in the portfolio which we will be working hard to capture during 2022 and the coming years.

Our record levels of capital investment over the past two years have resulted in a significant number of projects currently under construction, with a high level of pre-leasing, and a large pipeline of future projects. This allows us to both provide much-needed modern, sustainable space for our customers and to generate additional rental income. We continue to prioritise further opportunities to grow our development pipeline, positioning SEGRO to benefit from the long-term structural trends within the occupier market.

Inflationary pressures remain but we expect to be able to offset these in our existing portfolio by capturing the significant reversion in lease reviews and renewals, whilst benefiting from indexation provisions in our remaining leases which represent approximately 40 per cent of our rent roll. Rental growth has also allowed us to maintain the profitability of our development programme despite the additional cost pressures arising from increased construction and material costs.

The unique supply-demand dynamics of the industrial sector have attracted increasing competition from both investors and developers, but we are confident in our ability to source profitable new opportunities to grow. As evidenced during 2021, the combination of our significant portfolio of modern assets in the most desirable locations across Europe together with our well-established operating platform provides us with a clear competitive advantage. This, alongside the meaningful and lasting changes we are making through our Responsible SEGRO focus areas will help us to ensure that our business continues to prosper, creating shared value for our customers, employees, shareholders, local communities, investors and all of our other stakeholders.

WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

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

<https://www.investis-live.com/segro/61e7ee290ba3f0120025ce33/fy21>

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

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

Dial-in: +44 (0)800 640 6441
+44 (0) 203 936 2999
Access code: 032585

An audio recording of the conference call will be available until 25 February 2022 on:

UK: +44 (0) 203 936 3001
Access code: 040051

A video of David Sleath, Chief Executive discussing the results will be available to view on www.segro.com, together with this announcement, the Full Year 2021 Property Analysis Report and other information about SEGRO.

CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

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

2021 full year dividend ex-div date	17 March 2022
2021 full year dividend record date	18 March 2022
2021 full year dividend scrip dividend price announced	24 March 2022
Last date for scrip dividend elections	13 April 2022
2021 full year dividend payment date	4 May 2022
2022 Q1 Trading Update	21 April 2022
Half Year 2022 Results (provisional)	28 July 2022

ABOUT SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), listed on the London Stock Exchange and Euronext Paris, and is a leading owner, manager and developer of modern warehouses and industrial property. It owns or manages 9.6 million square metres of space (103 million square feet) valued at £21.3 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.

A commitment to be a force for societal and environmental good is integral to SEGRO's purpose and strategy. Its Responsible SEGRO framework focuses on three long-term priorities where the company believes it can make the greatest impact: Championing Low-Carbon Growth, Investing in Local Communities and Environments and Nurturing Talent.

See www.SEGRO.com for further information.

Forward-Looking Statements: This announcement contains certain forward-looking statements with respect to SEGRO's expectations and plans, strategy, management objectives, future developments and performance, costs, revenues and other trend information. All statements other than historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations and all forward-looking statements are subject to assumptions, risk and uncertainty. Many of these assumptions, risks and uncertainties relate to factors that are beyond SEGRO's ability to control or estimate precisely and which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Certain statements have been made with reference to forecast process changes, economic conditions and the current regulatory environment. Any forward-looking statements made by or on behalf of SEGRO are based upon the knowledge and information available to Directors on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and you are cautioned not to place undue reliance on the forward-looking statements. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The information contained in this announcement is provided as at the date of this announcement and is subject to change without notice. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), SEGRO does not undertake to update forward-looking statements, including to reflect any new information or changes in events, conditions or circumstances on which any such statement is based. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit estimate or profit forecast. The information in this announcement does not constitute an offer to sell or an invitation to buy securities in SEGRO plc or an invitation or inducement to engage in or enter into any contract or commitment or other investment activities.

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

CHIEF EXECUTIVE'S REVIEW

2021 was an exceptionally busy year for SEGRO as our teams worked hard to capitalise on the favourable market dynamics that are currently benefitting the industrial property sector. The pandemic brought about the acceleration of already strong structural drivers, resulting in record levels of warehouse take-up across Europe during 2021 and this has attracted increased investment into the sector. We have worked diligently throughout the pandemic, to position our business so that we could emerge in an even stronger position and this is already paying off, resulting in strong rental growth and a high number of development completions.

Responsible SEGRO is the framework that we use to explain how we do business in the best interests of our stakeholders and the long-term success of our business. Last year we set new priorities within this that focus on the key areas where we believe we can make the greatest business, environmental and social contribution. During 2021 we worked hard to integrate these into the management of our portfolio and the day-to-day running of our business to ensure that, as we grow as a company, the value that we create for our stakeholders also increases, and so that we can deliver on our Purpose of 'creating the space that enables extraordinary things to happen'.

Looking back on 2021, the main highlights included:

- A significant increase in our rent roll, arising from a combination of active asset management of our existing portfolio, our expanded development programme and market rental growth.
- Increased visibility on the carbon emissions from our leased buildings (improving to 54 per cent now monitored from 41 per cent in 2021) and moving the last of our markets onto a certified green energy tariff.
- 839,200 sq m of development completions creating space to be used by a wide variety of industries including those linked to e-commerce, data centres and creative industries.
- Undertaking life cycle assessments on over half of our new development projects, equivalent to 440,000 sq m of new space, an important step in reducing future embodied carbon emissions.
- Achieving the National Equality Standard (NES) accreditation following our first audit, a reflection of our commitment to diversity and inclusion.
- Creating the framework for our Community Investment Plans (CIPs) and the appointment of 41 Community Champions across the business to lead the projects alongside our local community partners.

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 2021 and our confident outlook for 2022 and beyond means that we are recommending a 10.0 per cent increase in our final dividend to 16.9 pence per share, resulting in a total distribution of 24.3 pence for 2021 as a whole (2020: 22.1 pence).

Reflecting on 2021, there are three things that stand out for me:

- The strength, breadth and depth of occupier demand and the long-term nature of the structural trends that underpin it;
- The ability of our teams to continue to find new opportunities to grow the business in very competitive markets by leveraging their experience, relationships and thinking creatively; and
- The progress that we have made in our Responsible SEGRO focus areas and the alignment towards these goals that we are finding with our customers, suppliers and other stakeholders.

E-commerce is still an important source of occupier demand across Europe and continues to contribute significantly to our lettings performance, but we are seeing new names emerge in the space (for example rapid grocery delivery services and other 'q-commerce' businesses) and its impact is now being felt more widely across the portfolio, for example in our urban estates in Germany, France and Spain.

Distribution networks on the Continent still have a long way to go to be able to cope with the increased strain that e-commerce is putting them under. Even in the UK, where e-commerce penetration is significantly ahead of most markets in Europe, retailers and logistics operators need to take additional space to successfully handle e-commerce penetration rates approaching 30 per cent.

Due to the prime location, high quality and flexibility of our space we are also seeing significant demand from other sectors, such as the creative industries. More widely across Europe, take-up by businesses involved in manufacturing has increased during 2021 as a result of a renewed focus on supply chain resilience.

All of this combined is leading to very high levels of occupier demand. For many lettings, there are multiple potential occupiers willing to pay a premium to get the space that is crucial to the success of their business and this is leading to very strong rental growth, particularly in markets where we have carefully built strong positions, such as London, where supply is very limited.

The situation in the occupier market is also attracting more and more investment into our sector and has pushed up asset prices but also resulted in competitive bidding situations for both standing assets and land in every single market that we operate in. Despite this, our teams have been able to find opportunities to acquire unique assets and development opportunities, often in off-market situations, due to our reputation, scale position, relationships and expertise.

A good example of this is the acquisition that we completed in South East London for a complex redevelopment scheme where the vendors only presented to a few potential purchasers who they knew would have the ability and appetite to execute on it.

Our teams are also thinking creatively and finding other ways to source opportunities, for example by doing asset swaps or building relationships with local trader developers who have access to land plots. Once we own the land our development teams consider how they can intensify land use and maximise the value we create from it.

Integrated within the management of our portfolio and development pipeline we have worked hard to progress our Responsible SEGRO ambitions. During 2021 we have taken steps to understand our current position, for example through doing life cycle assessments on over half of our development projects and participating in a NES audit. These have enabled us to put the necessary procedures, processes and frameworks in place to ensure that we achieve the ambitions that we set out within our Responsible SEGRO priorities of Championing low-carbon growth, Investing in our local communities and environments and Nurturing Talent.

As expected, we are finding common ground with our customers, suppliers and other stakeholders and aligning our interests to maximise the value created. For example, many customers decided to lease our space because its environmental credentials also helped them achieve their own sustainability goals. In another case a supplier decided to apply for Living Wage accreditation after we engaged with them in the process of achieving our own accreditation. We also sponsored numerous apprentices to work in local businesses and receive training to enable long-term career progression.

I am very proud to see how everyone within the business has embraced our Responsible SEGRO ambitions and worked hard alongside their already busy jobs to help make them come to life. I would like to thank them for this, and also for the continued focus, dedication and commitment that they have shown over the past two years whilst having to endure the restrictions and limitations that have been put on both their work and personal lives due to the pandemic. Quite simply, our business would not be in the position it is today without their efforts.

It has been a very busy and highly successful year. One that has brought much satisfaction and has really shown how our business delivers on its Purpose of creating the space that enables extraordinary things to happen.

DELIVERING ON OUR STRATEGY IN 2021

Our Strategy has successfully positioned our business to benefit from the structural trends that are driving both occupier and investor demand in our markets. We continue to apply it to maximise our returns in increasingly competitive markets.

OPERATIONAL EXCELLENCE

Our well-established operating platform is one of our key competitive advantages and our focus on Operational Excellence across this platform is crucial to the ongoing success of our business. It has helped us to develop strong customer relationships and to deliver excellent returns from the execution of our expanded development pipeline.

We have continued to actively manage our portfolio throughout 2021, resulting in a record rent roll growth, a strong set of operational metrics and opportunities to create value from our standing portfolio.

Our focus on Operational Excellence has also been important in keeping our development pipeline on track despite the well-documented supply chain issues that our industry faced during the year. Our close working relationships with our contractors meant that we were able to complete the projects scheduled for delivery this year with minimal disruption.

DISCIPLINED APPROACH TO CAPITAL ALLOCATION

Given the strong investor interest in our sector and the competitiveness of investment markets it has been more important than ever this year to maintain a disciplined approach to capital allocation.

We continue to focus the majority of our investment into our development programme and to create future opportunities for development (for example land acquisitions and assets with short-term income and redevelopment potential), as we generally see better returns from this than investing our capital in completed assets.

The investment acquisitions that we did make in 2021 were in key strategic markets, helping us to increase our presence in North and South London. The majority were also off-market opportunities that we were able to create, leveraging on our reputation and the relationships of our local teams.

We also decided to capitalise on the strength of the investment markets to dispose of a number of assets that we had identified as having maximised their returns through our annual asset review process. The proceeds from these sales will be recycled into our future investments.

EFFICIENT CAPITAL AND CORPORATE STRUCTURE

As we continue to invest in the growth of our business it is important 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”) at an appropriate level, making sure that, should the property cycle turn, we can absorb lower valuations whilst giving us the capacity to take advantage of any resulting investment opportunities. The strong investor appetite for industrial assets in 2021 resulted in record portfolio valuation growth and means our LTV is below our target of 30 per cent at 23 per cent as of 31 December 2021.

Our financing during 2021, has been debt: we raised €500 million via our inaugural Green euro bond in September at a low coupon of 0.5 per cent as well as a further €500 million for our joint venture SELP.

PORTFOLIO UPDATE – SIGNIFICANT VALUATION GROWTH

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

Our urban portfolio is concentrated in London and South-East England (82 per cent) and major cities in Continental Europe (18 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 29 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). 29 per cent of our big box warehouses are in the UK and the remaining 71 per cent are in Continental Europe.

Occupier demand has been very strong across the UK and Continental Europe during 2021, helping drive vacancy to record low levels, leading to above average rental growth in most of our markets.

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 more land available in out of town locations. We therefore believe that the prospects for significant rental growth in big box warehouses on a longer-term basis are, and have always been, more limited than for urban locations 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.

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

Warehouse property values across Europe increased significantly during the year. Investment volumes also hit record levels in both the UK and Continental Europe. Both investor and occupier demand for the asset class remained strong.

The Group's property portfolio was valued at £18.4 billion at 31 December 2021 (£21.3 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, increased by 28.8 per cent (adjusting for capital expenditure and asset recycling during the year) compared to 10.3 per cent in 2020.

This primarily comprises a 29.0 per cent increase in the assets held throughout the year (2020: 9.5 per cent), driven by strong yield compression in most markets (70 basis points across the whole portfolio) and a 13.1 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 35.6 per cent (2020: 14.6 per cent).

Assets held throughout the year in the UK increased in value by 34.5 per cent (2020: 9.2 per cent), outperforming the MSCI Real Estate UK All Industrial Quarterly index which increased by 31.2 per cent over the same period. 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 3.7 per cent, 60 basis points lower than at 31 December 2020 (4.3 per cent) reflecting strong rental growth, yield compression and the impact of newly completed developments. Rental values improved by 18.8 per cent (2020: 3.1 per cent).

Assets held throughout the year in Continental Europe increased in value by 18.7 per cent (2020: 10.2 per cent) on a constant currency basis, reflecting a combination of yield compression to 4.0 per cent (31 December 2020: 4.8 per cent) and rental value growth of 4.1 per cent (2020: 1.5 per cent).

More details of our property portfolio can be found in Note 27 to the Financial Statements and in the 2021 Property Analysis Report available at www.segro.com/investors.

Valuations: What to expect in 2022

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 occupational 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 and although recent interest rises have narrowed this premium, the volume of capital looking to invest in industrial assets should continue to be supportive of 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 2021¹

	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) %
UK									
Greater London	1,293,451	7,005	327	7,332	7,339	38.1	2.7	3.5	2.8
Thames Valley	661,111	2,878	224	3,102	3,102	28.4	3.6	4.1	4.0
National Logistics	619,089	1,247	470	1,717	1,717	27.8	4.0	3.8	-
UK Total	2,573,651	11,130	1,021	12,151	12,158	34.5	3.1	3.7	2.8
Continental Europe									
Germany	1,615,149	1,532	197	1,729	2,548	15.8	3.4	3.6	5.0
Netherlands	233,185	167	27	194	368	21.4	3.9	3.9	-
France	1,513,337	1,751	112	1,863	2,394	18.9	3.7	4.1	6.5
Italy	1,600,875	1,117	138	1,255	1,813	28.9	3.8	3.8	-
Spain	355,754	321	64	385	583	23.9	4.0	3.9	-
Poland	1,510,254	631	75	706	1,234	13.9	5.3	5.2	4.3
Czech Republic	169,514	90	4	94	188	21.6	4.4	4.8	2.9
Continental Europe Total	6,998,068	5,609	617	6,226	9,128	18.7	3.8	4.0	3.9
GROUP TOTAL	9,571,719	16,739	1,638	18,377	21,286	29.0	3.3	3.8	3.2

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

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

3 In relation to completed properties only.

ASSET MANAGEMENT UPDATE - CREATING VALUE THROUGH OPERATIONAL EXCELLENCE

Our continued focus on Operational Excellence has helped us to deliver a record level of rental growth in 2021 and ensured the successful execution of our expanded development programme.

Growing rental income from letting existing space and new developments

At 31 December 2021, our portfolio generated passing rent of £518 million, rising to £579 million once rent free periods expire ('headline rent'). During the year, we contracted £95 million of new headline rent, an increase of more than 20 per cent on 2020. New pre-let agreements continue to contribute strongly to this number but we also grew rent on our existing space significantly.

Our customer base remains well diversified, reflecting the multitude of uses of warehouse space. Our top 20 customers account for 32 per cent of total headline rent. Amazon remained as our largest customer during 2021, accounting for 7 per cent of the total.

Almost 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.

- **£15 million of net new rent from existing assets.** We generated £26 million of headline rent from new leases on existing assets (2020: £16 million) and £9 million from rent reviews, lease renewals and indexation (2020: £13 million). This was offset by rent from space returned of £20 million (2020: £13 million) including £2 million of rent lost due to insolvency (2020: £2 million).
- **Rental growth from lease reviews and renewals.** These generated an uplift of 13.0 per cent (2020: 19.1 per cent) for the portfolio as a whole compared to previous headline rent. During the year, new rents agreed at review and renewal were 18.7 per cent higher in the UK (2020: 28.2 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £5 million of headline rent. The 2020 comparator included the peppercorn lease re-gears at Heathrow which are now all complete. In Continental Europe, rents agreed on renewal were 1.5 per cent higher (2020: 0.5 per cent higher), strengthening once again as market rental growth continues to outpace the indexation provisions that have accumulated over recent years.
- **Continued strong demand from customers for pre-let agreements.** In addition to increased rents from existing assets, we contracted a record £49 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2020: £41 million). Included within this is a large data centre redevelopment on the Slough Trading Estate, two units on some of the last remaining plots at SEGRO Logistics Park East Midlands Gateway (SLP-EMG), our first development at the recently announced SmartParc in Derby, projects for a leading global online retailer in the UK, Italy and Spain as well as big box space for retailers, third party logistics providers and manufacturers across Continental Europe.
- **Rent roll growth increased to £72 million.** An important element of achieving our goal of being a leading income-focused REIT is to grow our rent roll, primarily through increasing rent from our existing assets and then from generating new rent through development. Rent roll growth, which reflects net new headline rent from existing space (adjusted for take-backs of space for development), take-up of developments and pre-lets agreed during the period, increased to £72 million in 2021, from £60 million in 2020.

Summary of key leasing data for 2021

Summary of key leasing data ¹ for the year to 31 December		2021	2020
Take-up of existing space ² (A)	£m	26	16
Space returned ³ (B)	£m	(20)	(13)
NET ABSORPTION OF EXISTING SPACE² (A-B)	£m	6	3
Other rental movements (rent reviews, renewals, indexation) ² (C)	£m	9	13
RENT ROLL GROWTH FROM EXISTING SPACE	£m	15	16
Take-up of pre-let developments completed in the year (signed in prior years) ² (D)	£m	43	33
Take-up of speculative developments completed in the past two years ² (D)	£m	15	10
TOTAL TAKE-UP² (A+C+D)	£m	93	72
Less take-up of pre-lets and speculative lettings signed in prior years ²	£m	(47)	(35)
Pre-lets signed in the year for future delivery ²	£m	49	41
RENTAL INCOME CONTRACTED IN THE YEAR²	£m	95	78
Takeback of space for redevelopment	£m	(3)	(4)
Known Takeback/letting from acquisition	£m	–	(1)
Retention rate ⁴	%	77	86

1 All figures reflect exchange rates at 31 December 2021 and include joint ventures at share.

2 Headline rent.

3 Headline rent, excluding space taken back for redevelopment.

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

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

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

- **High levels of customer satisfaction.** Although the quality and location of our portfolio is important to our customers, we believe 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 2021, 247 customers responded (a 25 per cent increase on 2020) and 97 per cent said that they would recommend SEGRO to others (2020: 99 per cent) and 90 per cent said they rated their experience with SEGRO as 'Excellent' or 'Very Good' (2020: 87 per cent).
- **Vacancy has remained low.** The vacancy rate at 31 December 2021 was 3.2 per cent (31 December 2020: 3.9 per cent). This reduction was mainly due to a very strong performance in letting recently completed speculatively developed space across the portfolio. The vacancy rate on our standing stock remains low at 2.7 per cent (2020: 2.5 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 3.8 per cent (2020: 4.8 per cent).
- **Customer retention rate of 77 per cent.** Approximately £55 million of headline rent was at risk from a break or lease expiry during the period of which we retained 74 per cent in existing space, with a further 3 per cent retained but in new premises. We value the long-term relationships that we build with our customers and always try to work with them to meet their changing requirements. However, with vacancy at such low levels we do also take the opportunity to create space for reletting and the capture of market rental growth. We have also actively taken back space during 2021 to enable redevelopment.
- **Lease terms continue to offer attractive income security.** The level of incentives agreed for new leases (excluding those on developments completed in the period) represented 6.3 per cent of the headline rent (2020: 6.8 per cent). The portfolio's weighted average lease length was maintained with 7.2 years to first break and 8.5 years to expiry (31 December 2020: 7.5 years to first break, 8.8 years to expiry). Lease terms are longer in the UK (8.2 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.

A reduction in our operational carbon emissions and increased visibility of the energy usage of our customers

Alongside the day-to-day management of our portfolio our teams also worked hard during 2021 on our Responsible SEGRO commitment to Champion low-carbon growth and be a net zero-carbon business by 2030. Within the asset management of our existing portfolio, the greatest contribution that we can make towards this is by reducing the operational carbon emissions from our warehouses (including those made by the activities of our customers operating within them). Our new targets, approved by the Science Based Targets Initiative (SBTi), include the aim to reduce the absolute operating carbon emissions from our portfolio by 42 per cent by 2030 (compared to a 2020 baseline), in line with the 1.5 degree scenario. This includes all customer emissions and captures the organic growth of the business.

One of the most meaningful changes that we can make is to procure energy for our own operations, and for those markets where we procure energy on behalf of our customers, in a way which reduces the operational emissions. We have been moving our controlled portfolio on to renewable energy tariffs over the past years and in 2021 we moved the last major contracts, in Poland and Czech Republic, on to Green tariffs, which means that all SEGRO controlled electricity is now zero-carbon. This was one of the main drivers of the 10 per cent reduction in operating carbon emissions during 2021, equating to 31,500 tonnes of CO₂e saved.

This certified renewable energy helps SEGRO and our customers reduce their operating carbon footprint. Transitioning away from fossil fuels for warehouse heating on to electricity, particularly generated on site, or alternative sources of energy is an important next step in this strategy.

Our net zero-carbon goal includes Scope 3 emissions from our customers. Due to the nature of typical lease terms we do not have operational control over the majority of our buildings and therefore have limited visibility of how much energy is used and how it is procured. Where this is the case we are engaging with our customers and trying to positively influence them but an important first step is to get a full picture of their energy usage. During 2021 we have improved our visibility and we have collected data on 54 per cent of our total property footprint by area (up from 41 per cent during 2020). Improving visibility allows us to better identify opportunities to help our customers operate their buildings more efficiently, saving them both carbon emissions and money. We are also increasingly requiring customers to use renewable energy within the terms of their leases (a “Green lease”) to ensure that our portfolio carbon footprint improves.

On the Slough Trading Estate, for example, we have 33 data centres (including two under construction) which are significant consumers of power. Our data centre customers source their own electricity to power their buildings and most have stated publicly that they source through renewable energy contracts. They, along with several other major data centre operators formed the Climate Neutral Data Centre Pact in 2020 and SEGRO fully supports the leadership shown in this self-regulated initiative. During 2021 we signed our first data centre Green lease, requiring the operator to commit to sourcing their energy on a renewable tariff.

We are also making improvements to the carbon footprint of our portfolio through the ongoing maintenance and refurbishment of our warehouses. Due to our active asset recycling and new development the majority of our portfolio is modern and built to the highest sustainability standards but there are still some older assets where we can make improvements. When the opportunity arises, normally due to a lease expiry, we refurbish our assets and upgrade their sustainability credentials before letting them to a new customer. This not only helps with our progress towards our net zero-carbon targets but also makes the space more attractive to a potential customer and we are starting to see it make a difference to rental levels achieved.

Changes that we make include installing LED lighting, solar panels, air source heat pumps and smart metering. We aim to have the entire portfolio at least an Energy Performance Certificate (EPC) of a B rating or equivalent. At the end of 2021, 55 per cent of the portfolio now has an EPC rating of B or better and we expect that proportion to increase.

Asset Management: What to expect in 2022

All of the indicators point to continued strong demand from occupiers in 2022 and with market vacancy rates at record low levels and new supply constrained by the availability of land, particularly in urban markets we expect rental growth to continue.

DEVELOPMENT UPDATE - GROWING THROUGH DEVELOPMENT

Development Activity

During 2021, we invested £975 million in our development pipeline which comprised £649 million (2020: £531 million) in development spend, of which £99 million was for infrastructure, and a further £326 million to replenish our land bank to secure future development-led growth opportunities.

Development Projects Completed

We completed 839,200 sq m of new space during the year, with the majority of our projects completing on time despite wider market issues with the supply of construction materials and labour. These projects were 82 per cent pre-let prior to the start of construction and were 93 per cent let as at 31 December 2021, generating £48 million of headline rent, with a potential further £4 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 677,800 sq m of big box warehouse space, including four units at SLP-EMG. Also within this was 560,800 sq m of big box warehouses across all of our major European markets, let to third party logistics operators, online retailers, food retailers and manufacturers among others.

We completed 161,400 sq m of urban warehouses, the majority built on a speculative basis, of which over three quarters is already let. In the UK this included the second phase of SEGRO Park Rainham, new units at SEGRO Park Fairway Drive and two new data centres on the Slough Trading Estate. On the Continent we completed further phases of urban warehouse parks in the key markets of Berlin, Cologne, Madrid, Warsaw and Paris, including the first of our developments on the land that we acquired as part of the Sofibus Patrimoine acquisition at the start of 2021.

Supply chain issues made development more challenging during 2021 but we proactively worked with our contractors to secure materials ahead of schedule and were therefore able to avoid any major delays. We also avoided any significant increases in construction costs as the majority of our development projects are on fixed price contracts and development completions were therefore unaffected.

Current Development Pipeline

At 31 December 2021, we had development projects approved, contracted or under construction totalling 801,400 sq m, representing £380 million of future capital expenditure to complete and £62 million of annualised gross rental income when fully let. 60 per cent of this rent has already been secured and these projects should yield 7.0 per cent on total development cost when fully occupied.

- In the UK, we have 195,200 sq m of space approved or under construction. Within this are urban schemes in West and North London, two new data centres on the Slough Trading Estate, a pre-let for a global online retailer in the Thames Valley and big box warehouses in SLP-EMG and our new development, SmartParc Derby.
- In Continental Europe, we have 521,100 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 and Paris and a new scheme in Ingolstadt, close to Munich.
- In addition to the above projects that we are developing ourselves, we also have 85,100 sq m of space under construction as part 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 and Paris.

Within our Continental European development programme, approximately £8 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 2021, SEGRO sold £231 million of completed assets to SELP, representing a net disposal of £116 million.

We have factored increased construction costs into the development returns for our current and future development projects. However, increased rental values are more than offsetting any additional costs and our development returns therefore remain highly attractive.

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 334,100 sq m of space, equating to approximately £271 million of additional capital expenditure and £20 million of additional rent.

Land Bank

Our land bank identified for future development (including the near-term projects detailed above) totalled 683 hectares at 31 December 2021, valued at £783 million, roughly 4 per cent of our total portfolio value.

This land bank includes £326 million of land acquired during 2021, including land associated with developments already underway or expected to start in the short term. Over £90 million was spent on sites in the supply constrained London market and we also acquired plots suitable for urban development in Paris, Lyon, Milan, Madrid, Cologne and Warsaw. The remainder of the land was for big box projects in Italy, Poland, Spain and the UK.

We estimate that our land bank can support 3.1 million sq m of development over the next five years. The prospective capital expenditure associated with the future pipeline is approximately £1.9 billion. It could generate £169 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, Italy and Poland. They also include urban warehouse sites in East and West London.

The options are held on the balance sheet at a value of £24 million (including joint ventures at share). Those we expect to exercise over the next two to three years are for land capable of supporting almost 1.6 million sq m of space and generating almost £160 million of headline rent for a blended yield of approximately 6 per cent.

Focusing on reducing embodied carbon in our development programme to help us achieve net zero carbon by 2030

We recognise that our planet is facing a climate emergency and that we need to play our part in helping to combat the challenge of climate change and natural resource depletion. As a result, we have joined many of our sector peers in signing a pledge to be Net Zero carbon by 2050, and last year announced that we will be going further and faster by reaching that aim by 2030. We have also joined to Race to Zero, signed the Climate Pledge and took part in a Better Buildings Partnership panel at COP 26 titled 'Commercial Buildings: A real asset in addressing Climate Change'.

It is our responsibility, as a long-term investor, to use the latest technologies and construction techniques to ensure that our buildings are efficient to use and stand the test of time.

We continuously monitor and, where appropriate, adopt new approaches, technologies and techniques to reduce the environmental footprint of our existing properties and our developments. The Investment Committee considers the environmental impact of all capital investment decisions to ensure that they are consistent with our environmental targets and ambitions.

We take a materiality-based approach to our environmental strategy, focusing on the areas where our footprint is greatest. One of the largest sources of carbon emissions from our own activities is the embodied carbon from our development programme. For our existing buildings, we can work to improve their efficiency in operational terms but it is in our development programme, where we can make the greatest impact. In many cases, once we hand a building over to a customer, they control all operational aspects so it is our responsibility to provide them with an efficient building and the tools to operate it efficiently.

Our targets, approved by the Science Based Target Initiative (SBTi), include a goal to reduce the embodied carbon intensity of our development programme by 20 per cent by 2030, compared to a 2020 baseline.

Materials

Our sustainability strategy in development requires that we target the upfront carbon footprint of our developments, related to the construction materials and transportation emissions attributed to every new development. This is in line with the methodology used by the UK Green Buildings Council (UKBGC) in their Whole Life Carbon roadmap.

During 2021 we worked with two of our largest contractors to discuss how best to reduce embodied carbon in our buildings and are working towards a Sustainable Materials Brief for the UK and intend to adapt this for Continental Europe.

We carry out life cycle assessments on our larger development projects to identify the potential to reduce a building's carbon footprint over its full life cycle both by utilising alternative, more sustainable materials during construction and by considering the emissions related to the deconstruction at the end of the building's useful life. We believe this holistic approach to embodied carbon is the most impactful. In 2021, we conducted life cycle assessments on over 440,000 sq m of new developments, covering over half of the development footprint by area in the year. Going forward, we aim to carry out life cycle assessments on all projects greater than 5,000 sq m (representing 98 per cent of complete floorspace in 2021) and apply lessons learned across the wider development programme as we progress against our target.

We are increasingly using Building Information Management (BIM) in our development projects, a technology which facilitates three-dimensional modelling of the proposed building. It allows us to assess more accurately the amount of material needed for the construction (reducing waste) and the carbon emissions from the materials. It also allows us to model the building across its whole life, making it an important contributor to our target of reducing the level of whole life-cycle embodied carbon in our developments. In 2021 we were able to use BIM models to undertake the life cycle assessments, and this has led to more finishes and components being included in our assessments than before, giving us better visibility of the carbon within our buildings.

The average embodied carbon intensity in 2021 was 391 kilograms CO₂e per sq m of delivered floor space, representing a 2 per cent reduction from the recalculated 2020 baseline of 400 kg CO₂e per sq m.

We have trialled sustainable concrete specifications across multiple projects in 2021. This is the most effective way to impact the embodied carbon emissions, as concrete can comprise up to 50 per cent of the total embodied carbon in some projects.

We will continue to adopt the latest techniques to reduce embodied carbon within our developments, including low-carbon concrete and timber or recycled steel beams which we are already using in our current developments. The availability of such materials is not yet consistent across our markets and they are not always suited to the design or use of our buildings., but we are determined to continue to reduce the embodied carbon within our development pipeline to achieve our science-based target.

Waste

While waste generated across our own offices (where we have control) is monitored, tracked and reported, the majority of our waste is created as a result of our construction and demolition projects. Our target is to send zero waste to landfill by 2025.

For demolition waste, which makes up the bulk of our total waste, we re-use as much as possible on-site to avoid the carbon emissions related to transportation of waste off-site and the import of new materials from elsewhere.

We undertake pre-demolition audits to identify waste materials taking into consideration the quantity and quality of waste to be re-used on site as aggregate. We also re-use on site where materials are non-hazardous and will not have a detrimental effect on the environment. Hazardous waste is treated differently and is not included within these figures. Hazardous waste is dealt with in the appropriate manner, fully in line with relevant regulation. In 2021, 97 per cent of construction, demolition and operational waste controlled by SEGRO was diverted from landfill.

Biodiversity

We think carefully about the spaces outside our existing and new buildings to ensure that they are pleasant environments for people to work in, meet the needs of our local communities and have a positive impact on local biodiversity.

Where possible we create green spaces within our estates, including woodland areas with public walking trails around our big box parks or small 'pocket parks' and green walls in our urban estates. We plant indigenous trees and have even renatured stream beds. On many of our estates we have introduced beehives and now have 335 of them across our portfolio encouraging pollination of local plants and crops. We have also added bird boxes, bat boxes and other locally-appropriate biodiversity features that help contribute to a healthy ecosystem.

On land that is awaiting development in Italy we pay local farmers to manage the plots and graze livestock which have yielded risotto rice, buffalo mozzarella and wool whilst also keeping the grass well maintained.

Building Certifications

The sustainability credentials of a building are increasingly important for potential customers making a decision on where to locate their businesses. We target BREEAM 'Very Good' (or equivalent) certification for developments and in 2021 98 per cent of our development completions have either been, or in the process of being, accredited at that level. From 2022 onwards we have raised the minimum standard to 'Excellent' unless local circumstances (such as supply chains) prevent it.

Renewable Energy Capacity

Our development and refurbishment activity also allows us to increase our on-site renewable energy capacity. During 2021 we increased this capacity by over 30 per cent bringing it to 35.4 MW, and generating enough energy to power over 2,100 homes for a year

Development: What to expect in 2022

We have 801,400 sq m of development projects under way capable of generating £62 million of new headline rent, of which 60 per cent has been secured. We expect to invest £700 million in development capex including approximately £150 million of infrastructure expenditure.

INVESTMENT UPDATE - £1.5 BILLION OF NET INVESTMENT FOR GROWTH

We invested almost £2 billion in our portfolio during 2021: development capital expenditure of £649 million, £997 million of assets and £326 million of land. This was partly offset by £515 million of disposals.

Acquisitions focused on building scale in urban warehousing

Despite extremely competitive investment markets we have been able to leverage our market position, reputation, relationships and expertise to complete some unique acquisitions in 2021.

We acquired assets totalling £997 million, reflecting a blended topped-up initial yield of 3.8 per cent. This included:

- the acquisition of an office portfolio in Slough, providing us with additional space for redevelopment on the Slough Trading Estate;
- an off-market UK asset swap that resulted in us acquiring a significant urban warehouse park in West London (Matrix Park) that perfectly complements our existing portfolio in Park Royal and also has a medium-term redevelopment opportunity;
- urban assets in North, East and South London with redevelopment potential, helping us to increase our presence in these key strategic markets;
- a former car dealership and car servicing centre with existing underground access over multiple levels in a unique inner-city Paris location;
- an older urban industrial estate in Madrid with short-term income that helps us to unlock a larger redevelopment opportunity.

In addition to the asset acquisitions, we also acquired £326 million of land to create future development opportunities (see page 15 for further information).

Asset recycling to improve portfolio focus

During 2021, we sold £515 million of land and assets, taking advantage of strong investor demand to realise profits and release capital to reinvest in our business.

The asset disposals totalled £474 million, reflecting a blended topped-up initial yield of 4.0 per cent, and were significantly ahead of 31 December 2020 book values. They included:

- the portfolio of UK assets that we swapped for Matrix Park. All of these were older, mostly stand-alone assets that had been identified for medium term disposal through our annual asset recycling process;
- a portfolio of urban warehouses in Italy, in locations that we regard as non-core, that we had developed for a leading online global retailer to assist them with their expansion plans;
- a car showroom in Reading;
- stand-alone big box warehouses in Italy and Spain.

As in previous years, we sold a portfolio of Continental European big box warehouses developed by SEGRO to SELP for which we received £116 million net proceeds from an effective sale of a 50 per cent interest.

Additionally, we disposed of £41 million of land, primarily comprising plots in non-core markets.

Investment: What to expect in 2022

We will continue our disciplined approach to capital allocation, focusing the majority of our investment on the development pipeline (through development capex, land acquisitions and acquiring assets with future redevelopment potential) but making strategic asset acquisitions when the opportunity arises.

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. We typically expect to recycle 1-2 per cent of the portfolio per year.

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

Financial highlights

	31 December 2021	31 December 2020
IFRS ¹ net asset value (NAV) per share (diluted) (p)	1,115	809
Adjusted ¹ NAV per share (diluted) (p)	1,137	814
IFRS profit before tax (£m)	4,355	1,464
Adjusted ² profit before tax (£m)	356	296
IFRS earnings per share (EPS) (p)	339.0	124.1
Adjusted ² EPS (p)	29.1	25.4

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

The Adjusted profit measure reflects the underlying financial performance of the Group's property rental business, which is our core operating activity. It is based on EPRA earnings as set out in the Best Practices Recommendations Guidelines of the European Public Real Estate Association (EPRA) which are widely used alternate metrics to their IFRS equivalents within the European real estate sector (further details can be found at www.epra.com). 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.

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

	2021 £m	2020 £m
Gross rental income	447	393
Property operating expenses	(100)	(88)
Net rental income	347	305
Joint venture fee income	52	22
Administration expenses	(59)	(52)
Share of joint ventures' Adjusted profit ¹	56	61
Adjusted operating profit before interest and tax	396	336
Net finance costs (including adjustments)	(40)	(40)
Adjusted profit before tax	356	296
Tax on Adjusted profit	(8)	(4)
Adjusted profit after tax	348	292

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

Adjusted profit before tax increased by 20.3 per cent to £356 million (2020: £296 million) during 2021 as a result of the movements described below, primarily growth in rental income and recognition of a performance fee from the SELP joint venture (£26 million income) offset by the performance fee expense recognised in the share of joint ventures profits (£13 million cost) which has a £13 million net impact on profit. Adjusted profit is detailed further in Note 2.

Net rental income

Net rental income increased by £42 million to £347 million (or by £38 million to £423 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.

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 £17 million, or 4.9 per cent, compared to 2020.

This is due to strong rental performance across our portfolio. UK: 5.6 per cent increase, in particular in Greater London; and Continental Europe: 3.6 per cent increase, in particular in Northern Europe.

	2021 £m	2020 £m	Change ³ %
Like-for-like net rental income (including JVs at share)			
UK	234	222	5.6
Continental Europe	129	124	3.6
Like-for-like net rental income before other items¹	363	346	4.9
Other ²	(6)	(6)	–
Like-for-like net rental income (after other)	357	340	4.8
Development lettings	39	9	
Properties taken back for development	1	5	
Like-for-like net rental income plus developments	397	354	
Properties acquired	24	4	
Properties sold	10	15	
Net rental income before surrenders, dilapidations and exchange	431	373	
Lease surrender premiums and dilapidations income	6	4	
Other items and rent lost from lease surrenders	10	14	
Impact of exchange rate difference between periods	–	4	
Net rental income (including joint ventures at share)	447	395	
SEGRO share of joint venture management fees	(11)	(10)	
SEGRO share of joint venture performance fees	(13)	–	
Net rental income after SEGRO share of joint venture fees	423	385	

¹ Like-for like change by Business Unit: Greater London 8.5%, Thames Valley 2.7%, National Logistics 0.4%, Northern Europe 9.1%, Southern Europe 1.2%, Central Europe 0.7%.

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

³ Percentage change has been calculated using the figures presented in the table above in millions accurate to one decimal place.

Income from joint ventures

Joint venture fee income increased by £30 million to £52 million in 2021. This increase is primarily due to the recognition of a performance fee of £26 million in respect of the SELP joint venture (as detailed further in Note 6).

SEGRO's share of joint ventures' Adjusted profit after tax decreased by £5 million from £61 million in 2020 to £56 million in 2021. This includes a performance fee expense (at share) of £13 million. Excluding performance fee expense, the Adjusted joint venture profit after tax increased by £8 million compared to 2020 as net rental income in the SELP joint venture has continued to grow.

Administrative and operating costs

The Group is focused on managing its cost base and uses a Total Cost Ratio (TCR) as a measure of cost management. The TCR for 2021 has improved to 20.2 per cent compared to 21.1 per cent in 2020. 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 17.6 per cent, an improvement from 18.8 per cent in 2020.

The cost ratio calculation is detailed in Table 8 in the Supplementary Notes, which shows that the reduction in the ratio has been primarily caused by the increase in gross rental income used in the TCR, by £56 million to £504 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 of £103 million increased by £8 million compared to 2020. Administration expenses have increased by £7 million, as a result of increased staff costs following headcount increases and increased depreciation and IT costs reflecting our continued investment in technology. Property operating expenses in the wholly-owned portfolio have increased in 2021 from £88 million to £100 million, as the portfolio has grown in size.

Total costs (see Note 5) have increased by £36 million to £140 million. This balance includes trading property cost of sales which have increased by £24 million which do not form part of the TCR calculation.

Net finance costs

Net finance costs (including adjustments) remained flat at £40 million compared to 2020. Average interest rates during the year are slightly lower offsetting the impact of higher gross debt during 2021 compared to the prior year.

Taxation

The tax charge on Adjusted profit of £8 million (2020: £4 million) reflects an effective tax rate of 2.2 per cent (2020: 1.3 per cent).

The Group's effective 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 29.1 pence compared to 25.4 pence in 2020 due to the increase in Adjusted profit slightly offset by the 47.9 million increase in the average number of shares in issue compared to the prior year.

Excluding the impact of the performance fee recognised in the period the Adjusted earnings per share would be 28.0 pence, a 10 per cent increase compared to 2020.

IFRS PROFIT

IFRS profit before tax in 2021 was £4,355 million (2020: £1,464 million), equating to basic post-tax IFRS earnings per share of 339.0 pence compared with 124.1 pence for 2020, reflecting significant property valuation gains in the year.

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 £3,670 million in 2021 (2020: £976 million) and realised and unrealised gains on trading and other property interests of £6 million (2020: £14 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 investment properties of £3,617 million (2020: £971 million) following a 30.6 per cent growth in valuation of the wholly-owned property portfolio (28.8 per cent change including joint ventures at share) in the year, as discussed further in the Portfolio Update above.

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £497 million (2020: £216 million) largely in respect of a 19.9 per cent valuation uplift in the SELP portfolio during the year. Further analysis of the gains are detailed in Note 6. IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £82 million (2020: gain of £14 million) primarily as a result of adverse movements on interest rate expectations. There was no cost of closing out debt during the year (2020: £11 million).

In addition, SEGRO recognised a tax charge in respect of adjustments of £280 million (2020: £31 million) of which £145 million (2020: £nil) relates to withholding tax in France as detailed further in Note 9, £38 million (2020: £nil) relates to the SIIC entry charge for Sofibus Patrimoine S.A. ('Sofibus') and detailed further in Note 9 and £97 million (2020: £31 million) arises 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 2020	9,725	1,194.7	814
Realised and unrealised property gain	4,173		346
Adjusted profit after tax and non-controlling interests	348		29
Dividend net of scrip shares issued (2020 final and 2021 interim)	(176)		(23)
Tax charge in respect of realised and unrealised property gains	(247)		(21)
Other including exchange rate movement	(119)		(8)
Adjusted NAV attributable to ordinary shareholders at 31 December 2021	13,704	1,205.5	1,137

At 31 December 2021, IFRS net assets attributable to ordinary shareholders were £13,436 million (31 December 2020: £9,659 million), reflecting 1,115 pence per share (31 December 2020: 809 pence) on a diluted basis.

Adjusted NAV per share at 31 December 2021 was 1,137 pence (31 December 2020: 814 pence). The 39.7 per cent increase primarily reflects property gains in the period. The table above highlights the other principal factors behind the increase. A reconciliation between IFRS and Adjusted NAV is available in Note 11 to the condensed financial statements.

Cash Flow and Net Debt Reconciliation

Cash flows from operating activities of £347 million are £114 million higher than the prior year. This is primarily due to increased rental income received during the year, the impact of trading properties, for which there was an inflow of £12 million in the current year, following disposals in the period compared to an outflow of £20 million in the prior year. In addition, there were tax payments of £17 million primarily in France, as discussed in more detail above.

The Group made net investments of £1,266 million of investment and development properties (including other investments and loans to joint ventures) during the year on a cash flow basis (2020: £1,101 million). This is principally driven by expenditure of £1,706 million (2020: £1,216 million) to purchase and develop investment properties to deliver further growth in line with our strategy, the largest of which was the purchase of a portfolio of offices in the Thames Valley Business Unit in December 2021 as discussed further in the Investment Update above.

Disposals of investment properties increased by £332 million to £491 million compared to the prior period (2020: £159 million). Disposals include £231 million to the SELP joint venture and £75 million cash received in respect of deferred consideration from a prior period disposal. Other significant cash flows include dividends paid of £180 million (2020: £179 million) where cash flows are lower than the total dividend due to the level of scrip uptake; an inflow from settlement of foreign exchange derivatives of £40 million (2020: outflow £55 million); and £12 million to purchase the remaining non-controlling interest in Sofibus following the initial acquisition in 2020.

Overall, net debt has increased in the year from £2,325 million to £3,361 million.

Cash flow and net debt reconciliation

	2021 £m	2020 £m
Opening net debt	(2,325)	(1,811)
Cash flow from operating activities	347	233
Finance costs (net)	(52)	(52)
Debt close out costs	–	(11)
Dividends received (net)	33	34
Tax paid	(17)	(5)
Net cash received from operating activities	311	199
Dividends paid	(180)	(179)
Purchase and development of investment properties	(1,706)	(1,216)
Sale of investment properties	491	159
Acquisition of interests in property and other investments	(12)	(4)
Net investment in joint ventures	(39)	(40)
Net settlement of foreign exchange derivatives	40	(55)
Proceeds from issue of ordinary shares	1	672
Purchase of non-controlling interest	(12)	–
Other items	(8)	(4)
Net funds flow	(1,114)	(468)
Non-cash movements	(3)	(3)
Exchange rate movements	81	(31)
Gross debt acquired	–	(12)
Closing net debt	(3,361)	(2,325)

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 £2,166 million, an increase of £619 million compared to 2020. More detail on developments and acquisitions can be found in the Portfolio Update above.

Development capital expenditure of £649 million was spent in the year (2020: £531 million) across all our Business Units, particularly Southern Europe and National Logistics, reflecting our development-led growth strategy.

Development spend incorporates interest capitalised of £10 million (2020: £8 million) including joint ventures at share.

Spend on existing completed properties, totalled £45 million (2020: £40 million), of which £30 million (2020: £24 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 4 per cent of Adjusted profit before tax and less than 1 per cent of total spend. Of the total spend on completed properties £5 million (2020: £3 million) increased lettable space.

EPRA capital expenditure analysis

	2021			2020		
	Wholly owned £m	Joint ventures £m	Total £m	Wholly owned £m	Joint ventures £m	Total £m
Acquisitions	1,280 ¹	159	1,439 ⁷	858 ¹	82	940
Development ⁴	588 ²	61	649	485 ²	46	531
Completed properties ⁶	35 ³	10	45	34 ³	6	40
Other ⁵	22	11	33	27	9	36
Total	1,925	241	2,166	1,404	143	1,547

1 Being £1,272 million investment property and £8 million trading property (2020: £824 million and £34 million respectively) see Note 12.

2 Being £571 million investment property and £17 million trading property (2020: £471 million and £14 million respectively) see Note 12.

3 Being £35 million investment property and £nil trading property (2020: £34 million and £nil respectively) see Note 12.

4 Includes wholly-owned capitalised interest of £9 million (2020: £7 million) as further analysed in Note 8 and share of joint venture capitalised interest of £1 million (2020: £1 million).

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

6 Being £40 million expenditure used for enhancing existing space (2020: £37 million) and £5 million used for creation of additional lettable space (2020: £3 million).

7 Total acquisitions completed in 2021 detailed in the Investment Update above, of £1,323 million (being asset acquisitions of £997 million and land acquisitions of £326 million) excludes share of assets acquired by SELP from SEGRO of £116 million (all of which was completed property).

FINANCING

SEGRO took the opportunity in 2021 to extend the duration of both syndicated and bilateral revolving credit facilities. Commitments for both syndicated and bilateral facilities total €1.2 billion and they mature in May 2026. In September, SEGRO issued a debut green €500 million 10-year unsecured euro bond with a very attractive coupon of just 0.5 per cent. Proceeds were used to finance and re-finance eligible green projects in accordance with SEGRO's Green Finance Framework. In December, SEGRO entered into an additional €750 million syndicated term loan facility due to mature in December 2023.

SELP combined two separate syndicated revolving credit facilities into a single facility of €500 million. It also took the opportunity to extend the maturity to May 2025. SELP also issued its debut green €500 million 8-year unsecured euro bond. Proceeds of the bond were used to finance and re-finance eligible green projects outlined in SEGRO's Green Finance Framework.

Both SEGRO and SELP had positive credit rating changes during the year. SEGRO's Fitch senior unsecured debt rating increased by a notch from A- to A. SEGRO's issuer default rating also increased by a notch from BBB+ to A-. SELP's Fitch senior unsecured debt rating increased by a notch from BBB+ to A-. In addition, Moody's affirmed SELP's long-term issuer rating of Baa2.

As at 31 December 2021, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures totalled £4,268 million (31 December 2020: £3,201 million), of which only £8 million (31 December 2020: £17 million) are secured by way of legal charges over specific assets. The remainder of gross borrowings are unsecured. Cash and cash equivalent balances were £67 million (31 December 2020: £113 million). Average debt maturity was 8.6 years (31 December 2020: 9.9 years) and average cost of debt (excluding non-cash interest and commitment fees) was 1.5 per cent (31 December 2020: 1.6 per cent).

Funds available to SEGRO Group (including its share of joint venture funds) at 31 December 2021 totalled £1,105 million (31 December 2020: £1,189 million), comprising £67 million cash and short-term investments and £1,038 million of undrawn credit facilities of which only £8 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 2021		31 December 2020	
	SEGRO Group	SEGRO Group and JVs at share	SEGRO Group	SEGRO Group and JVs at share
Net borrowings (£m)	3,361	4,201	2,325	3,088
Available cash and undrawn facilities (£m)	893	1,105	1,061	1,189
Balance sheet gearing (%)	25	N/A	24	N/A
Loan to value ratio (%)	22	23	22	24
Weighted average cost of debt ¹ (%)	1.5	1.5	1.7	1.6
Interest cover ² (times)	7.0	6.9	6.6	6.5
Average duration of debt (years)	9.6	8.6	11.7	9.9

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

We consider the key leverage metric for SEGRO to be proportionally consolidated ('look-through') loan to value ratio (LTV) which incorporates assets and net debt on SEGRO's balance sheet and SEGRO's share of assets and net debt on the balance sheets of its joint ventures. The LTV at 31 December 2021 on this basis was 23 per cent (31 December 2020: 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 2021, as defined within the principal debt funding arrangements of the Group, was 25 per cent (31 December 2020: 24 per cent). This is significantly lower than the Group's tightest financial gearing covenant within these debt facilities of 160 per cent.

Property valuations would need to fall by around 63 per cent from their 31 December 2021 values to reach the gearing covenant threshold of 160 per cent. A 63 per cent fall in property values would equate to an LTV ratio of approximately 62 per cent.

The Group's other key financial covenant within its principal debt funding arrangements is interest cover, requiring that net interest before capitalisation be covered at least 1.25 times by net property rental income. At 31 December 2021, the Group comfortably met this ratio at seven times. Net property rental income would need to fall by around 82 per cent from 2021 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 seven 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 against our tightest gearing covenants should property values decline. The weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 8.6 years.

The Group's debt has a range of maturities. The nearest of which is SEGRO's syndicated term loan facility and that matures in December 2023. There are no material Group bond 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 2021, including the impact of derivative instruments, 65 per cent (2020: 70 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 46 per cent at 31 December 2021 (31 December 2020: 44 per cent).

As a result of the fixed rate cover in place, if short-term interest rates had been 100 basis points higher throughout the year to 31 December 2021, the adjusted net finance cost of the Group would have increased by approximately £17 million representing around 5 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 2021: 23 per cent) and 100 per cent. At 31 December 2021, the Group was 62 per cent hedged by gross foreign currency denominated liabilities (31 December 2020: 61 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 2021 weakened by 10 per cent against sterling (to €1.31, in the case of euros), net assets would have decreased by approximately £183 million and there would have been a reduction in gearing of approximately 1.5 per cent and in the LTV of 1.1 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2021 into sterling within the consolidated income statement of the Group was €1.16: £1. Based on the hedging position at 31 December 2021, and assuming that this position had applied throughout 2021, if the euro had been 10 per cent weaker than the average exchange rate (€1.28: £1), Adjusted profit after tax for the year would have been approximately £12 million (3.4 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £15 million (4.3 per cent) higher than reported.

GOING CONCERN

As noted in the Financial Position and Financing 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 2021 the Group has extended the term of its €1.2 billion of bank facilities to 2026 and secured an additional €750 million 2-year bank facility to finance acquisitions.
- The Group executed its inaugural euro bond, opening a further deep pool of debt capital.
- Group cash and available committed facilities at 31 December 2021 were £886 million.

- 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 2021, property values would need to fall by around 63 per cent before breaching the gearing covenant. In terms of interest cover, net rental income would need to fall by 82 per cent before breaching the interest cover covenant. Both would be significantly in excess of the Group's experience during the global financial crisis and its experience in 2021.

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

DIVIDEND INCREASE REFLECTS A STRONG YEAR AND CONFIDENCE FOR THE FUTURE

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share by 1.7 pence to 16.9 pence (2020: 15.2 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 2022 to shareholders on the register at the close of business on 19 March 2022.

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 2021 and the outlook for earnings.

The total dividend for the year will, therefore, be 24.3 pence, a rise of 10 per cent versus 2020 (22.1 pence) and represents distribution of 84 per cent of Adjusted profit after tax.

The Board has decided to retain a scrip dividend option for the 2021 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2021, 36 per cent of the 2020 final dividend and 31 per cent of the 2021 interim dividend was paid in new shares, equating to £94 million of cash retained on the balance sheet.

STATEMENT OF PRINCIPAL RISKS

For SEGRO, effective risk management is a cornerstone of how we operate in order to deliver our strategy of growth in a sustainable way, both now and in the long term. Against the backdrop of the continually evolving pandemic, coupled with fluidity of the geopolitical and macroeconomic environment, the business has continued to perform strongly, in demanding operating circumstances. This is due, in no small part, to the underpin provided by our risk process, which is embedded throughout our business, to enable appropriate and responsive decision making.

ACTIVITY IN THE YEAR

The Group Risk Committee is made up of members of senior management and has met three times during the year. The members of the Committee have detailed knowledge of, and expertise in operational, financial, legal and corporate aspects of our business ensuring we are well positioned to undertake our responsibility of overseeing the work of the risk management function on behalf of the Executive Committee.

The Head of Risk and his team report on updates to the risk register following a full risk review process which includes meetings with each risk manager and executive risk owner, consideration of changes to risk policy and appetite (see below), scrutiny of the external and internal operating environments, coordination of the risk management process and consequential external reporting. During the year the team has benefitted from input from the newly appointed Group Insurance Manager which has enabled a fresh pair of eyes to provide additional rigour and challenge. We have also taken the opportunity to review our internal Key Risk Indicators to ensure they are proportionate and appropriate for the business today. As a consequence, we have deemed it appropriate to increase our acceptable appetite for appropriate land holdings in light of the favourable market conditions.

The process has identified risks whose profile is increasing, in particular environmental sustainability and major event (including cyber) as detailed further below. In addition, the disruptive Brexit risk was removed as a Principal Risk following the evolution of events during the year.

Details of particular areas of interest to the Risk Committee are detailed below:

Major event/business disruption

The impact of the pandemic continues to evolve and influence our risk landscape. Whilst the risk of virus variants and further restrictions remain, we have adapted our business both from an employee perspective and operationally to adjust to a “new normal” and remain agile in our response to the risks as they arise. Our experiences over the last two years will be invaluable should there be further challenges due to the pandemic.

During the year, the Group’s Board and relevant committees continued to meet regularly to identify, consider and discuss Covid-19 related risks and mitigations as they arose and evolved. Areas of particular concern included not only on our operations but on our people. This included changes to the working environment whilst both in the office and working from home which occurred at various points during the year across our locations.

In addition to the pandemic, we remain vigilant to cyber and other IT related issues which could result in disruption to our business, loss of data and/or reputational damage. We use both in-house resources and external specialists to review and test our controls and processes. Employees are given regular updates and mandatory training to maintain vigilance and awareness. We also have in place detailed business continuity and disaster recovery plans which are regularly tested and reviewed which are enacted should a significant event occur.

Environmental Sustainability and Climate Change

Environmental sustainability is an increasingly important risk for the business.

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

Failure to identify and mitigate risks at this stage could result in a reduction in the attractiveness of our assets to our current and prospective tenants; reputational damage and higher obsolescence and a reduction in value of our portfolio in the future.

The environmental and climate change related risks are overseen by the Sustainability team and local Business Units, reporting to the Executive Committee and ultimately the Board. The activity during 2021 and looking ahead to 2022 and beyond is described in more detail in the Principal Risk section below.

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 currently believed to present an imminent significant risk to the Group.

We remained committed to investing in our Strategy, Investment and Innovation function which continues to assess the potential impacts of a wide range of technologies and evolves our digital and technology strategy.

LOOKING AHEAD

As detailed further below, we have robust processes in place to identify and review emerging risks. By their nature emerging risks may not be fully understood or their impacts readily assessable. We remain vigilant as to how quickly and to what extent they might impact the Group.

A key emerging risk is the impact of climate change (as detailed above); others include, inter alia, the long-term impacts of the pandemic including on urbanisation and working practices; identifying and adapting to technological advances and societal attitudes to air travel and consumerism and how these impact our business model. Each emerging risk is assigned an owner and is closely monitored and assessed as it evolves.

Looking forward to 2022, whilst there is still much uncertainty, it is anticipated that Covid-19 will still be prevalent in society, and its direct and indirect impacts are still evolving. Therefore, risk management and controls, and the Group's continued flexibility in responding to the risks presented, will be fundamental to our ability to continue to operate successfully.

OUR RISK APPETITE

The Group recognises that its ability to manage risk effectively throughout the organisation continues to be central to its success. Risk management ensures a structured approach to decision making that seeks to reduce uncertainty over expected outcomes and to bring controllable risks within our appetite, thereby balancing uncertainty against the objective of creating and protecting value for our stakeholders, now and in the long term.

The Group's risk appetite is reviewed annually and approved by the Board in order to guide the business. 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.

Our risk appetite is dynamic rather than static, it will vary over time and during the course of the property cycle. In general, the Group maintains a reasonably low appetite for risk, appropriate to our strategic objectives of delivering long-term sustainable value.

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 a development strategy, which requires appropriate levels of land holdings to support the pipeline.

We seek to balance the risk of holding too much land which might be a drag to earnings, by acquiring land in appropriate locations with the required planning or zoning. Additionally, we closely monitor the churn and duration of our land holdings. We also seek to mitigate the risks – including letting, construction and contractor covenant risks – that are inherent in development. Also mindful of our environmental responsibilities, we seek to also develop buildings which meet and exceed minimum regulatory requirements and achieve high environmental certification standards, to be attractive to occupiers both now and in the future.

In line with our income focus, we have a low appetite for risks to income from customers. Accordingly, we seek a diverse occupier base with strong covenants and avoid over-exposure to individual occupiers in specialist properties. We encourage tenants to share energy usage, operate in a low carbon way and actively encourage the use of green energy where possible in our buildings.

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 which threaten a 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 with our customers and wider stakeholders, including investors, regulators, employees, business partners, suppliers, lenders and 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; to assess 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 respond to 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.

The identification and review of emerging risks are integrated into our risk review process. Emerging risks are those risks or a combination of risks which are often rapidly evolving and 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 supplemented 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 global events 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.

Internal risks are monitored by the Board to ensure 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. It formally reviewed the principal and emerging risks twice during the year and 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 executive risk owner provide the first line of defence. The Executive Committee, other monitoring committees (such as the Investment Committee and the Technology Committee), 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. It 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 inherent (assuming that no controls are in place) and residual (with mitigating controls operating normally) states. As part of the assessment, risk impact is directly measured against 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 in their decision making 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 disruptive Brexit risk previously reported has been removed as a principal risk as it was at least partially mitigated by the trade agreement between the UK and EU and subsequently no material impacts on the Group have arisen. The relevant consequences of Brexit are now being managed within each applicable risk, such as political and regulatory risk.

Furthermore, our environmental sustainability and climate change risk has increased during the year for reasons described in more detail below, whilst the others have remained in line with the prior year.

<u>PRINCIPAL RISK</u>	<u>DESCRIPTION</u>	<u>MITIGATIONS AND CURRENT YEAR ACTIVITY</u>	<u>IMPACT AND CHANGE IN 2021</u>
1. Macroeconomic impact on Market Cycle	The property market is cyclical and there is a continuous risk that the Group could either misread the market or fail to react appropriately to changing market and wider geopolitical conditions. This 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 and inform our portfolio strategy</p> <p><u>Current year:</u> During the year, we have continued to regularly monitor and assess the economic outlook. This includes a wide range of external forces, such as inflation, which has increased in the period with consequential impact on a number of areas including rental income, construction costs and interest rates.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation</p> <p><u>Change in 2021:</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, reducing returns and/or constraining 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; • Holding assets in the wrong geographical markets; missing opportunities in new markets or lacking critical mass in existing markets; and • Overpaying for assets through inadequate due diligence or price pressures from competitors. 	<p>The Group's portfolio strategy is subject to regular review by the Board in order to consider the desired shape of the portfolio so as 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 to retain 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 so that underperforming assets can be identified and 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 the evaluation, due diligence process, 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><u>Current year:</u> During the year, external impacts discussed in the Macroeconomic Impact on Market Cycle risk, has influenced our portfolio strategy. Whilst we continue to closely monitor the situation, we have taken advantage of appropriate opportunities as they arise.</p>	<p><u>Impact on strategy:</u> Disciplined Capital Allocation</p> <p><u>Change in 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>

<u>PRINCIPAL RISK</u>	<u>DESCRIPTION</u>	<u>MITIGATIONS AND CURRENT YEAR ACTIVITY</u>	<u>IMPACT AND CHANGE IN 2021</u>
3. Major event/business disruption	Unexpected global, regional or national events result in severe adverse disruption to SEGRO, such as sustained asset value or revenue impairment, solvency or covenant stress, liquidity or business continuity challenges. A global event or business disruptor may include, but is not limited to a global financial crisis, health pandemic, 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>The Group positions itself to withstand a global event and business disruption through its financing strategy (see separate principal risk); portfolio strategy (see separate principal risk) including holding a diverse set of property assets, 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. We use third parties to supplement internal expertise when testing our resilience to cyber attack and other business disruption alongside regular training.</p> <p><u>Current year:</u> The Group has continued to maintain a robust financing and portfolio strategy to leave it well positioned and provide flexibility given the continued uncertainty caused by the pandemic. As discussed in more detail above, whilst we remain vigilant to the continued risk from the pandemic, we seek to operate with a degree of normality.</p>	<p><u>Impact on strategy:</u> Operational Excellence and Disciplined Capital Allocation</p> <p><u>Change in 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>
4. 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.</p> <p>This risk is heightened by the continued 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 of and compliance with good Health and Safety practice of all our suppliers.</p> <p>A published health and safety policy is supported by site inspections of existing assets, as part of proactive management, and development project inspections in line with SEGRO's Health and Safety Construction Standard.</p> <p>SEGRO seeks to improve health and safety standards on our development sites and continue to work closely with our suppliers and health and safety consultants to increase understanding and implementation of SEGRO's requirements.</p> <p>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 alongside our internal expertise.</p> <p><u>Current year:</u> During the year, the health and safety team have continued to prioritise the safety of the internal workforce whilst in working away from the office and the management of available office space to the extent permitted by local regulations, in the context of the pandemic. 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 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>

<u>PRINCIPAL RISK</u>	<u>DESCRIPTION</u>	<u>MITIGATIONS AND CURRENT YEAR ACTIVITY</u>	<u>IMPACT AND CHANGE IN 2021</u>
5. Environmental Sustainability and Climate Change	<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. Laws, regulations, policies, taxation, obligations, customer preferences and social attitudes relating to climate change continue to evolve. Non-compliance with laws and regulations, reporting requirements, increased costs of tax and energy could cause loss of value to the Group. Not keeping pace with social attitudes and customer behaviours and preferences could additionally cause reputational damage and reduce the attractiveness and value of our assets. A lack of strong environmental credentials may reduce access to capital or increase cost as these are increasingly important criteria to investors and lenders.</p>	<p>The Responsible SEGRO Framework sets out our corporate responsibility strategy, as well as medium and long-term commitments. The Responsible SEGRO Driving Group is responsible for overseeing the delivery of the strategy and regularly report to the Executive Committee and Board on implementation of strategy and progress against our stated sustainability targets. Our dedicated Sustainability team is in place to support the operations teams in managing our day to day response to environmental risks including the Technical Implementation Group (who are responsible for developments). Each significant investment appraisal includes environmental considerations such as measures taken to increase energy efficiency and reduce carbon emissions. A climate resilience study has been undertaken to assess the medium and long-term physical risks to our portfolio. 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><u>Current year:</u> During the year, the Board agreed the new 'Responsible SEGRO' framework including the target to be net-zero by 2030. Furthermore, we reduced the carbon emissions from our Polish portfolio through a certified sustainable energy tariff. Both SEGRO and our most significant joint venture, SELP, issued Green Bonds associated with our environmental credentials.</p> <p>The Group provide disclosures in line with those required by the Task Force on Climate-Related Financial Disclosures (TCFD) framework recommendations in its Annual Report and Accounts.</p>	<p><u>Impact on strategy:</u> Operational Excellence and Disciplined Capital Allocation</p> <p><u>Change in 2021:</u> Increased risk</p> <p>Risk is within appetite.</p>
6. 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, for example, due to contractor default or poor performance and management; • Increased construction costs (for example from labour market changes or supply chain pressures) leading to reduced or uneconomic development yields; • Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand and/or inappropriate land acquisition due diligence; and • Market competition reducing access to suitable land bank and/or increasing acquisition costs. 	<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.</p> <p>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. Pricing of land acquisitions and the consequential impact on returns are considered by the Investment Committee when assessing appraisals.</p> <p>The development programme remains weighted towards pre-let opportunities.</p> <p>The risk of cost-overruns is mitigated by using our experienced development teams and the use of trusted advisors and contractors.</p> <p>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.</p> <p>Our short development lead-times enable a quick response to changing market conditions.</p> <p><u>Current year:</u> During the year, the Group continued to spend a significant amount on our development programme with each significant project appraisal required to meet detailed pre-set criteria and subject to approval by the Investment Committee. 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> Operational Excellence and Disciplined Capital Allocation</p> <p><u>Change in 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>

PRINCIPAL RISK	DESCRIPTION	MITIGATIONS AND CURRENT YEAR ACTIVITY	IMPACT AND CHANGE IN 2021
7. 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 number of factors including a failure to obtain debt or equity funding (for example, due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; defaulting on loan agreements as a result of a breach of financial or other covenants; or counterparty default.</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.</p> <p>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 on all our financial covenants.</p> <p><u>Current year:</u> During the year, financing activity has maintained a 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> Disciplined Capital Allocation and Efficient Capital and Corporate Structure</p> <p><u>Change in 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>
8. Political and Regulatory	<p>The Group could fail to anticipate significant political, legal, tax or regulatory changes, leading to a significant unforeseen 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. Political risks could impact business confidence and conditions in the short and longer terms.</p>	<p>Legal and regulatory risks 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 the British Property Federation.</p> <p>As the economic impact of the pandemic affects global economies, 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><u>Current year:</u> The regulatory environment has been somewhat dynamic for a number of reasons including the UK leaving the EU and the impact of the pandemic. The Group continues to work closely with advisors to monitor changes in relevant legislation and regulations to ensure that they are identified and addressed appropriately.</p>	<p><u>Impact on strategy:</u> Efficient Capital and Corporate Structure</p> <p><u>Change in 2021:</u> Similar risk</p> <p>Risk is within appetite.</p>
9. Operational delivery and compliance	<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. 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, 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>Our HR team is responsible for our organisational resilience ensuring the correct organisational structure and culture is in place to support the business and attract, retain and motivate a suitably talented workforce.</p> <p><u>Current year:</u> During the year, the working life of staff has continued to be 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 the security of our technology systems is fully maintained.</p>	<p><u>Impact on strategy:</u> Operational Excellence</p> <p><u>Change in 2021:</u> Similar 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 2021. Certain parts of the Annual Report and Accounts have not been included in this announcement as set out in Note 1 to the condensed financial information.

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

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

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

The responsibility statement was approved by the Board of Directors on 17 February 2022 and signed on its behalf by:

David Sleath

Chief Executive

17 February 2022

Soumen Das

Chief Financial Officer

17 February 2022

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	4	546	432
Costs	5	(140)	(104)
		406	328
Administration expenses		(59)	(52)
Share of profit from joint ventures after tax	6	461	236
Realised and unrealised property gain	7	3,669	989
Operating profit		4,477	1,501
Finance income	8	35	50
Finance costs	8	(157)	(87)
Profit before tax		4,355	1,464
Tax	9	(288)	(35)
Profit after tax		4,067	1,429
Attributable to equity shareholders		4,060	1,427
Attributable to non-controlling interests		7	2
Earnings per share (pence)			
Basic	11	339.0	124.1
Diluted	11	338.1	123.6

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 £m	2020 £m
Profit for the year	4,067	1,429
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	(184)	112
Fair value movements on derivatives and borrowings in effective hedge relationships	74	(52)
	(110)	60
Tax on components of other comprehensive (expense)/income	–	–
Other comprehensive (expense)/income	(110)	60
Total comprehensive income for the year	3,957	1,489
Attributable to equity shareholders	3,949	1,487
Attributable to non-controlling interests	8	2

CONDENSED GROUP BALANCE SHEET

As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Intangible assets		9	2
Investment properties	12	15,492	10,671
Other interests in property		24	16
Property, plant and equipment		22	27
Investments in joint ventures	6	1,795	1,423
Other investments		5	2
Other receivables		35	37
Derivative financial instruments		50	63
		17,432	12,241
Current assets			
Trading properties	12	45	52
Trade and other receivables		247	270
Derivative financial instruments		14	15
Cash and cash equivalents	13	45	89
		351	426
Total assets		17,783	12,667
Liabilities			
Non-current liabilities			
Borrowings	13	3,406	2,413
Deferred tax liabilities	9	274	87
Trade and other payables		75	110
Derivative financial instruments		56	5
Tax liabilities		19	–
		3,830	2,615
Current liabilities			
Trade and other payables		463	372
Borrowings	13	–	1
Derivative financial instruments		–	5
Tax liabilities		54	3
		517	381
Total liabilities		4,347	2,996
Net assets		13,436	9,671
Equity			
Share capital		120	119
Share premium		3,371	3,277
Capital redemption reserve		114	114
Own shares held		(1)	(1)
Other reserves		140	253
Retained earnings brought forward		5,897	4,703
Profit for the year attributable to owners of the parent		4,060	1,427
Other movements		(265)	(233)
Retained earnings		9,692	5,897
Total equity attributable to owners of the parent		13,436	9,659
Non-controlling interests		–	12
Total equity		13,436	9,671
Net assets per ordinary share (pence)			
Basic	11	1,118	811
Diluted	11	1,115	809

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

1. Non-controlling interests at 31 December 2021 relate to Vailog S.r.l. During the year non-controlling interests held in Sofibus Patrimoine SA, were acquired by the Group.

For the year ended 31 December 2020

	Attributable to owners of the parent											
	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Other reserves			Merger reserve £m	Retained earnings £m	Total equity attributable to equity shareholders £m	Non-controlling interests ¹ £m	Total equity £m
					Share payments reserves £m	Translation, based hedging and other reserves £m						
Balance at 1 January 2020	109	2,554	114	(3)	29	2	169	4,703	7,677	-	7,677	
Profit for the year	-	-	-	-	-	-	-	1,427	1,427	2	1,429	
Other comprehensive income	-	-	-	-	-	60	-	-	60	-	60	
Total comprehensive income for the year	-	-	-	-	-	60	-	1,427	1,487	2	1,489	
Transactions with owners of the Company												
Issue of shares	9	663	-	-	-	-	-	-	672	-	672	
Own shares acquired	-	-	-	(2)	-	-	-	-	(2)	-	(2)	
Equity-settled share-based transactions	-	-	-	4	(7)	-	-	9	6	-	6	
Dividends	1	60	-	-	-	-	-	(240)	(179)	-	(179)	
Movement in non-controlling interest ¹	-	-	-	-	-	-	-	(2)	(2)	10	8	
Total transaction with owners of the Company	10	723	-	2	(7)	-	-	(233)	495	10	505	
Balance at 31 December 2020	119	3,277	114	(1)	22	62	169	5,897	9,659	12	9,671	

¹ Non-controlling interests relate to Vailog S.r.l. and Sofibus Patrimoine SA. During the year non-controlling interests of £12 million were recognised upon the acquisition of Sofibus Patrimoine SA.

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities	14(i)	347	233
Interest received		48	42
Dividends received		33	34
Interest paid		(100)	(94)
Cost of new interest rate derivatives transacted		–	(12)
Proceeds from early close out of interest rate derivatives		–	12
Cost of early close out of debt		–	(11)
Tax paid		(17)	(5)
Net cash received from operating activities		311	199
Cash flows from investing activities			
Purchase and development of investment properties ¹		(1,706)	(1,216)
Sale of investment properties		491	159
Acquisition of other interests in property		(8)	(4)
Purchase of plant and equipment and intangibles		(7)	(5)
Acquisition of other investments		(4)	–
Investment and loans to joint ventures		(74)	(40)
Divestment and repayment of loans from joint ventures		35	–
Net cash used in investing activities		(1,273)	(1,106)
Cash flows from financing activities			
Dividends paid ²		(180)	(179)
Proceeds from borrowings		1,214	551
Repayment of borrowings		(140)	(122)
Principal element of lease payments		(2)	(2)
Settlement of foreign exchange derivatives		40	(55)
Purchase of non-controlling interest		(12)	–
Proceeds from issue of ordinary shares		1	672
Purchase of ordinary shares		(3)	(2)
Net cash generated from financing activities		918	863
Net decrease in cash and cash equivalents		(44)	(44)
Cash and cash equivalents at the beginning of the year		89	133
Effect of foreign exchange rate changes		–	–
Cash and cash equivalents at the end of the year	13	45	89

¹ Cash payment for the purchase and development of investment properties of £1,706 million (2020: £1,216 million) represents total costs for property acquisitions and additions to existing investment properties per Note 12(i) of £1,878 million (2020: £1,329 million) adjusted for the following cash and non-cash movements: deducts interest capitalised of £9 million (2020: £7 million); deducts net movement in capital accruals and prepayments of £23 million (2020: £30 million); deducts other non-cash movements of £140 million (2020: £76 million) from asset swaps in 2021, in 2020 other non-cash movements were mainly for transfers from other interests in properties and investments and the acquisition of Sofibus Patrimoine SA.

² Dividends paid in 2021 of £180 million (2020: £179 million) includes £176 million (2020: £179 million) paid to ordinary shareholders and £4 million (2020: £nil) paid to non-controlling interest.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated statutory accounts for the years ended 31 December 2021 and 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 (approved by the Board on 17 February 2022) will be delivered following the Company's annual general meeting. The external auditor has reported on the accounts and their reports did not contain any modifications.

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

The financial information set out in this announcement is based on the consolidated financial statements which are prepared in accordance with UK-adopted International Accounting Standards (IAS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. On 31 December 2020 EU-adopted IFRS was brought into UK law and became UK-adopted International Accounting Standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. The consolidated financial statements transitioned to UK-adopted international accounting standards for the financial period beginning 1 January 2021. There was no impact or changes in accounting policies from the transition. UK adopted International Accounting Standards differs in certain respects from International Financial Reporting Standards as adopted by the EU. The differences have no material impact on the Financial Statements for the periods presented, which therefore also comply with International Reporting Standards as adopted by the EU.

The financial information is in accordance with the accounting policies set out in the 2020 financial statements.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of UK-adopted IAS and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, this announcement does not itself contain sufficient information to comply with IASs and IFRSs. The Company expects to publish full financial statements that comply with IASs and IFRSs by March 2022.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.19 (31 December 2020: £1 = €1.12) and Income statement: £1 = €1.16 (2020: £1 = €1.13).

New and amended standards adopted by the Group

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

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revisions and future periods if the revision affects both current and future periods.

Significant areas of estimation uncertainty

Property valuations

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

Performance fee

As detailed further in Note 6, performance fees are payable from the SELP joint venture to SEGRO. The fee is based on the joint venture's performance over the 10-year performance period since inception and payable subject to meeting certain criteria and hurdle rates at the end of the period. Performance fee income is recognised during the performance period to the extent that the fee can be reliably estimated and that it is highly probable there will not be a significant future reversal. The internal rate of return ('IRR') calculation to determine whether the hurdle rates will be met, and if so to what extent, at the end of the performance period in October 2023 is currently an estimation and sensitive to movements and assumptions in property valuations over the remaining performance period. As detailed above, property valuations is an area of significant estimation uncertainty.

Determining whether it is highly probable there will not be a significant future change in the performance fee is dependent on the probability and magnitude of future changes in property values over the remaining performance period. Note 6 provides details of the estimated performance fee due in October 2023 and sensitivity of this estimation to movements in property values from 31 December 2021 to the end of the performance period. The corresponding performance fee expense recognised by SELP is a significant estimate for the same reasons as detailed above. The SELP performance fee expense is accounted for under the equity method within share of profit from joint ventures after tax.

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

Accounting for significant property transactions

Property transactions are complex in nature. Management considers each material transaction separately, with an assessment carried out to determine the most appropriate accounting treatment and judgements applied. The judgements include whether the transaction represents an asset acquisition or business combination and the cut-off for property transactions on recognition of property assets and revenue recognition.

In making its judgement over the cut-off for property transactions, management considers whether the control of ownership of the assets acquired or disposed of has transferred to or from the Group (this consideration includes the revenue recognition criteria set out in IFRS 15 for the sale of trading properties). In making its judgement on whether the acquisition of property through the purchase of a corporate vehicle represents an asset acquisition or business combination, management considers whether the integrated set of assets and activities acquired contain both inputs and processes along with the ability to create outputs. Management also applies the optional 'concentration test' allowed under IFRS 3. When applying the optional test, management considers if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Where management judge that substantially all of the fair value of the gross assets acquired are concentrated in a single asset (or a group of similar assets) and the 'concentration test' met, the assets acquired would not represent a business and the purchase would be treated as an asset acquisition.

REIT Status

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

Uncertain tax positions

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

2. ADJUSTED PROFIT

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

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

The Directors may also exclude from the EPRA profit measure additional items (gains and losses) which are considered by them to be nonrecurring, 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	2021 £m	2020 £m
Gross rental income	4	447	393
Property operating expenses	5	(100)	(88)
Net rental income		347	305
Joint venture fee income	4	52	22
Administration expenses		(59)	(52)
Share of joint ventures' Adjusted profit after tax ¹	6	56	61
Adjusted operating profit before interest and tax		396	336
Net finance costs (including adjustments)	8	(40)	(40)
Adjusted profit before tax		356	296
Adjustments to reconcile to IFRS:			
Adjustments to the share of profit from joint ventures after tax ¹	6	405	175
Realised and unrealised property gain	7	3,669	989
Profit on sale of trading properties	12	7	1
Cost of early close out of debt	8	–	(11)
Net fair value (loss)/gain on interest rate swaps and other derivatives	8	(82)	14
Total adjustments		3,999	1,168
Profit before tax		4,355	1,464
Tax			
On Adjusted profit	9	(8)	(4)
In respect of adjustments	9	(280)	(31)
Total tax adjustments		(288)	(35)
Profit after tax before non-controlling interests		4,067	1,429
Non-controlling interests:			
Less: share of adjusted profit attributable to non-controlling interests		–	–
: share of adjustments attributable to non-controlling interests		(7)	(2)
Profit after tax and non-controlling interests		4,060	1,427
Of which:			
Adjusted profit after tax and non-controlling interests		348	292
Total adjustments after tax and non-controlling interests		3,712	1,135
Profit attributable to equity shareholders		4,060	1,427

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 Italy) and Central Europe (principally Poland), which are managed and reported to the Board as separate distinct Business Units.

31 December 2021	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	88	81	–	79	3,102	–	454
National Logistics	37	34	–	34	1,717	–	213
Greater London	182	164	–	161	7,325	8	678
Northern Europe	31	19	26	52	928	911	93
Southern Europe	99	58	35	100	2,285	1,178	443
Central Europe	10	4	22	31	180	559	22
Other	–	(13) ¹	(27) ¹	(61) ¹	–	(861) ⁴	7
Total	447	347	56	396	15,537	1,795	1,910

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	84	78	–	76	1,997	–	57
National Logistics	34	34	–	33	1,223	1	267
Greater London	160	140	–	138	4,867	–	454
Northern Europe	29	18	25	48	682	803	29
Southern Europe	75	44	30	79	1,803	914	566
Central Europe	11	4	22	30	151	496	4
Other	–	(13) ¹	(16) ¹	(68) ¹	–	(791) ⁴	5
Total	393	305	61	336	10,723	1,423	1,382

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

Revenues from the most significant countries within the Group were: UK £374 million (2020: £278 million), France £71 million (2020: £56 million), Italy £35 million (2020: £39 million), Germany £38 million (2020: £34 million) and Poland £15 million (2020: £15 million).

4. REVENUE

	2021	2020
	£m	£m
Rental income from investment and trading properties	386	336
Rent averaging	13	18
Service charge income*	42	35
Management fees*	3	3
Surrender premiums and dividend income from property related investments	3	1
Gross rental income¹	447	393
Joint venture fee income - management fees*	26	22
Joint venture fee income - performance fees*	26	–
Joint venture fee income	52	22
Proceeds from sale of trading properties*	47	17
Total revenue	546	432

* The above income streams reflect revenue recognition under IFRS 15 'Revenue from Contracts with Customers' and total £144 million (2020: £77 million).

¹ Net rental income of £347 million (2020: £305 million) is calculated as gross rental income of £447 million (2020: £393 million) less total property operating expenses of £100 million (2020: £88 million) shown in Note 5.

5. COSTS

	2021	2020
	£m	£m
Vacant property costs	5	3
Letting, marketing, legal and professional fees	11	10
Loss allowance and impairment of receivables	–	4
Service charge expense	42	35
Other expenses	12	9
Property management expenses	70	61
Property administration expenses ¹	39	36
Costs capitalised ²	(9)	(9)
Total property operating expenses	100	88
Trading properties cost of sales	40	16
Total costs	140	104

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. 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	Other £m	At 100% 2021 £m	At 100% 2020 £m	At 50% 2021 £m	At 50% 2020 £m
Revenue¹	270	–	270	249	135	125
Gross rental income	270	–	270	242	135	121
Property operating expenses						
-underlying property operating expenses	(12)	–	(12)	(11)	(6)	(5)
-vacant property costs	(2)	–	(2)	(3)	(1)	(2)
-property management fees ²	(22)	–	(22)	(20)	(11)	(10)
-service charge expense	(56)	–	(56)	(48)	(28)	(24)
-performance fees ³	(26)	–	(26)	–	(13)	–
Net rental income	152	–	152	160	76	80
Administration expenses	(3)	–	(3)	(3)	(2)	(2)
Finance costs	(26)	–	(26)	(25)	(13)	(12)
Adjusted profit before tax	123	–	123	132	61	66
Tax	(11)	–	(11)	(10)	(5)	(5)
Adjusted profit after tax	112	–	112	122	56	61
Adjustments:						
Profit on sale of investment properties	19	–	19	2	10	1
Valuation surplus/(deficit) on investment properties	975	(1)	974	424	487	212
Other investment income	–	–	–	5	–	3
Tax in respect of adjustments	(183)	–	(183)	(81)	(92)	(41)
Total adjustments	811	(1)	810	350	405	175
Profit/(loss) after tax	923	(1)	922	472	461	236
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(expense) for the year	923	(1)	922	472	461	236

1 Total revenue at 100% of £270 million (2020: £249 million) includes: Gross rental income £270 million (2020: £242 million) and proceeds from sale of trading properties £nil (2020: £7 million). Proceeds from sale of trading properties is presented net of cost of sale and shown within adjustments in the table above. Profit on sale of trading properties was £nil in 2021 and 2020.

2 Property management fees paid to SEGRO.

3 Performance fees recognised by SEGRO.

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

	SELP £m	Other £m	At 100% 2021 £m	At 100% 2020 £m	At 50% 2021 £m	At 50% 2020 £m
Investment properties ¹	5,804	14	5,818	4,695	2,909	2,348
Total non-current assets	5,804	14	5,818	4,695	2,909	2,348
Other receivables	75	3	78	115	39	57
Cash and cash equivalents	43	–	43	48	22	24
Total current assets	118	3	121	163	61	81
Total assets	5,922	17	5,939	4,858	2,970	2,429
Borrowings	(1,723)	–	(1,723)	(1,574)	(862)	(787)
Deferred tax	(504)	–	(504)	(346)	(252)	(173)
Total non-current liabilities	(2,227)	–	(2,227)	(1,920)	(1,114)	(960)
Other liabilities	(122)	–	(122)	(92)	(61)	(46)
Total current liabilities	(122)	–	(122)	(92)	(61)	(46)
Total liabilities	(2,349)	–	(2,349)	(2,012)	(1,175)	(1,006)
Net assets	3,573	17	3,590	2,846	1,795	1,423

1 Investment properties held by SELP include assets held for sale of £97 million (at 100%) at 31 December 2021 (2020: £nil).

Fees

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

Performance fees, denominated in euros, are payable from SELP to SEGRO based on SELP's internal rate of return ("IRR") subject to certain hurdle rates. The first IRR calculation was conducted in October 2018, the fifth anniversary of the inception of SELP, and a payment of €59 million (£52 million) was made to SEGRO, of which 50 per cent was subject to clawback based on performance over the remaining period to October 2023, SELP's tenth anniversary. If performance has improved by the tenth anniversary, additional fees might be triggered. The IRR calculation to determine whether the hurdle rates will be met when the performance period ends in October 2023 is currently an estimation and sensitive to movements and assumptions in property valuations over the remaining performance period.

In 2018 SEGRO recognised a performance fee of £26 million in its Income Statement (representing the 50 per cent of the performance fee paid in 2018 not subject to clawback) and relates to the five year performance period to October 2018 (an equivalent performance fee expense of £26 million (£13 million at share) was recognised within the share of profit from joint ventures).

In 2021 SEGRO has recognised a performance fee of £26 million (€29 million) in the Income Statement and represents the additional 50 per cent of the performance fee paid in 2018 subject to future clawback.

Performance fee income is recognised during the performance period to the extent that it is highly probable there will not be a significant future reversal and the fee can be reliably estimated. None of the £26 million performance fee recognised in 2021 will be reversed if property values fall by 17 per cent (the equivalent of 9 per cent per annum) between 31 December 2021 and the end of the performance period in 2023. If property values fall by over 19 per cent (the equivalent of 10 per cent per annum) all of the £26 million performance fee would be reversed. Based on SEGRO management's assessment of market conditions at the year end, market outlook and the track record of property market trends, management considers a potential decrease in property values in excess of 17 per cent by October 2023 as highly improbable and so meets the criteria that there will not be a significant reversal of the performance fee recognised.

When consolidating the SELP Group financial statements into the SEGRO Group, an equivalent performance fee expense of £26 million (£13 million at share) has been recognised within the share of profit from joint ventures and reflected in table 6(i) above.

Sensitivity

Based on current estimates of the IRR of SELP between inception in October 2013 and 31 December 2021, an additional performance fee due to SEGRO in 2023 could be in the region of €276 million (€138 million at share after accounting for the corresponding performance fee expense recognised in SELP). However, this is dependent on future events, in particular property valuation movements, to the end of the performance period in October 2023. The current estimates of the IRR is based on property values as at 31 December 2021: a 10 per cent decrease in property values would result in a €160 million decrease in the estimated fee and a 10 per cent increase in property values would result in a €160 million increase in the estimated fee. If property values decreased by 17 per cent no additional performance fee would be due. A further performance fee above the £26 million recorded during the year has not been recognised as management has not concluded that it is highly probable that there will not be a significant reversal.

7. REALISED AND UNREALISED PROPERTY GAIN

	2021 £m	2020 £m
Profit on sale of investment properties	53	5
Valuation surplus on investment properties ¹	3,617	971
Increase in provision for impairment of trading properties	(1)	–
Increase in provision for impairment of other interests in property	–	(1)
Valuation surplus on other investments	–	14
Total realised and unrealised property gain	3,669	989

¹ Includes £3,618 million valuation surplus on investment properties (2020: £972 million) less £1 million valuation loss on head lease ROU asset (2020: £1 million).

Total valuation surplus on investment and trading properties total £4,103 million (2020: £1,183 million). This comprises £3,617 million surplus from investment properties (2020: £971 million), £1 million impairment from trading properties (2020: £nil) and £487 million surplus from joint ventures at share (2020: £212 million).

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

8. NET FINANCE COSTS

	2021	2020
	£m	£m
Finance income		
Interest received on bank deposits and related derivatives	24	27
Fair value gain on interest rate swaps and other derivatives	11	23
Total finance income	35	50
	2021	2020
	£m	£m
Finance costs		
Interest on overdrafts, loans and related derivatives	(67)	(68)
Cost of early close out of debt	–	(11)
Amortisation of issue costs	(3)	(3)
Interest on lease liabilities	(3)	(3)
Total borrowing costs	(73)	(85)
Less amount capitalised on the development of properties	9	7
Net borrowing costs	(64)	(78)
Fair value loss on interest rate swaps and other derivatives	(93)	(9)
Total finance costs	(157)	(87)
Net finance costs	(122)	(37)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £40 million (2020: £40 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £82 million loss (2020: £14 million gain) and the cost of early close out of debt of £nil (2020: £11 million).

The interest capitalisation rates for 2021 ranged from 1.85 per cent to 2.15 per cent (2020: 1.85 per cent to 2.15 per cent). Interest is capitalised gross of tax relief.

9. TAX

9(i) Tax on profit

	2021 £m	2020 £m
Tax:		
On Adjusted profit	(8)	(4)
In respect of adjustments		
- French withholding tax	(145)	–
- SIIC entry charge	(38)	–
- Other (primarily in respect of property valuation movements)	(97)	(31)
Total tax in respect of adjustments	(280)	(31)
Total tax charge	(288)	(35)
Current tax		
United Kingdom		
Current tax credit	4	1
Total UK current tax credit	4	1
Overseas		
Current tax charge	(40)	(8)
Adjustments in respect of earlier years	–	4
French withholding tax	(16)	–
SIIC entry charge	(38)	–
Total overseas current tax charge	(94)	(4)
Total current tax charge	(90)	(3)
Deferred tax		
Origination and reversal of temporary differences	(34)	(3)
Released in respect of property disposals in the year	22	5
On valuation movements	(173)	(39)
Total deferred tax in respect of investment properties	(185)	(37)
Other deferred tax	(13)	5
Total deferred tax charge	(198)	(32)
Total tax charge on profit on ordinary activities	(288)	(35)

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

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

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

A tax charge on adjustments of £145 million in respect of withholding tax in France has been recognised in the year, of which £16 million relates to current tax and £129 million relates to deferred tax (reflected within line items 'French withholding tax' and 'On valuation movements' respectively in table 9(i)). The charge relates to probable withholding tax due on profits distributed from the French business. This has been recognised in light of an ongoing discussion with the French tax authorities, following the receipt of formal tax assessments during the second half of 2021.

During April 2021, the Group elected Sofibus Patrimoine S.A. into the SIIC regime in France. The entry cost to the regime was €45 million (£38 million) and is payable over a period of four years, of which the first payment of €12 million (£10 million) was made during 2021. The entire entry cost has been recognised in the Income Statement for the year ended 31 December 2021.

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

9(iii) Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January 2021 £m	Exchange movement £m	Acquisitions / disposals £m	Recognised in income £m	Balance 31 December 2021 £m
Valuation surpluses and deficits on properties/accelerated tax allowances	84	(10)	–	185	259
Others	3	(1)	–	13	15
Total deferred tax liabilities	87	(11)	–	198	274

10. DIVIDENDS

	2021 £m	2020 £m
Ordinary dividends paid		
Interim dividend for 2021 @ 7.4 pence per share	89	–
Final dividend for 2020 @ 15.2 pence per share	181	–
Interim dividend for 2020 @ 6.9 pence per share	–	82
Final dividend for 2019 @ 14.4 pence per share	–	158
Total dividends	270	240

The Board recommends a final dividend for 2021 of 16.9 pence which is estimated to result in a distribution of up to £203 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2021 is 24.3 pence (2020: 22.1 pence).

The total dividend in 2021 of £270 million (2020: £240 million) was paid: £176 million as cash (2020: £179 million) and £94 million in scrip dividends (2020: £61 million).

11. EARNINGS AND NET ASSETS PER SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 0.2 million shares (2020: 0.4 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.2 million shares (2020: 0.3 million) being the actual number of shares held on trust for employee share schemes at year end.

11(i) Earnings per ordinary share (EPS)

	2021			2020		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic EPS	4,060	1,197.7	339.0	1,427	1,149.8	124.1
Dilution adjustments:						
Share and save as you earn schemes	–	3.3	(0.9)	–	4.7	(0.5)
Diluted EPS	4,060	1,201.0	338.1	1,427	1,154.5	123.6
Basic EPS	4,060	1,197.7	339.0	1,427	1,149.8	124.1
Adjustments to profit before tax ¹	(3,999)		(333.9)	(1,168)		(101.6)
Tax in respect of Adjustments	280		23.4	31		2.7
Non-controlling interest on Adjustments	7		0.6	2		0.2
Adjusted Basic EPS	348	1,197.7	29.1	292	1,149.8	25.4
Adjusted Diluted EPS	348	1,201.0	29.0	292	1,154.5	25.3

¹ Details of adjustments are included in Note 2.

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

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

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

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

	2021			2020		
	Equity attributable to ordinary shareholders £m	Shares million	Pence per share	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic NAV	13,436	1,202.3	1,118	9,659	1,191.3	811
Dilution adjustments:						
Share and save as you earn schemes	–	3.2	(3)	–	3.4	(2)
Diluted NAV	13,436	1,205.5	1,115	9,659	1,194.7	809
Fair value adjustment in respect of interest rate derivatives – Group	24		2	(61)		(5)
Fair value adjustment in respect of trading properties – Group	1		–	1		–
Deferred tax in respect of depreciation and valuation surpluses – Group ¹	129		11	42		3
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures ¹	123		10	86		7
Intangible assets	(9)		(1)	(2)		–
Adjusted NAV	13,704	1,205.5	1,137	9,725	1,194.7	814

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 2021	9,397	1,062	10,459
Exchange movement	(145)	(25)	(170)
Property acquisitions	983	289	1,272
Additions to existing investment properties	35	571	606
Disposals	(491)	(7)	(498)
Transfers on completion of development	926	(926)	–
Transfer to trading properties	–	(11)	(11)
Revaluation surplus during the year	3,110	508	3,618
At 31 December 2021	13,815	1,461	15,276
Add tenant lease incentives, letting fees and rental guarantees	146	–	146
Investment properties excluding head lease ROU assets at 31 December 2021	13,961	1,461	15,422
Add head lease liabilities (ROU assets) ¹	70	–	70
Total investment properties at 31 December 2021	14,031	1,461	15,492

¹ At 31 December 2021 investment properties included £70 million (2020: £76 million) for the head lease liabilities recognised under IFRS 16.

Investment properties are stated at fair value as at 31 December 2021 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 £206 million (excluding head lease ROU assets) (2020: £179 million).

12(ii) Trading properties

	2021 £m	2020 £m
At 1 January	52	20
Exchange movement	(2)	1
Property acquisitions	8	34
Additions to existing trading properties	17	14
Disposals ¹	(40)	(16)
Increase in provision for impairment during the year	(1)	–
Transfer from/(to) investment properties	11	(1)
At 31 December	45	52

¹ Profit on sale of trading properties of £7 million in the year (2020: £1 million) have been generated from total proceeds of £47 million (2020: £17 million), see Note 4, less costs of £40 million (2020: £16 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 £1 million (2020: £nil). Based on the fair value at 31 December 2021, the portfolio has unrecognised surplus of £1 million (2020: £1 million).

13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2021 £m	2020 £m
In one year or less	–	1
In more than one year but less than two	–	1
In more than two years but less than five	877	218
In more than five years but less than ten	1,308	934
In more than ten years	1,221	1,260
In more than one year	3,406	2,413
Total borrowings	3,406	2,414
Cash and cash equivalents	(45)	(89)
Net borrowings	3,361	2,325

Total borrowings is split between secured and unsecured as follows:

Secured (on land, buildings and other assets)	2	14
Unsecured	3,404	2,400
Total borrowings	3,406	2,414

Currency profile of total borrowings after derivative instruments

Sterling	617	180
Euros	2,789	2,234
Total borrowings	3,406	2,414

Maturity profile of undrawn borrowing facilities

In one year or less	8	19
In more than one year but less than two	630	–
In more than two years	210	953
Total available undrawn facilities	848	972

14. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

14(i) Reconciliation of cash generated from operations

	2021 £m	2020 £m
Operating profit	4,477	1,501
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangibles	5	4
Share of profit from joint ventures after tax	(461)	(236)
Profit on sale of investment properties	(53)	(5)
Revaluation surplus on investment properties	(3,617)	(971)
Valuation gain on other investments	–	(14)
Other provisions	9	4
	360	283
Changes in working capital:		
Decrease/(increase) in trading properties	12	(20)
Increase in debtors and tenant incentives	(49)	(52)
Increase in creditors	24	22
Net cash inflow generated from operations	347	233

14(ii) Analysis of net debt

	Cash movements			Non-cash adjustments		At 31 December 2021 £m
	At 1 January 2021 £m	Cash inflow ¹ £m	Cash outflow ² £m	Exchange movement £m	Other non-cash Adjustment ³ £m	
Bank loans and loan capital	2,431	1,214	(140)	(81)	5	3,429
Capitalised finance costs	(17)	–	(4)	–	(2)	(23)
Total borrowings	2,414	1,214	(144)	(81)	3	3,406
Cash in hand and at bank	(89)	–	44	–	–	(45)
Net debt	2,325	1,214	(100)	(81)	3	3,361

1 Proceeds from borrowings of £1,214 million.

2 Cash outflow of £144 million, comprises the repayment of borrowings of £140 million and capitalised costs of £4 million.

3 Other non-cash adjustments includes £5 million of issue costs arising from new borrowings in the year, the cash proceeds received from the borrowings were received net of the issue costs. The total other non-cash adjustment of £3 million relates to the amortisation of issue costs. See Note 8.

SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

	Notes	2021		2020	
		£m	Pence per share	£m	Pence per share
EPRA Earnings	Table 4	348	29.1	292	25.4
EPRA NTA	Table 5	13,704	1,137	9,725	814
EPRA NRV	Table 5	14,986	1,243	10,571	885
EPRA NDV	Table 5	13,155	1,091	9,155	766
EPRA net initial yield	Table 6		3.0%		3.8%
EPRA 'topped up' net initial yield	Table 6		3.3%		4.1%
EPRA vacancy rate	Table 7		3.2%		3.9%
EPRA cost ratio (including vacant property costs)	Table 8		20.2%		21.1%
EPRA cost ratio (excluding vacant property costs)	Table 8		19.0%		20.1%

TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

	Notes	2021			2020		
		Group £m	JV £m	Total £m	Group £m	JV £m	Total £m
Gross rental income	2,6	447	135	582	393	121	514
Property operating expenses	2,6	(100)	(35)	(135)	(88)	(31)	(119)
Net rental income		347	100	447	305	90	395
Joint venture fee income ¹	2,6	52	(24)	28	22	(10)	12
Administration expenses	2,6	(59)	(2)	(61)	(52)	(2)	(54)
Adjusted operating profit before interest and tax		340	74	414	275	78	353
Net finance costs (including adjustments)	2,6	(40)	(13)	(53)	(40)	(12)	(52)
Adjusted profit before tax		300	61	361	235	66	301
Tax on adjusted profit	2,6	(8)	(5)	(13)	(4)	(5)	(9)
Adjusted/EPRA earnings before non-controlling interests		292	56	348	231	61	292
Non-controlling interest on adjusted profit	2,6	–	–	–	–	–	–
Adjusted/EPRA earnings after tax and non-controlling interests		292	56	348	231	61	292
Number of shares, million	11			1,197.7			1,149.8
Adjusted/EPRA EPS, pence per share				29.1			25.4
Number of shares, million	11			1,201.0			1,154.5
Adjusted/EPRA EPS, pence per share – diluted				29.0			25.3

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	2021			2020		
		Group £m	JV £m	Total £m	Group £m	JV £m	Total £m
Investment properties	12,6	15,492	2,909	18,401	10,671	2,348	13,019
Trading properties	12,6	45	–	45	52	–	52
Total properties		15,537	2,909	18,446	10,723	2,348	13,071
Investment in joint ventures	6	1,795	(1,795)	–	1,423	(1,423)	–
Other net liabilities		(535)	(274)	(809)	(162)	(162)	(324)
Net borrowings	13,6	(3,361)	(840)	(4,201)	(2,325)	(763)	(3,088)
Total shareholders' equity¹		13,436	–	13,436	9,659	–	9,659
EPRA adjustments	11			268			66
Adjusted NAV	11			13,704			9,725
Number of shares, million	11			1,205.5			1,194.7
Adjusted NAV, pence per share	11			1,137			814

¹ After non-controlling interests.

Loan to value of 23 per cent is calculated as net borrowings of £4,201 million divided by total properties (excluding head lease ROU asset of £70 million and includes valuation surplus not recognised on trading properties of £1 million) of £18,377 million (2020: 24 per cent; £3,088 million net borrowings; £12,995 million total properties).

The portfolio valuation uplift of 28.8 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 SEGRO is measured. Based on the Financial Statements there is a valuation surplus of £4,103 million (see Note 7) and property value of £18,376 million (paragraph above) giving a valuation uplift of 28.8 per cent. The primary differences are that the uplift excludes the impact of rent free incentives (£15 million, +0.1 per cent) and other movements (-£12 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 £21,286 million (2020: £15,343 million) includes Group total properties of £15,468 million (which excludes head lease ROU asset of £70 million and includes valuation surplus not recognised on trading properties of £1 million) and 100 per cent of total properties owned by joint ventures of £5,818 million.

TABLE 4: EPRA EARNINGS

	Notes	2021 £m	2020 £m
Earnings per IFRS income statement		4,060	1,427
Adjustments to calculate EPRA Earnings, exclude:			
Valuation surplus on investment properties	7	(3,617)	(971)
Profit on sale of investment properties	7	(53)	(5)
Profit on sale trading properties	12	(7)	(1)
Increase in provision for impairment of trading properties	7	1	–
Increase in provision for impairment of other interests in property	7	–	1
Valuation surplus on other investments	7	–	(14)
Tax on profits on disposals ¹		10	–
Costs of early close out of debt	8	–	11
Net fair value loss/(gain) on interest rate swaps and other derivatives	8	82	(14)
Deferred tax charge in respect of EPRA adjustments ¹		232	31
SIIC entry tax charge ¹	9	38	–
Adjustments to the share of profit from joint ventures after tax	6	(405)	(175)
Non-controlling interests in respect of the above	2	7	2
EPRA earnings		348	292
Basic number of shares, million	11	1,197.7	1,149.8
EPRA Earnings per Share (EPS)		29.1	25.4
Company specific adjustments:			
Non-EPRA adjustments	2	–	–
Adjusted earnings		348	292
Adjusted EPS	11	29.1	25.4

1. Total tax charge in respect of adjustments per Note 2 of £280 million (2020: £31 million) comprises tax charge on profits on disposals of £10 million (2020: £nil) and deferred tax charge of £232 million (2020: £31 million) and SIIC entry charge of £38 million (2020: £nil).

TABLE 5: EPRA NET ASSET MEASURES

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

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

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

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

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 PRA BPR guidelines.

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

As at 31 December 2020	EPRA measures		
	EPRA NTA	EPRA NRV	EPRA NDV
	£m	£m	£m
Equity attributable to ordinary shareholders	9,659	9,659	9,659
Fair value adjustment in respect of interest rate derivatives – Group	(61)	(61)	-
Fair value adjustment in respect of trading properties – Group	1	1	1
Deferred tax in respect of depreciation and valuation surpluses – Group ¹	42	84	-
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures ¹	86	171	-
Intangible assets	(2)	-	-
Fair value adjustment in respect of debt – Group	-	-	(467)
Fair value adjustment in respect of debt – Joint ventures	-	-	(38)
Real estate transfer tax ²	-	717	-
Net assets	9,725	10,571	9,155
Diluted shares (million)	1,194.7	1,194.7	1,194.7
Diluted net assets per share	814	885	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.

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 – 2021				
Total properties per financial statements	Table 3	12,151	6,295	18,446
Add valuation surplus not recognised on trading properties ¹	12	–	1	1
Less head lease ROU assets	12	–	(70)	(70)
Combined property portfolio per external valuers' report		12,151	6,226	18,377
Less development properties (investment, trading and joint ventures)		(1,021)	(617)	(1,638)
Net valuation of completed properties		11,130	5,609	16,739
Add notional purchasers' costs		754	267	1,021
Gross valuation of completed properties including notional purchasers' costs	A	11,884	5,876	17,760
Income				
Gross passing rents ²		334	206	540
Less irrecoverable property costs		(4)	(8)	(12)
Net passing rents	B	330	198	528
Adjustment for notional rent in respect of rent frees		33	28	61
Topped up net rent	C	363	226	589
Including fixed/minimum uplifts ⁴		10	–	10
Total topped up net rent		373	226	599
Yields – 2021		%	%	%
EPRA net initial yield ³	B/A	2.8	3.4	3.0
EPRA topped up net initial yield ³	C/A	3.1	3.8	3.3
Net true equivalent yield		3.7	4.0	3.8

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

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

3 In accordance with the Best Practices Recommendations of EPRA.

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

TABLE 7: EPRA VACANCY RATE

	2021 £m	2020 £m
Annualised estimated rental value of vacant premises	22	22
Annualised estimated rental value for the completed property portfolio	693	561
EPRA vacancy rate¹	3.2%	3.9%

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

TABLE 8: TOTAL COST RATIO/EPRA COST RATIO

	Notes	2021 £m	2020 £m
Costs			
Property operating expenses ¹	5	100	88
Administration expenses		59	52
Share of joint venture property operating and administration expenses ²	6	48	43
Less:			
Joint venture property management fee income, service charge income, management fees and other costs recovered through rents but not separately invoiced ³		(104)	(88)
Total costs (A)		103	95
Gross rental income			
Gross rental income	4	447	393
Share of joint venture property gross rental income	6	135	121
Less:			
Service charge income, management fees and other costs recovered through rents but not separately invoiced ³		(78)	(66)
Total gross rental income (B)		504	448
Total cost ratio (A)/(B)⁴		20.2%	21.1%
Total costs (A)		103	95
Share based payments		(13)	(10)
Total costs after share based payments (C)		90	85
Total cost ratio after share based payments (C)/(B)⁴		17.6%	18.8%
EPRA cost ratio			
Total costs (A)		103	95
Non-EPRA adjustments	2	–	–
EPRA total costs including vacant property costs (D)		103	95
Group vacant property costs	5	(5)	(3)
Share of joint venture vacant property costs	6	(1)	(2)
EPRA total costs excluding vacant property costs (E)		97	90
Total gross rental income (B)		504	448
Total EPRA cost ratio (including vacant property costs) (D)/(B)⁴		20.2%	21.1%
Total EPRA cost ratio (excluding vacant property costs) (E)/(B)⁴		19.0%	20.1%

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £9 million (2020: £9 million) (see Note 5 for further detail on the nature of costs capitalised).

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

3 Total deduction of £104 million (2020: £88 million) from costs includes: joint venture management fees income of £26 million (2020: £22 million), service charge income including joint ventures of £70 million (2020: £59 million) and management fees and other costs recovered through rents but not separately invoiced, including joint ventures, of £8 million (2020: £7 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 £447 million (2020: £393 million) does not include joint venture management fees income of £26 million (2020: £22 million) and these fees are not required to be included in the total deduction to income of £78 million (2020: £66 million).

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

Responsible SEGRO Environmental Metrics

In 2021, as part of our Responsible SEGRO Framework commitment, we reviewed our carbon emissions targets which have been validated by the Science Based Targets Initiative (SBTi). We have therefore updated our formal carbon reduction targets to be in line with the science-based carbon emissions reduction pathway, using our 2020 performance as a benchmark. These targets, set out in the table below, are considered to be a required minimum for SEGRO and we will need to act faster to become a net-zero company by 2030.

	Baseline	2021	2020
Operational Carbon (SBTi validated target)	312,115 tonnes	280,575 tonnes	312,115 tonnes
We will reduce the absolute CO ₂ e emissions from our portfolio by 42 per cent by 2030 against a 2020 baseline. The 2020 baseline has been restated to reflect actual recorded fuel use (54 per cent of the portfolio by floorspace) and an estimation for the portfolio for which we have no visibility (46 per cent of the portfolio). It includes Scope 1, 2 and Scope 3 Downstream Leased Assets.			
Operational Carbon Intensity		27.9 kgCO₂e/sq m	37.5kgCO ₂ e/sq m
This metric is based on the CO ₂ e emissions of the portfolio for which we have visibility of the data. This reflects 54 per cent of the portfolio floorspace under management.			
Embodied Carbon (SBTi validated target)	400 kgCO ₂ e/sq m	391 kgCO₂e/sq m	400 kgCO ₂ e/sq m
We will reduce the embodied carbon intensity of new developments by 20 per cent by 2030, against a 2020 baseline. The 2020 baseline and the embodied carbon intensity figure has been recalculated to encompass more of the carbon embodied within our development pipeline. In 2021, SEGRO undertook an embodied carbon assessment of 53 per cent of completed developments by floorspace. We are working to have embodied carbon data for all developments containing over 5,000 sq m of floorspace			
Energy Efficiency			
We are conscious of demands by our customers and by governments to provide energy-efficient buildings to reduce both carbon emissions and operating costs. We monitor these by use of Energy Performance Certificates (EPC). We are aiming for every building to have an EPC rating of B1 or better			
Group floorspace rated B or better		54.6%	49.3%
Group floorspace rated E or lower		1.1%	0.5%
Group floorspace not rated		17.2%	21.2%
On-site Renewable Energy Generation	Capacity Generated	35.4 MW 24,781 MWh	26.8 MW 20,976 MWh
With significant roof space, our portfolio is capable of supporting on-site renewable energy capacity through the use of photovoltaic (solar) panels. We intend to increase this by installing solar panels on our new developments and on appropriate existing assets			
Off-site Renewable Energy Procurement		53%	11%
Where on-site renewable energy is either unavailable or insufficient, we are working towards ensuring that all off-site electricity supplies are sourced from 100 per cent certified renewables. This data reflects the portfolio over which we have visibility of electricity supply.			

1 Germany and Poland express EPC ratings as numerical primary energy demand figures and are therefore inconsistent with SEGRO's other markets. For the purpose of creating a group EPC metric a B rating is equivalent to a primary energy demand of 150 kWh/m² or less for Germany and Poland.

GLOSSARY OF TERMS

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

Completed portfolio: The completed investment properties and the Group's share of joint ventures' 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.

ESG: Environmental, Social and Governance issues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rent roll: See Passing Rent.

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

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

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

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

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

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

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

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

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

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

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

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

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