Financial review

Adjusted profit before tax

£386m

2021: £356m

IFRS loss before tax

£1,967m

2021: profit before tax £4,355m

New financing during the year

£3.1bn

2021: £1.3bn

Loan to value ratio

32%

2021: 23%

An active year of financing and strong financial results.

Soumen Das
Chief Financial Officer

Progress against our strategy

What we said we would do
We intend to keep our LTV at around 30 per cent.

What we achieved in 2022
The impact of increased borrowings (due to £1.3 billion net investment) during the year and the reduction in asset values meant that LTV has increased from 23 per cent to 32 per cent at 31 December 2022.

What to expect in 2023
We aim to maintain our mid-cycle LTV at around 30 per cent, although the evolution of the property cycle will inevitably mean that there are periods of time when our LTV is higher or lower than this. We believe this approach ensures significant headroom compared against our tightest gearing covenants should property values decline further, as well as providing the flexibility to take advantage of investment opportunities which may arise. We have cash and available facilities of £2.2 billion (including our share of joint ventures and associates) on which we can draw to fund our investment plans.

Our strategy
Page 18

Financing

During 2022, despite significant capital market volatility, we were able to arrange £3.1 billion of short-and long-term debt from existing relationship banks and investors, new banking partners and the capital markets to finance SEGRO's and SELP's obligations. In response to the heightened market volatility, we established European Medium Term Note (EMTN) programmes for both SEGRO and SELP to enhance the agility of our financing activity and we also increased the level of fixed and capped rate debt.

Financing during the year

- **Short-term debt:** SEGRO has increased its revolving credit facilities to €1.8 billion (31 December 2021: €1.2 billion) of which €1.2 billion matures in 2027 and €600 million in 2025. SELP also increased its facilities to €600 million (31 December 2021: €500 million), which mature in 2026. During the year, SEGRO also had access to €1.75 billion of short-term acquisition facilities which have now been fully repaid.
- **Medium-term debt**: SEGRO diversified its sources of funding by arranging €408 million and £300 million of term loans, maturing between 2025 and 2027, from relationship and new banking partners. While the loans were undrawn at year end, we drew €293 million in January 2023.
- **Long-term debt:** SEGRO raised €1,375 million and £350 million of new funds through the US Private Placement, euro and sterling bond markets at a weighted average coupon of 2.7 per cent and a weighted average duration of 10.4 years. In August, SELP issued €750 million of five-year unsecured green bonds with an annual coupon of 3.75 per cent, using part of the proceeds to repurchase the €500 million of bonds maturing in 2023, extending the debt maturity and removing the 2023 refinancing requirement.

Financial position at 31 December 2022

As at 31 December 2022, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures and associates totalled £5,887 million (31 December 2021: £4,268 million), of which £7 million (31 December 2021: £8 million) are secured by way of legal charges over specific assets. The remainder of gross borrowings are unsecured. Cash and cash equivalent balances were £194 million (31 December 2021: £107 million). The average debt maturity was 8.6 years (31 December 2021: 8.6 years) and average cost of debt (excluding non-cash interest and commitment fees) was 2.5 per cent (31 December 2021: 1.5 per cent).

SEGRO has an unsecured rating of 'A' for Fitch Ratings as at 31 December 2022.

Financial position and funding

	31 December 2022		31 December 2021[3]	
	SEGRO Group	SEGRO Group, JVs and associates at share	SEGRO Group	SEGRO Group, JVs and associates at share
Net borrowings (£m)[3]	4,722	5,693	3,321	4,161
Available cash and undrawn facilities (£m)[3]	1,920	2,208	933	1,145
Balance sheet gearing (%)[3]	41	N/A	24	N/A
Loan to value ratio (%)	32	32	22	23
Weighted average cost of debt[1] (%)	2.6	2.5	1.5	1.5
Interest cover[2] (times)	4.3	4.5	7.0	6.9
Average duration of debt (years)	9.4	8.6	9.6	8.6

1 Based on gross debt, excluding commitment fees and non-cash interest.
2 Net rental income/Adjusted net finance costs (before capitalisation).
3 SEGRO Group Cash and cash equivalents have been restated as at 31 December 2021. See Note 1 to the Financial Statements for further details. Net borrowings, Available cash and undrawn facilities and Balance sheet gearing as at 31 December 2021 have been restated in the table above to reflect this change.

Funds available to SEGRO Group (including its share of joint venture and associates funds) at 31 December 2022 totalled £2,208 million (31 December 2021: £1,145 million), comprising £194 million cash and short-term investments and £2,014 million of undrawn credit facilities of which £150 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.

The closest debt maturity is SEGRO's £82 million sterling bond in February 2024.

Monitoring and mitigating financial risk
As explained in the Risks section of this Annual Report, the Group monitors a number of financial metrics to assess the level of financial risk being taken and to mitigate that risk.

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 and associates. The LTV at 31 December 2022 on this basis was 32 per cent (31 December 2021: 23 per cent), the increase primarily driven by the reduction in asset values and a higher debt balance.

SEGRO's borrowings contain gearing covenants based on Group net debt and net asset value, excluding debt in joint ventures and associates. The gearing ratio of the Group at 31 December 2022, as defined within the principal debt funding arrangements of the Group, was 41 per cent (31 December 2021: 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 48 per cent from their 31 December 2022 values to reach the gearing covenant threshold of 160 per cent. A 48 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: the ratio for 2022 was four times, comfortably ahead of the covenant minimum. Net property rental income would need to fall by around 71 per cent from 2022 levels, or the average rate of interest would need to rise by 8 per cent, to reach the interest cover covenant threshold. On a proportionally consolidated basis, including joint ventures and associates, the interest cover ratio was also four 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 mid-cycle LTV at around 30 per cent, although the evolution of the property cycle will inevitably mean that there are periods of time when our LTV is higher or lower than this. However, this level of LTV through the cycle provides the flexibility to take advantage of investment opportunities arising and ensures significant headroom compared against our tightest gearing covenant should property values decline.

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 and associates) should be at fixed or capped rates, including the impact of derivative financial instruments.

At 31 December 2022, including the impact of derivative instruments, 95 per cent (31 December 2021: 65 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures and associates) were either at fixed rates or are protected from rising interest rates with caps. The pure fixed level of debt is 83 per cent at 31 December 2022 (31 December 2021: 46 per cent), rising to 91 per cent including floating rate debt which is now subject to an active cap. The remaining nine per cent of debt is at floating rates, with five per cent subject to caps should three-month EURIBOR rise above a maximum 2.72 per cent.

During the year, in line with our risk management processes and due to the higher levels of market volatility, the Group closed out £928 million notional value of historical interest rate swaps (which transformed fixed rate interest payments into floating rate payments). Had these transactions not occurred, the proportion of fixed and capped rate debt would have been 16 per cent lower.

As a result of the fixed rate cover in place, if short-term interest rates had been 200 basis points higher throughout 2022, the adjusted net finance cost of the Group would have been approximately £27 million higher (2021: £34 million higher) representing around seven per cent (2021: ten 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 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 (32 per cent at 31 December 2022) and 100 per cent. At 31 December 2022, the Group was 76 per cent hedged by gross foreign currency denominated liabilities (31 December 2021: 62 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 2022 weakened by 10 per cent against sterling (to €1.24, in the case of euros), net assets would have decreased by approximately £137 million and there would have been a reduction in gearing of approximately 2.4 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2022 into sterling within the consolidated income statement of the Group was €1.17: £1. Based on the hedging position at 31 December 2022, and assuming that this position had applied throughout 2022, if the euro had been 10 per cent weaker than the average exchange rate (€1.29: £1), Adjusted profit after tax for the year would have been approximately £11 million (2.9 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £13 million (3.5 per cent) higher than reported.

Financial review
continued

Going concern

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

During the year:

- The Group extended the term of its €1.2 billion of bank facilities to 2027 and added a further €1.0 billion and £0.3 billion of bank facilities with maturity dates between 2025 and 2027.
- The Group executed its second Eurobond, raising €1.15 billion with a six times oversubscription rate.
- The Group raised €225 million of funding from existing US Private Placement investors.
- Cash and available committed facilities at 31 December 2022 were £1.7 billion.
- The Group continuously monitors its liquidity position compared to committed and expected capital and operating expenses on a rolling forward 18-month basis. The quantum of committed capital expenditure at any point in time is typically low due to the short timeframe to construct warehouse buildings.
- The Group also regularly stress-tests its financial covenants. As noted above, at 31 December 2022, property values would need to fall by around 48 per cent before breaching the gearing covenant. In terms of interest cover, net rental income would need to fall by 71 per cent or the average interest rate would need to reach eight per cent before breaching the interest cover covenant. All would be significantly in excess of the Group's experience during the financial crisis, and the Covid pandemic.

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.

Income statement review

Presentation of financial information

The Group Financial Statements are prepared under IFRS where the Group's interests in joint ventures and associates 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 years 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 loss after tax is provided in Note 2 to the 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 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, loan to value and total cost ratio, as they provide a transparent and consistent basis to enable comparison between European property companies.

Look-through metrics provided for like-for-like net rental income include joint ventures and associates at share in order that our full operations are captured, therefore providing more meaningful analysis.

Adjusted profit (note 2)

		2022 £m	2021[1] £m
	Gross rental income	488	398
	Property operating expenses	(76)	(57)
1	Net rental income[1]	412	341
2	Joint venture fee income	30	52
	Management and development fee income	5	5
	Net solar energy income	1	1
	Administrative expenses	(59)	(59)
3	Share of joint ventures and associates' adjusted profit[2]	71	56
	Adjusted operating profit before interest and tax	**460**	396
4	Net finance costs	(74)	(40)
	Adjusted profit before tax	386	356
6	Tax on adjusted profit	(11)	(8)
	Non-controlling interests share of Adjusted profit	(1)	-
5	**Adjusted profit after tax**	**374**	348

1 The composition of gross and net rental income has changed in 2022 to provide a better measure of the underlying rental income from the property portfolio. There is no impact on Adjusted operating profit before interest and tax from this change and the prior year comparatives in the table above have been re-presented to reflect this change. See Note 2 to the Financial Statements for further details.
2 Comprises net property rental income less administrative expenses, net finance costs and taxation.

Net rental income 1

£71m higher

Net rental income increased by £71 million to £412 million (or by £83 million to £522 million including joint ventures and associates at share before joint venture fees), reflecting the positive net impact of like-for-like rental growth, development completions and investment activity during the year, offset by the impact of disposals.

On a like-for-like basis[1], before other items (primarily corporate centre and other costs not specifically allocated to a geographic Business Unit), net rental income increased by £28 million, or 6.7 per cent, compared to 2021.

This is due to strong rental performance across our portfolio. UK: 7.7 per cent increase, in particular in Greater London and Thames Valley; and Continental Europe: 4.9 per cent increase, in particular in Germany and France.

1 The like-for-like net rental growth metric is based on properties held throughout both 2022 and 2021 on a proportionally consolidated basis. This provides details of underlying net rental income growth excluding the distortive impact of acquisitions, disposals and development completions. Where an asset has been sold into a joint venture (sales to SELP, for example) the 50 per cent share owned throughout the year is included in like-for-like calculation, with the balance shown as disposals. Further details are given in Table 11 of the Supplementary Notes.

Income from joint ventures and associates

2 3

£7m lower

Joint venture fee income decreased by £22 million to £30 million in 2022. This decrease is primarily due to the recognition of a performance fee of £26 million in respect of the SELP joint venture in the prior year (as detailed further in Note 7(i)). Joint venture management fee income increased by £4 million to £30 million in 2022, primarily from the SELP joint venture.

SEGRO's share of joint ventures and associates' Adjusted profit after tax increased by £15 million from £56 million in 2021 to £71 million in 2022. This includes a performance fee expense (at share) in the prior year of £13 million. Excluding performance fee expense, the Adjusted joint ventures and associates profit after tax increased by £2 million compared to 2021 as net rental income in the SELP joint venture has continued to grow.

Net finance costs

4

£34m higher

Net finance costs were £34 million higher than 2021 at £74 million. Average interest rates during the year were 2.6 per cent compared to 1.5 per cent in the prior year. This has been partially offset by a £13 million increase in capitalised interest compared to the prior year. Furthermore, gross debt levels were higher in 2022 compared to the prior year.

Taxation

6

2.8% (effective rate)

The tax charge on Adjusted profit of £11 million (2021: £8 million) reflects an effective tax rate of 2.8 per cent (2021: 2.2 per cent).

The Group's effective tax rate reflects the fact that around three-quarters of its wholly-owned assets are located in the UK and qualify for REIT status. This status means that income from rental profits and gains on disposals of assets in the UK 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 profit/ Earnings per share

5

£26m higher/31.0 pps

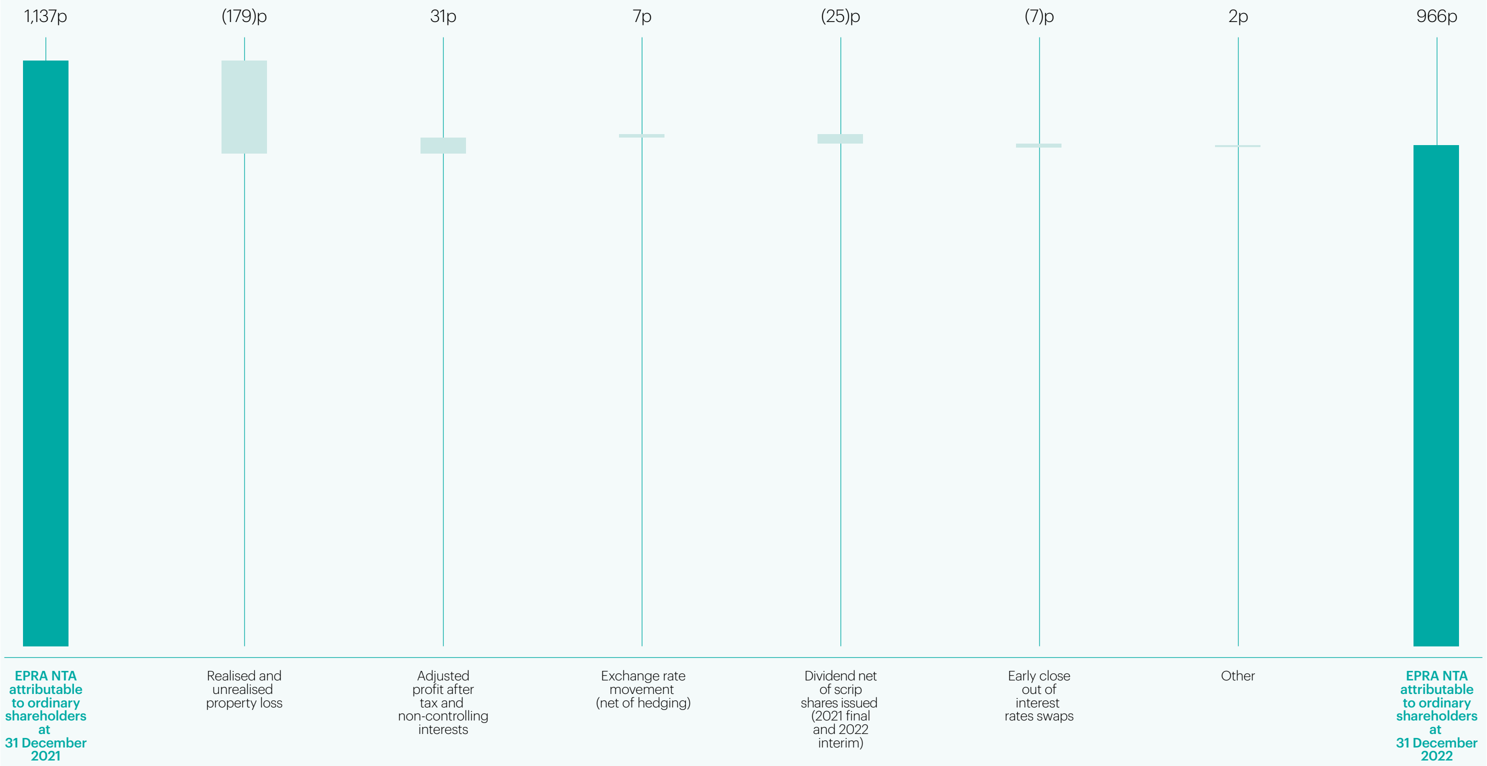
Adjusted profit after tax increased by £26 million to £374 million (2021: £348 million) as a result of the above movements primarily growth in rental income offset by increased finance costs and the recognition of a performance fee in the prior year.

Adjusted profit is detailed further in Note 2 to the Financial Statements.

Adjusted earnings per share are 31.0 pence compared to 29.1 pence in 2021 (28.0 pence excluding the impact of the performance fee) due to the increase in Adjusted profit slightly offset by the 8.9 million increase in the average number of shares in issue compared to the prior year.

Financial review
continued

Adjusted net asset value



IFRS loss

IFRS loss before tax in 2022 was £1,967 million (2021: £4,355 million profit), equating to basic post-tax IFRS loss per share of 159.7 pence compared with profit per share of 339.0 pence for 2021. A reconciliation between Adjusted profit before tax and IFRS (loss)/profit before tax is provided in Note 2 to the Financial Statements.

The principal drivers of IFRS loss is realised and unrealised property losses and gains. Total loss on properties is £2,175 million (2021: £4,173 million gain). This includes a £1,970 million deficit from valuation of wholly-owned investment properties (2021: £3,617 million surplus) and £236 million deficit from joint ventures and associates at share (2021: £487 million surplus). These valuation losses, driven by yield expansion in most markets partially offset by increases in ERV, are discussed in more detail in the Performance Review on page 48. Other property movements include profit on sale of wholly-owned investment properties of £9 million and £nil for investment properties held by joint ventures and associates at share (2021: wholly-owned £53 million and £10 million joint ventures and associates at share). In respect of trading properties, there was a reversal of provision for impairment of £15 million (2021: increase in provision for impairment of £1 million) and a gain on sale of trading properties of £7 million (2021: £7 million).

IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £199 million (2021: loss of £82 million) primarily as a result of adverse movements on interest rate expectations.

In addition, SEGRO recognised a tax credit in respect of adjustments of £48 million (2021: £280 million charge) primarily in relation to property valuation movements. The 2021 charge includes significant balances in respect of a £145 million withholding tax in France and a SIIC entry charge of £38 million compared to the equivalent 2022 charges which are £4 million and £nil respectively. These items are detailed further in Note 10.

Balance sheet

At 31 December 2022, IFRS net assets attributable to ordinary shareholders were £11,373 million (31 December 2021: £13,436 million), reflecting 938 pence per share (31 December 2021: 1,115 pence) on a diluted basis.

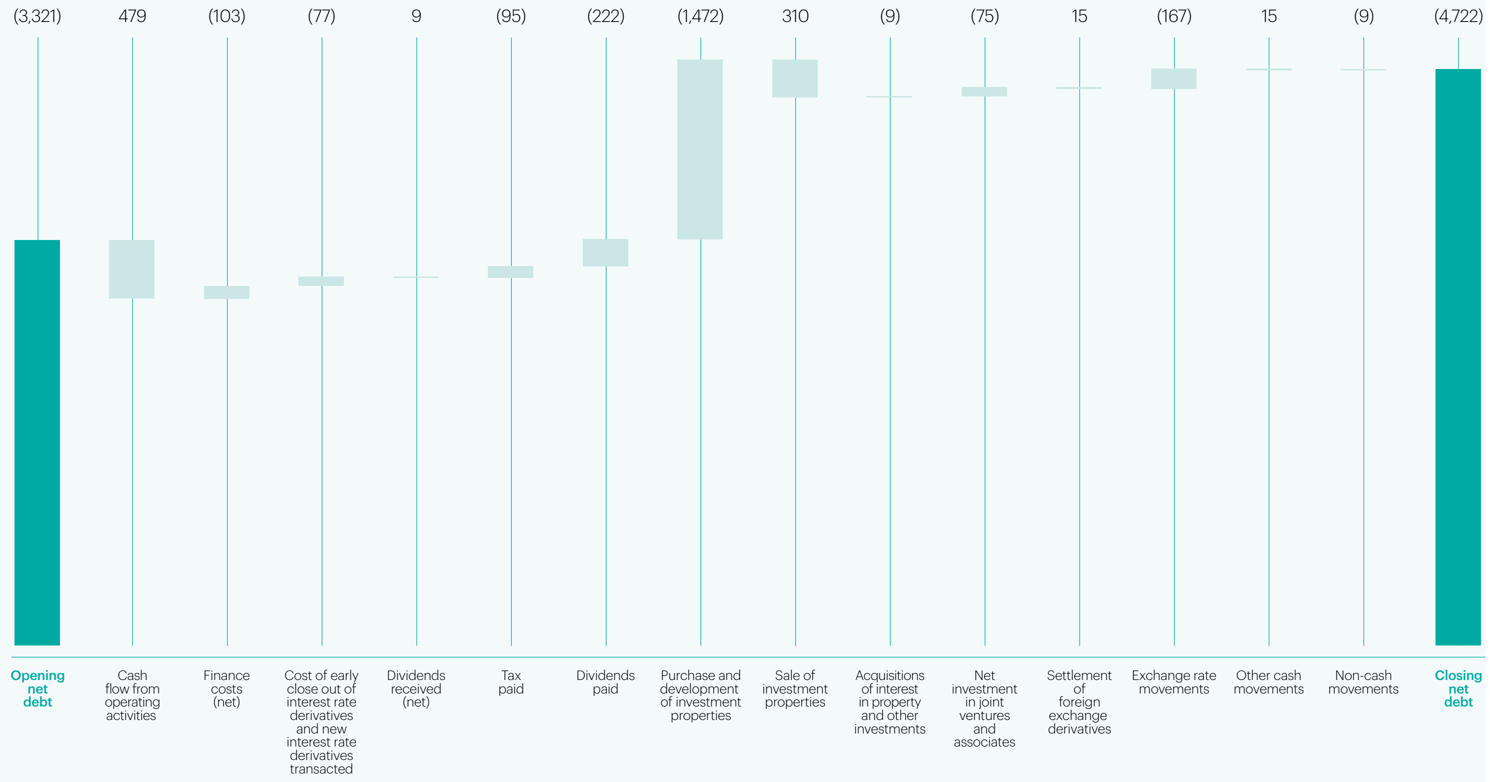
Adjusted NAV per share at 31 December 2022 was 966 pence (31 December 2021: 1,137 pence). The 15 per cent decrease primarily reflects property valuation losses in the year as explained above. The chart highlights the other main factors behind the decrease. A reconciliation between IFRS and Adjusted NAV is available in Note 12 to the Financial Statements.

Cash flow and net debt reconciliation

Cash flows from operating activities of £479 million are £116 million higher than the prior year. This is primarily due to increased rental income received during the year, the impact of trading properties, following disposals in the year, and other working capital movements. As well as finance cost outflows of £103 million in servicing the debt facilities, a further £77 million was spent in closing out and reprofiling interest rate derivatives. Interest rate risk management is detailed further in the Financial Review on page 59. In addition there were tax payments of £95 million primarily in Italy and France.

The Group made net investments of £1,246 million in investment and development properties (including other investments and net investments and loans to joint ventures and associates) during the year on a cash flow basis (2021: £1,266 million). This is principally driven by expenditure of £1,472 million (2021: £1,706 million) to purchase and develop investment properties (mainly to add to the Group's land bank) to deliver further growth in line with our strategy.

Cash flow bridge (£m)



Disposals of investment properties decreased by £181 million to £310 million compared to the prior year (2021: £491 million). Disposal proceeds include £218 million in respect of disposals to the SELP joint venture.

Other significant cash flows include dividends paid of £222 million (2021: £180 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 £15 million (2021: £40 million).

Overall, net debt has increased in the year from £3,321 million to £4,722 million.

Capital expenditure

Table 10 in the Supplementary Notes sets out analysis of the capital expenditure during the year. This includes acquisition and development spend, on an accruals basis, in respect of the Group's wholly-owned investment and trading property portfolios, as well as the equivalent amounts for joint ventures and associates, at share.

Total spend for the year was £1,898 million, a decrease of £268 million compared to 2021. More detail on developments and acquisitions can be found in the Development and Investment Updates on pages 52 to 55.

Development capital expenditure was £787 million in the year (2021: £639 million) across all our Business Units, particularly Southern Europe and National Logistics, reflecting our development-led growth strategy. Capitalised interest of £24 million (2021: £10 million) has been recognised in the year.

Spend on existing completed properties, totalled £62 million (2021: £45 million), of which £13 million (2021: £5 million) was for incremental lettable space. The balance mainly comprises refurbishment and fit-out costs, which equates to less than one per cent of total spend.

Dividend increase reflects the strong operational results and confidence for the future

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

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share by 1.3 pence to 18.2 pence (2021: 16.9 pence) which will be paid as an ordinary dividend. 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 2023 to shareholders on the register at the close of business on 17 March 2023.

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

- the policy of targeting a payout ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2022 and the outlook for earnings.

The total dividend for the year will, therefore, be 26.3 pence, a rise of 8 per cent versus 2021 (24.3 pence) and represents distribution of 85 per cent of Adjusted profit after tax.

The Board has decided to retain a scrip dividend option for the 2022 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2021, 41 per cent of the 2021 final dividend and 3 per cent of the 2022 interim dividend were paid in new shares, equating to £79 million of cash retained on the balance sheet.