Key performance indicators continued

Non-financial

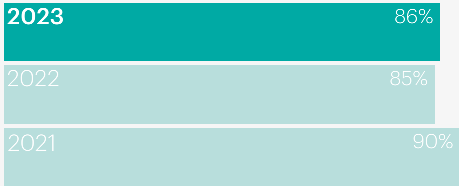
Our non-financial KPIs help to measure the shared value our business creates to ensure that our business is positioned for long-term success.

Our non-financial KPIs link to our Responsible SEGRO strategic priorities.

Given where we are in our journey towards these goals we anticipate that our non-financial KPIs will evolve as we progress towards our stated ambitions.

Customer satisfaction (%)

86%



What it is

The percentage of our customers who rate their experience as occupiers of our buildings as 'good' or 'excellent' as opposed to 'poor' or 'average'. Our customers are at the heart of our business and we strive to ensure that we are providing the best level of service possible to maximise customer retention.

Our performance

Satisfaction as an occupier of our buildings was rated as 'good' or 'excellent' by 86 per cent of the 347 customers who participated in 2023 (2022: 85 per cent). The continued high satisfaction rate reflects our focus on communication, being responsive and understanding the needs of our customers and is particularly pleasing given the cost pressures that some of them are under (including rental increases). 96 per cent of our customers said that they would recommend SEGRO to others.

Linked to remuneration **Yes**

Link to strategy: **Operational excellence**

Employee engagement (%)

89%

What it is

We carry out an employee survey annually asking all our people to comment on various aspects of their work at SEGRO. We share the results of this with the Board, Leadership team and all our people.

Our performance

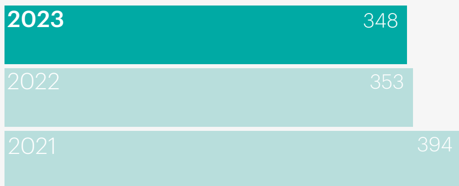
Our 2023 employee engagement score was top quartile at 89 per cent. 97 per cent of our people responded and 91 per cent of employees said that they are proud to work at SEGRO. 91 per cent of employees believe that all people are valued at SEGRO, regardless of gender, ethnicity, disability, sexual orientation or background.

Linked to remuneration **Yes**

Link to strategy: **Responsible SEGRO**

Embodied carbon intensity (kgCO$_2$e/m^2)

348



What it is

The largest source of carbon emissions within our control is the embodied carbon in our newly developed buildings. Within our science-based targets, we are committed to reducing the average carbon intensity of all new developments by 20 per cent by 2030 (compared to a 2020 baseline of 400 kgCO$_2$e/m^2). We calculate this metric based on completed developments over the past two years for which a life cycle assessment has been completed.

Our performance

The average embodied carbon intensity in our development programme was 348 kgCO$_2$e/m (2022: 353 kgCO$_2$e/m) reflecting a 13 per cent improvement from the 2020 baseline. We reduced this by trialling low carbon or recycled materials, including concrete, steel and timber across multiple projects.

For more information see page 28

Linked to remuneration **Yes**

Link to strategy: **Operational excellence and Responsible SEGRO**

Corporate and customer carbon emissions (tonnes CO_2e)

254k

Description

Our corporate and customer carbon emissions cover our own operations under Scope 1 and 2 and our customer emissions under Scope 3. We have visibility of 81 per cent of the energy use from our buildings by floorspace. For buildings where we do not receive data we have estimated energy use. Our science-based targets commit us to reducing the absolute corporate and customer carbon emissions of our portfolio by 42 per cent by 2030 (compared to a 2020 baseline of 312,115 tCO_2e), in line with a 1.5 degree scenario.

Our performance

During 2023, we reduced the corporate and customer emissions of our portfolio to 254,168 tCO_2e (2022: 272,318 tCO_2e), reflecting a 19 per cent improvement from the baseline. This reduction was largely due to us having an increased amount of customer energy data (both their usage and also the type of energy sourced, i.e. renewable).

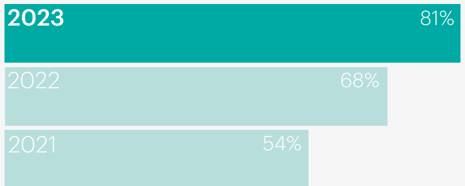
For more information see page 28

Linked to remuneration **Yes**

Link to strategy: **Operational excellence and Responsible SEGRO**

Visibility of customer energy use (%)

81%



Description

Under standard market lease terms we do not have automatic visibility of customer energy usage data. We recognise the importance of having good visibility of this data so we can accurately assess our Scope 3 emissions and help our customers to reduce their own carbon footprint as well as improving their energy efficiency. We are therefore proactively engaging with our customers, requesting access to this data and have introduced green clauses requiring energy use visibility to all new leases.

Our performance

The visibility of our customers' energy use improved to 81 per cent (2022: 68 per cent) of our total property footprint by area.

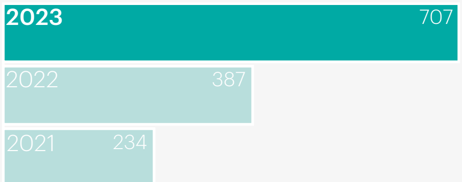
For more information see page 28

Linked to remuneration **Yes**

Link to strategy: **Operational excellence and Responsible SEGRO**

Number of volunteering days (number)

707



Description

Now that we have launched 12 Community Investment Plans (CIPs) across many of our key markets we have turned our focus towards the implementation of them. We are therefore measuring the number of employees who volunteered in projects (including on our annual Day of Giving).

Our performance

During 2023 we delivered 707 volunteering days. This was almost double the number delivered in 2022.

For more information on the projects within these plans see page 29

Linked to remuneration **Yes**

Link to strategy: **Responsible SEGRO**

See more on our strategy on page 20

We recognise that the management of risk has a role to play in the achievement of our strategy and KPIs. Risks can hinder or help us meet our desired level of performance.
Read more about our risk management on page 54

Where relevant we have linked our KPIs directly to SEGRO's incentive schemes.
Find out more in Remuneration page 107

Find out more about Responsible SEGRO on page 23

Performance review

Assets under management
£20.7bn
2022: £20.9bn

Portfolio valuation
£17.8bn
2022: £17.9bn

Portfolio valuation change[1]
-4.0%
2022: -11.0%

ERV growth
+6.0%
2022: +10.9%

Rent contracted
£88m
2022: £98m

Pre-lets signed
£27m
2022: £41m

1 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. The valuation movement 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. Table 3 on page 187 provides a reconciliation to the Financial Statements.

Portfolio update

Warehouse property values saw modest declines during 2023, as higher interest rates and uncertainty over the future trajectory for interest rates continued to impact investors' appetite for real estate assets. Investment market volumes remained low and yields expanded further, although at a much slower pace than during 2022.

Occupier markets continued to perform well and although macroeconomic uncertainty contributed to take-up returning closer to pre-pandemic levels, the availability of well-located, modern and sustainable space remains limited across our markets. This helped us to grow the rental income on our portfolio, by increasing the rents on our existing space and through our development programme, both of which contributed to income and earnings growth.

Modest decline in portfolio value due to further interest-rate driven yield expansion, partly offset by strong estimated rental value growth

The Group's property portfolio was valued at £17.8 billion at 31 December 2023 (£20.7 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, decreased by 4.0 per cent (after adjusting for capital expenditure and asset recycling) during the year, compared to a decline of 11.0 per cent in 2022. The majority of the fall came in the second half of the year and reflected the tighter financial conditions in capital markets, particularly in September and October. The significant fall in bond yields and future interest rate expectations at the end of 2023 did not come in time for an increase in investment activity last year, but it appears to have improved sentiment in the investment market in the early stages of 2024, which we expect will lead to increased activity during the year ahead.

The reduction in the valuation of our portfolio primarily comprises a 4.5 per cent decline in assets held throughout the year (2022: 13.1 per cent decline), driven by yield expansion in most markets, which was partly offset by a 6.0 per cent increase in our valuer's estimate of the market rental value of our portfolio (2022: 10.9 per cent increase) as well as development profits and the benefit of our asset management initiatives.

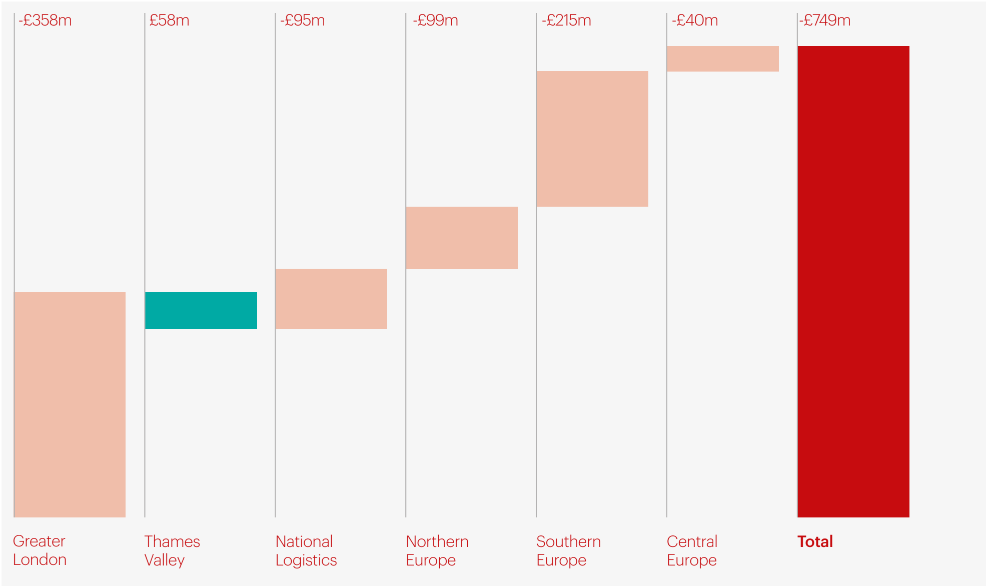
Assets held throughout the year in the UK decreased in value by 3.3 per cent (2022: 15.5 per cent decrease), underperforming the MSCI Real Estate All Industrial Quarterly Index which decreased by 0.3 per cent over the same period.

The underperformance was due to our weighting towards lower yielding prime assets, that were more sensitive to yield movements in response to higher interest rates. The net true equivalent yield applied to our UK portfolio was 5.2 per cent, 40 basis points higher than at 31 December 2022 (4.8 per cent). Rental values improved by 4.9 per cent (2022: 11.5 per cent).

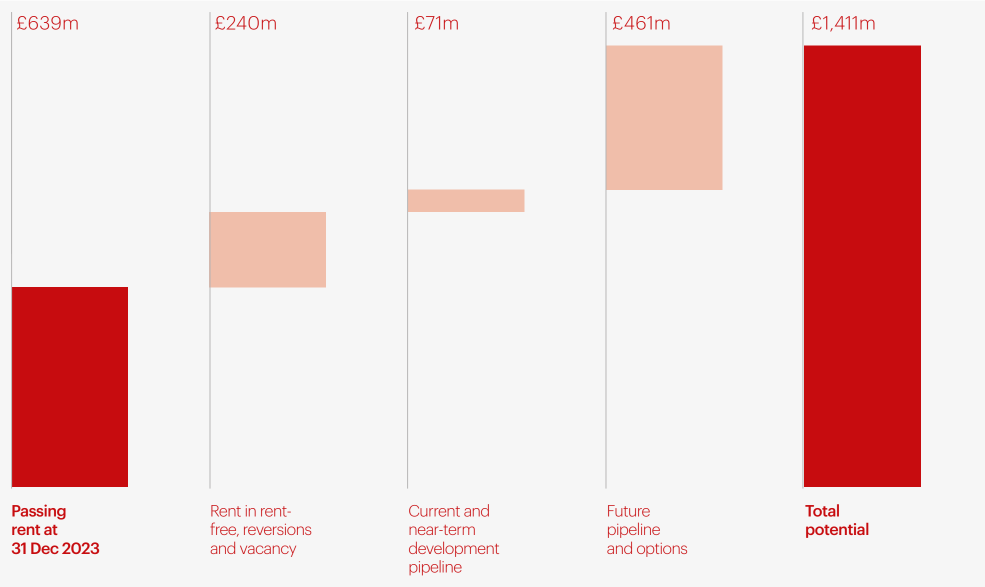
Assets held throughout the year in Continental Europe decreased in value by 6.4 per cent (2022: 8.8 per cent decrease) on a constant currency basis, reflecting a combination of 60 basis points of yield expansion to 5.4 per cent (31 December 2022: 4.8 per cent) and rental value growth of 7.9 per cent (2022: 9.9 per cent).

Further details of property portfolio can be found in Note 25 to the Financial Statements and in the 2023 Full Year Property Analysis Report, at www.SEGRO.com/investors.

Unrealised gains and losses on whole portfolio



Annualised rent potential as at 31 December 2023 (£m)



Strong rent roll growth, with a large contribution from the capture of reversion on the standing portfolio as well as development

During 2023, we contracted £88 million (2022: £98 million) of new headline rent, consistent with our expectations after the elevated levels seen during the pandemic and its immediate aftermath.

We added £30 million of net new rent from our existing portfolio (2022: £31 million). This comprised £16 million on new lettings (2022: £21 million) and £35 million from the capture of reversion (the difference between in-place and market rents) on rent reviews and renewals, and from inflation-related uplifts in index-linked leases (2022: £28 million), offset by rent lost from space returned of £21 million (2022: £18 million), much of it for refurbishment.

Occupier demand for new space enabled us to sign further pre-let agreements for delivery over the next two years. We contracted £27 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2022: £41 million). The pre-lets signed during 2023 included an additional data centre on the Slough Trading Estate and big box warehouses across the UK and Continental Europe for third-party logistics operators, manufacturers and retailers (both traditional and online).

As a result of this activity, rent roll growth which reflects net new headline rent from existing space (adjusted for takebacks of space for development), take-up of developments and pre-lets agreed during the period, was £65 million (2022: £77 million).

At 31 December 2023, our portfolio generated passing rent of £639 million, rising to £697 million once rent free periods expire ('headline rent').

What to expect from our portfolio in 2024

Forecasting yields over any future period is notoriously difficult given the multitude of economic and financial drivers (particularly interest rates and credit spreads), most of which are outside of our direct control.

However, if market expectations that central bank rates have peaked are sustained, this should provide a supportive backdrop for a recovery of investment market sentiment during 2024.

The fundamentals for our sector remain strong, with occupier demand supported by structural drivers and limited supply, which leaves us optimistic about the prospects for further rental value growth. This should result in investment markets in the industrial and logistics sector recovering more quickly than wider real estate assets. In addition, we expect investors to remain selective about where and in what they invest which, along with our active approach to asset management, should lead to our high-quality, modern and sustainable portfolio outperforming the wider industrial and logistics market on a long-run basis.

In terms of rent roll, we expect this to increase through the letting up of space currently under refurbishment, the further capture of reversion on the existing portfolio and by signing further pre-lets in response to occupier demand. We have the potential to more than double our rent roll over the coming years through our active asset management of the existing portfolio and the build out of our high-quality land bank.

Enabling extraordinary things: Space for collaboration

Scan the QR code to see our video on collaboration

www.segro.com/ara23/space-for-collaboration

Progress through partnership in East London

Our market-leading operating platform, with local networks across Europe, is crucial to the development of strong relationships with local authorities and stakeholder groups.

One such relationship is the East Plus partnership, which was established in London in 2016 and last year celebrated its halfway point. This partnership aims to revitalise 86 acres of industrial land across the London boroughs of Newham, Havering, and Barking and Dagenham and is a collaboration between SEGRO and GLA Land and Property (GLAP).

Since the partnership's inception, investment of over £120 million has delivered almost 60,000 sq m of sustainable industrial space for 50 businesses, ranging from SMEs to major corporates. Beyond physical site delivery, East Plus has broader regeneration goals including upskilling the workforce, inspiring younger generations, and supporting community projects. Our community investment programme has helped over 4,700 residents to develop the skills and confidence to reach their full potential, assisted 157 unemployed people into work, and supported 29 charities.

Collaboration, adaptability, experience, and a passion for delivering excellence in everything, forms the basis for the partnership and its extraordinary progress and success to date.

Update:
Investment

What we said we would do

We said that we would continue to take a disciplined approach to capital allocation, focusing the majority of our investment on our development pipeline (through development capex, land acquisitions and acquiring assets with future redevelopment potential) and making strategic asset acquisitions if and when the opportunity arose.

What we achieved in 2023

All of the investment into our portfolio during 2023 was into our development pipeline, a combination of development capex to build out our land bank and land acquisitions to fuel future growth. We made no asset acquisitions during the year but took advantage of increased appetite for prime assets in the second half to dispose of a number of assets ahead of book value.

What to expect in 2024

We will continue to take the same disciplined approach during 2024, putting most of our focus on building out our attractive land bank will continue to consider unique asset or land acquisition opportunities that may arise in these subdued investment market conditions. We expect to dispose of between one and two per cent of the portfolio as per our normal levels of capital recycling but adapting the overall volume of disposals to market conditions. We have a number of transactions under discussion and expect to make further progress with these during 2024.

£575m
of investment for growth

Acquisitions of assets

£0m
2022: £155m

Acquisitions of land

£404m
2022: £712m

Development capex

£527m
2022: £787m

Disposals of assets and land (including sales to SELP)

£356m
2022: £367m

Link to strategy:
Disciplined capital allocation

Taking a disciplined approach to capital allocation is key to delivering long-term outperformance. We use our in-depth knowledge of our markets and our customer base to position our portfolio accordingly. We also adapt our approach to capital deployment depending on our assessment of the property cycle and other external factors. During 2023 this has resulted in us prioritising capital deployment into the most profitable development opportunities on land that we already own, and increasingly funding this through disposals rather than taking on additional debt.

Net investment during the year was £575 million comprising: development capital expenditure of £527 million and £404 million of land acquisitions, partly offset by £356 million of disposals during the period.

Capital deployment focused on the most profitable development opportunities, increasingly funded by disposals

During the year we invested £931 million into our development pipeline, which comprised £527 million (2022: £787 million) in development spend, of which £92 million was for infrastructure and £404 million on new land acquisitions. The land acquisitions focused on rare and unique sites providing opportunities for future development.

In the UK, this included the acquisition of Bath Road Shopping Park in Slough, which creates significant further potential for data centre development due to its position adjacent to the Slough Trading Estate. We also acquired the former Radlett Aerodrome in Hertfordshire, a brownfield site on the edge of London and close to the M25, which provides us with the opportunity to develop an exceptionally rare site of scale that will deliver over 330,000 sq m of logistics buildings. It will be supported by a strategic rail freight interchange, allowing customers to reduce the number of trucks used in their operations, as well as a substantial 610 acre country park for use by the local community.

In Continental Europe we purchased an excellent plot of land outside Dortmund which will deliver over 200,000 sq m of big box and urban warehouse space in one of Germany's most attractive logistics markets. We also purchased small plots of land in Italy, France, Spain and Poland.

Amid volatile capital markets and higher financing costs, we increased the pace of disposals to fund our development activity, generating £356 million of proceeds from asset and land sales, crystallising a profit of £39 million compared to book value.

These included:

- Asset sales totalling £242 million, mainly of assets that did not meet our hurdle rates in our annual asset review process, as well as some non-core office assets. In total, £8 million of rental income (annualised) was lost as a result of these disposals.
- Land plots totalling £114 million, the majority of which came from the sale of land that the buyer intends to develop themselves for owner-occupation, offering us attractive risk-adjusted returns.

Performance review continued

Update: Development

What we said we would do
We expected to continue to develop out our land bank during 2023 and anticipated investing in excess of £600 million in development capex, including £100 million of infrastructure expenditure.

What we achieved in 2023
2023 was another strong year of development completions. We completed 625,700 sq m of space, capable of delivering £50 million of new headline rent.

We spent £527 million on development capex, including £92 million on infrastructure. This was a little lower than our expectations and the residual capex is expected to be incurred in 2024.

What to expect in 2024
We expect to invest approximately £600 million in development capex during 2024, including £150 million of infrastructure related to our UK big box logistics parks. The yield on cost for our development programme is expected to be between 7 and 8 per cent.

Development completions
625,700sq m
2022: 639,200sq m

Development capex
£527m
2022: £787m

Current pipeline potential rent
£51m
2022: £67m

Current pipeline yield on cost
7.3%
2022: 6.5%

Potential rent from future pipeline
£392m
2022: £305m

Embodied carbon
348 $kgCO_2e$/sq m
2022: 353 $kgCO_2e$/sq m

Link to strategy:
Disciplined capital allocation and operational excellence

Disciplined capital allocation and Operational excellence are both key to the success of our development programme. They ensure that we deploy capital into the most profitable opportunities and into markets with the greatest long-term return potential, execute on our pipeline efficiently and safely, and build to the highest construction and sustainability standards.

Development completions delivered £50 million of potential headline rent
Development completions added 625,700 sq m of new space to the portfolio during 2023, generating £43 million of headline rent, with a potential further £7 million to come when the remainder of the space is let. The yield on total development cost (including land, construction and finance costs) is expected to be 7.0 per cent when fully let (excluding developments completed by third parties on a forward funded basis acquired at investment value).

We completed 478,800 sq m of big box warehouse space, including one of our last remaining plots at SEGRO Logistics Park East Midlands Gateway and across all of our major European markets, let to third-party logistics operators, retailers and manufacturers.

We completed 146,900 sq m of urban warehouses, including three data centres in Slough and industrial units in South London, Berlin, Cologne and Paris. The majority of these were developed speculatively and almost 80 per cent of the rent has already been secured.

During the year the contractor on one of our UK big box projects, Buckingham Contracting Group, entered administration. Our development team responded quickly to secure the scheme and liaise with our affected customers.

Thanks to our strong relationship with an alternative contractor we were able to restart works quickly. Although an inevitable consequence has been an increase in costs along with a short delay to the original delivery programmes, we have managed the impacts of this alongside our customers and have revised completion dates in place. Contractor failure is a supply chain risk we consider explicitly and it is managed in part through avoiding over-reliance on any single contractor.

Reducing embodied carbon in our development programme is critical to helping us achieve our net-zero targets and we continue to make progress in this area, reducing the carbon intensity of our developments to 348 kgCO2e per sq m during 2023. This represents a 13 per cent reduction from our 2020 baseline, meaning we are on course to achieve our science-based target of a 20 per cent reduction by 2030.

Almost all (99 per cent) of our eligible development completions during 2023 have been, or are expected to be, accredited at least BREEAM 'Very Good' (or local equivalent), with 92 per cent 'Excellent' or 'Outstanding'.

£71 million of potential headline rent currently under development or due to start shortly
At 31 December 2023, we had development projects approved, contracted or under construction totalling 415,200 sq m, representing £183 million of future capital expenditure to complete and £51 million of annualised gross rental income when fully let. 62 per cent of this rent has already been secured and these projects should yield 7.3 per cent on total development cost when fully occupied.

In the UK, we have 169,900 sq m of space approved or under construction. Within this are our first multi-level warehouse scheme in West London, two new data centres on the Slough Trading Estate (the second largest hub of data centres globally) and big box warehouses at our logistics park in Coventry.

In Continental Europe, we have 245,200 sq m of space approved or under construction. This includes pre-let big box warehouses for a variety of different occupiers, from retailers to manufacturers, across Italy, Spain and Poland. We are also developing a further phase of our successful urban warehouse park in Amsterdam and are also on site with our underground scheme in central Paris.

We continue to focus our speculative developments on urban warehouse projects, particularly in cities such as London and Paris, where modern space is in short supply and occupier demand is strong.

We have factored current construction and financing costs into the returns for our future development projects. Encouragingly, we are seeing build costs stabilise across most of our markets and in some regions have started to see construction tenders coming in at reduced prices. We expect to be able to develop at a margin over the valuation yields on equivalent standing assets of at least 150 to 200 basis points, meaning that development remains a profitable way of growing the rent roll.

Within the future development pipeline are a number of pre-let projects close to being approved, awaiting either final conditions to be met or planning approval to be granted. We expect to commence these 'near-term' projects within the next six to 12 months. These projects total 208,700 sq m of space, equating to approximately £159 million of future capital expenditure and £20 million of potential annual rent.

Further details of our completed projects and development pipeline are available in the 2023 Full Year Property Analysis Report, at www.SEGRO.com/investors.

£481 million of future potential rent from land bank and options

Our land bank identified for future development (including the near-term projects detailed above) totalled 1,138 hectares as at 31 December 2023, valued at £1.7 billion, roughly 10 per cent of our total portfolio value. This includes £645 million of land acquired for future redevelopment but which is currently income producing, reducing the holding costs until development can start (equating to £20 million of annualised rent).

We estimate our land bank can support 3.7 million sq m of development over the next five to seven years. The estimated capital expenditure associated with the future pipeline is approximately £3.7 billion. It could generate £392 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of between 7 and 8 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.

The land bank also includes 24 sites that SEGRO has identified as suitable for data centre development, equating to a potential 1.2 GW of additional capacity across the UK and Continental Europe. SEGRO expects to be able to commence construction on several of these sites (two of which are currently under development) over the next five years, which could more than double the current £50 million of headline rent attributed to the data centre sector (approximately 7 per cent of group headline rent at 31 December 2023).

Land acquisitions (contracted but subject to further conditions) and land held under option agreements are not included in the figures above, but represent significant further development opportunities. These include sites for big box warehouses in the UK Midlands as well as in 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 £26 million (including joint ventures and associates at share). Those we expect to exercise over the next two to three years are for land capable of supporting almost 830,000 sq m of space and generating £89 million of headline rent, for a blended yield of approximately 7 per cent.

A zero-tolerance approach to poor health & safety

Accident incident rate:

0.93

2022: 0.25

Health and safety is central to all of our business activities and it is our responsibility to ensure that we provide and promote a healthy, safe and secure environment in which our people can work, extending throughout our supply chain, and in particular on our development projects.

We aim to achieve our high standards through a combination of risk mitigation, training and promoting a widespread awareness of health and safety. We only want to work with businesses that share our approach of zero-tolerance of poor health and safety. We require all of our suppliers to confirm that they meet our Health and Safety Standards, and we undertake particularly rigorous assessments of those companies working on our development sites. We support our contractors by providing additional guidance, signage and undertake health and safety visits of all our development sites through the life of each project. We also facilitate the sharing of best practice across the industry though our Contractor Forums.

This approach also extends to the ongoing day-to-day life of our estates, many of which are accessed by both our customers and the public. We factor this into the design, mitigate risks and provide training to raise awareness.

Whenever incidents occur we fully investigate to understand the causes and disseminate learnings across the Group, including the Board and Executive Committee, to ensure that we (and where appropriate third-parties) respond and improve our processes where necessary.

The accident incident rate increased slightly during 2023, but these were minor incidents, mainly slips and trips, and we believe the increase has been driven by improved reporting.

Performance review continued

Update:
Asset management

What we said we would do

We expected occupier demand to remain strong, but at more normalised levels to the pandemic years. We anticipated that rental growth would continue, supported by this demand and the continued shortage of supply in our chosen markets.

What we achieved in 2023

Our focus on Operational excellence and commitment to excellent customer service helped us to deliver another strong year of rent roll growth during 2023, albeit not quite at the 2022 record level. We made great progress capturing reversion and kept occupancy high, despite taking back some space in London for refurbishment and redevelopment to very high sustainability standards. We also made great progress with our carbon targets within the existing portfolio by improving the visibility of customer emissions and adding a significant amount to our solar capacity through retrofitting projects.

What to expect in 2024

We have a unique portfolio in Europe's strongest markets. Our active asset management approach will ensure that it will continually evolve to provide high quality, modern space appealing to the widest variety of customers, thereby increasing rental levels. In 2024, we will continue to focus on providing excellent customer service and to capture the reversion inherent in our leases which reflects the quality of our buildings. We will continue to take advantage of leases coming to an end on some of our older buildings to refurbish them, bringing them up to the high environmental standards our customers and other stakeholders expect.

Portfolio passing rent

£639m

2022: £587m

Rent contracted during the year

£88m

2022: £98m

Customer satisfaction

86%

2022: 85%

Corporate and customer carbon emissions

254,168 tonnes CO_2e

2022: 272,218 tonnes CO_2e

Visibility of customer emissions

81%

2022: 68%

On-site renewable energy capacity

59MW

2022: 44MW

Link to strategy:
Operational excellence

The performance of our existing portfolio relies on our continued focus on Operational excellence; whether that means providing the best customer experience throughout the customer's 'journey' with SEGRO, optimising rental income and lease terms, ensuring consistency of operating standards, or driving efficiency through continuous improvement and the digitalisation of processes.

We believe SEGRO has a market-leading operating platform with people on the ground in all of our key locations. Through the internal management of our portfolio, we build strong and meaningful relationships with our customers and other business partners, and actively manage our assets to generate long-term outperformance.

Strong and diversified customer base

Understanding our customers and their evolving needs is crucial to the success of our business. The insights that we gain from these partnerships help us to shape our portfolio and ensure that our buildings are fit for the future and suitable for occupier's evolving needs.

Our customer base remains well diversified, reflecting the flexibility of warehouse space and that two-thirds of our portfolio is in urban locations. Our top 20 customers account for 32 per cent of total headline rent. Amazon remains our largest customer, accounting for 7 per cent of our total rent roll.

Customers from the transport and logistics sector were the largest takers of our space during 2023, as they continued to focus on prioritising efficiency, resilience and sustainability into their operations. This was closely followed by the technology, media and telecoms sector, which was driven by data centre operators taking additional space to keep up with increased corporate and consumer demand.

The health of our customer base remains strong: less than £3 million of rent was lost due to insolvency (2022: £2 million) and rent collection is tracking at normal levels despite the tougher economic environment.

Focused on delivering excellent customer service

Although the quality and location of our portfolio is important to our customers, we aim to build outstanding customer relationships through the delivery of excellent customer service. This enables us to maintain high levels of customer retention, grow rents and create new business opportunities.

We often work with our larger customers in more than one location and regularly across geographies: 27 per cent of our headline rent comes from customers with whom we have leases in more than one country. Our cross-border customer account teams help to ensure that we offer a streamlined and informed approach to these businesses.

We carry out a rolling survey of our customers throughout the year to identify and rectify issues promptly. In 2023, we spoke to 347 customers, and 96 per cent said that they would recommend SEGRO to others (2022: 98 per cent) while 86 per cent said they rated their experience with SEGRO as 'Excellent' or 'Good' (2022: 85 per cent).

During 2023 we extended the reach of our customer insight programme and added new customer onboarding and senior stakeholder interviews to better understand our customers' experiences of working with SEGRO and how we can best support them. One of the key takeaways from these interviews was that customers appreciate our efforts to improve connectivity with SEGRO and between their fellow customers. Our regular Customer Futures Forums bring together customers from different sectors to discuss emerging trends and anticipate future requirements.

Actively managing our portfolio to create value

The supply-demand dynamics across our chosen markets remained favourable during 2023, helping to drive further rental (ERV) growth and £88 million of new headline rent signed during the year. The active asset management of portfolio ensures that we generate long-term outperformance. We create plans for every single asset as part of our annual asset review process, aiming to strike a balance between maintaining current high occupancy and creating opportunities to drive future rents and create value through refurbishment, redevelopment or conversion to alternative uses such as data centres.

We monitor a number of metrics that help us assess the performance of our existing portfolio:

- **Good progress in capturing the embedded reversion within our portfolio:** Lease reviews and renewals during the period generated an uplift of 31.0 per cent (2022: 23.3 per cent), adding £20 million of new headline rent. New rents agreed at review and renewal were 39.9 per cent higher in the UK (2022: 28.0 per cent) as reversion accumulated over the past five years was reflected in new rents agreed. In Continental Europe, rents agreed on renewal were 7.9 per cent higher (2022: 1.7 per cent higher), as a result of market rental growth continuing to outpace annual indexation uplifts that have accumulated over recent years. Our portfolio is now 20 per cent reversionary, providing us with the opportunity to capture a further £137 million of headline rent over the next five years, £84 million of which is up for rent review or renewal by the end of 2026.
- **Occupancy has remained high at 95.0 per cent (31 December 2022: 96.0 per cent),** in line with our 94 to 96 per cent target. The slight reduction from 2022 is concentrated in our London portfolio and primarily reflects the recent completion of speculative projects in South London as well as the take-back of some older buildings to facilitate refurbishment or redevelopment. For example, a number of customers were relocated from their existing, older SEGRO premises into brand new space at SEGRO Park Hayes and SEGRO Park Tottenham. The occupancy rate excluding recently completed speculative developments remains high at 96.0 per cent (31 December 2022: 97.3 per cent) and the average occupancy rate during the period was 95.5 per cent (2022: 96.4 per cent).
- **Customer retention rate increased to 81 per cent.** Approximately £71 million of headline rent was at risk from a break or lease expiry during the period, of which we retained 78 per cent in existing space (2022: 75 per cent), and a further 3 per cent in new premises (2022: 1 per cent).
- **Lease terms continue to offer attractive income security.** The level of incentives agreed for new leases (excluding those on developments completed in the period) fell slightly to 5.8 per cent of the headline rent (2022: 6.1 per cent). We maintained the portfolio's weighted average lease length, with 7.3 years to first break and 8.3 years to expiry (31 December 2022: 7.0 years to first break, 8.3 years to expiry). Lease terms are longer in the UK (8.4 years to break) than in Continental Europe (5.7 years to break), reflecting the market convention of shorter leases in countries such as France and Poland.

Working closely with our customers and refurbishing older assets to help us achieve our Championing low-carbon growth ambitions

We have targets set and approved under the international Science-Based Targets Initiative (SBTi) to reduce the absolute corporate and customer carbon emissions from our portfolio by 42 per cent by 2030 (compared to a 2020 baseline), in line with the 1.5 degree scenario. During 2023, we reduced these carbon emissions by 7 per cent, taking our reduction from 2020 to 19 per cent and putting us a year ahead of our target.

The recent introduction of green lease clauses is helping us to improve our visibility of customer carbon emissions, which allows us to better identify opportunities to help them operate their buildings more efficiently, reducing their carbon footprint and operating costs. These clauses, as well as an increase in the number of automatic meter feeds that we receive, have helped take the visibility of our portfolio energy use to 81 per cent (2022: 68 per cent).

At the end of 2023, 65 per cent of the portfolio had an EPC rating of B or better (2022: 58 per cent). Whilst the majority of our portfolio is modern and already meets the highest sustainability standards, we do have some older assets in heavily populated and congested cities such as London and Paris, where land and buildings are in short supply and rents continue to grow. This provides us with the opportunity to add significant value through refurbishment, redevelopment, or conversion into alternative uses whilst also improving their environmental performance.

A key part of our asset planning process is therefore determining the phasing of these projects and managing the space to ensure we have vacant possession to suit our future plans. This can lead to periods where the headline vacancy in these sub-markets is elevated, for example in our West London portfolio at the end of 2023, but the cost of this vacancy is more than outweighed by the value created through the refurbishment or redevelopment. Opportunities such as these are not included in our future development programme and could create significant rental uplifts. One such refurbishment, SEGRO Park Greenford in West London, was awarded BREEAM 'Outstanding' during the period and rated EPC A+ and is our most sustainable refurbishment to date.

Our asset management teams are also working hard to expand the solar capacity of our portfolio through retrofitting onto existing assets (whilst the development teams are installing panels on new developments) where feasible. During 2023 we added 15 MW to our solar capacity, including 11 MW through retrofits onto existing buildings.

Applying Operational excellence to our supply chains

Supplier spend:

£887m

Number of suppliers:

2,842

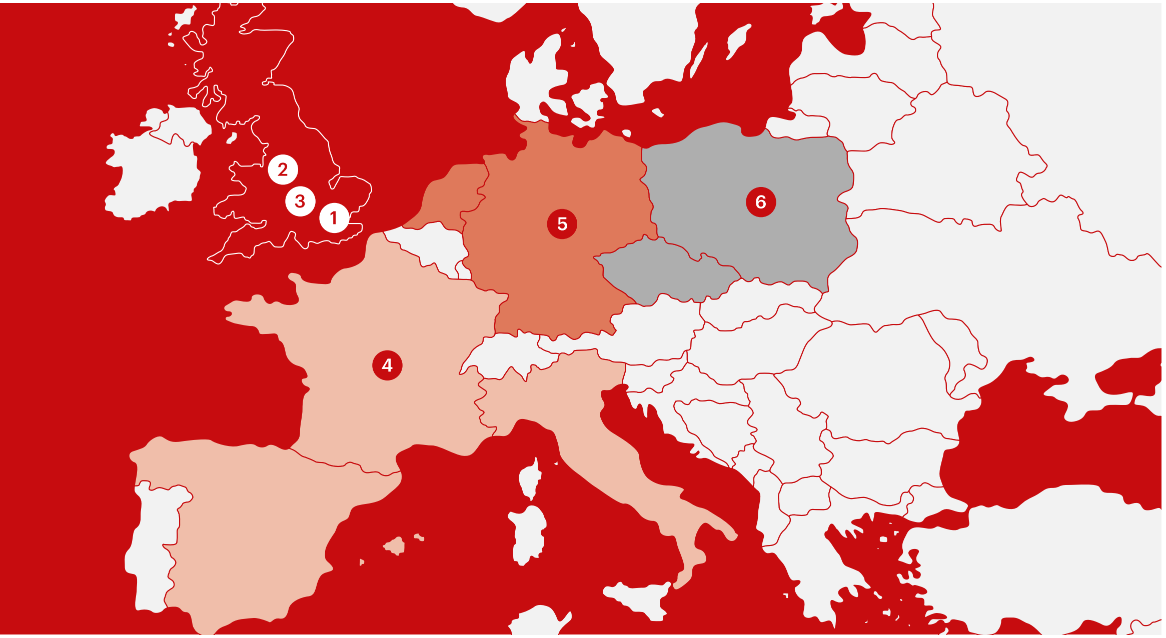
We apply the same approach in our supply chains as we do in our internal operations and aim to develop collaborative partnerships, with mutually beneficial aims and objectives. Our suppliers range from small local businesses to multinational companies and we look to work with businesses who share our approach to matters such as health and safety, compliance, anti-bribery and corruption. Our Supplier Code of Conduct and Modern Slavery and Labour Standards Supply Code consolidate and set out in full the principles and standards that we expect and outline how we can work side-by-side to create real change.

Our relationships with our suppliers are also important in us achieving our Responsible SEGRO ambitions. We work closely with our construction partners to reduce the embodied carbon intensity of our development programme. We also expect our suppliers to work with us to support local businesses and economies; this included proactively sourcing labour, goods and services from our local communities and contributing to our Community Investment Plans.

In the spirit of partnership, we treat our suppliers well and ensure they are paid on time. We are a signatory of the UK Prompt Payment Code (average UK payment time is 14 days). We are also an accredited UK Living Wage employer, and are working with our suppliers to help ensure everyone working in our supply chain to support us is paid a real Living Wage.

Regional updates and 2023 key highlights

Occupier demand was resilient across all of our markets and vacancy in our chosen sub-markets remains low, supporting continued market rental growth during 2023.



1 Greater London

- Significant capture of reversion.
- Completion of world's first BREEAM 'Outstanding' refurbishment.
- Celebrating the ten-year anniversary of our East Plus partnership.

Headline rent (at share)
£226m

Occupancy
91.2%

2 National Logistics

- Completion of our final units at SLP-EMG.
- Further pre-lets signed in Coventry.
- Acquisition of rare land plot in Radlett for 300,000 sq m logistics park.

Headline rent (at share)
£58m

Occupancy
98.4%

3 Thames Valley

- Attracted 16 new customers to the Slough Trading Estate.
- Significant capture of reversion.
- Acquisition of Bath Road Shopping Park for data centre redevelopment.

Headline rent (at share)
£115m

Occupancy
96.8%

4 Southern Europe

- Continued rental growth across our markets.
- Two major new pre-lets signed in Spain.
- Commencement of work on our new central Paris schemes.

Headline rent (at share)
£159m

Occupancy
96.3%

5 Northern Europe

- Strongest ERV growth in Europe.
- Completion of rezoning and acquisition of land in Dortmund.
- Installation of 4 MW of solar capacity in Germany.

Headline rent (at share)
£90m

Occupancy
98.8%

6 Central Europe

- Completed 82,000 sq m of new space.
- Acquired 16.5 hectares of new land in Warsaw.
- 100 per cent customer and supplier satisfaction rate.

Headline rent (at share)
£49m

Occupancy
95.7%

Q&A with our Continental European MD
Marco Simonetti

Marco Simonetti covers the following topics
- Continental European operational highlights
- Performance of our different markets
- Continental European e-commerce trends
- Outlook for construction costs

Scan the QR code to see the video.

www.segro.com/ara23/Marco-Simonetti

Q&A with our UK MD
James Craddock

James Craddock covers the following topics
- UK operational highlights
- Occupier demand trends
- Supply and market vacancy levels
- Rent affordability

Scan the QR code to see the video.

www.segro.com/ara23/James-Craddock

SEGRO European Logistics Partnership (SELP)

During 2023 we celebrated the tenth anniversary of the SEGRO European Logistics Partnership (SELP). SELP is our Continental European big box joint venture with PSP Investments, one of Canada's largest pension investment managers.

SELP started in October 2013 with €1 billion of assets. At the end of 2023, it had a portfolio worth €6.7 billion. SELP generates €342 million of headline rent with an occupancy rate of 99 per cent.

Our partnership is an important element of our strategy to build scale in Continental European big box warehousing in a capital-efficient manner. By sharing the capital investment with PSP Investments, we have been able to grow the portfolio further and faster than we could have done on our own. Both partners benefit from the attractive yield on the portfolio, the development potential from the land and from the economies of scale we can extract from this high-quality, modern collection of big box warehouses.

During SELP's first ten years it has developed almost 1.9 million sq m of big box warehouse space across six European countries, adding €102 million of headline rent to the portfolio.

As a result, SEGRO now has in excess of €1 billion of assets under management in each of Germany, France, Italy and Poland, and we are building scale in the smaller markets of Spain, Czech Republic and the Netherlands.

SELP's assets are managed by SEGRO alongside its own portfolio and in return SELP pays SEGRO annual fees for asset management, development and advisory and administrative services. Since 2013, SELP has paid SEGRO £192 million of these fees, which has resulted in a net benefit before tax to SEGRO of £96 million, enhancing the returns from the Continental European big box portfolio.

In addition to these management fees, during the first ten-years of the joint venture SEGRO also received £141 million (net benefit before tax of £70 million) in performance fees, reflecting its successful growth. The final fee for the ten-year period of £89 million was recognised in 2023 (net benefit before tax of £44 million) and was in addition to two other performance fees recognised in 2018 and 2021 of £26 million each (net benefit before tax of £13 million).

The appetite for investing in big box warehousing in strategic locations in Continental Europe remains strong and we look forward to successful collaboration in the future.

1 SEGRO Logistics Park Saint Quentin-Fallavier

2 SEGRO Park South Rome B

10 years of SELP

AUM
€6.7bn
2013: €1bn

Headline rent
€342m
2013: €81m

Space developed
1,870,000sq m

Rent added from new developments
€102m

Number of customers
284

10-year internal rate of return
12.7%

Assets under Management €m

Enabling extraordinary things: Space for growth

Scan the QR code to see our video on growth

www.segro.com/ara23/space-for-growth

Cologne gets a fresh coat of paint

Given the scarcity of land in our urban markets, many of our developments involve the regeneration of brownfield sites. These schemes help to grow the local economy by helping to attract new business investment into local areas and creating diverse and high-quality employment opportunities.

In 2014, we acquired a former paint factory on the edge of Cologne which, as with many of our brownfield urban developments, required a significant amount of remediation work. This included the removal of 62 tonnes of material contaminated by paint and varnish waste.

Less than 10 years on this site is now SEGRO Park Cologne City: a 55,000 sq m urban logistics and light industrial park built to the highest sustainability standards (helping it to be awarded DGNB the highest possible DGNB 'Platinum' Certification).

The park is now home to 23 customers from a diverse range of industries including: retail, film and media, post and parcel, luxury cars and food manufacturing. Together they employ 1,128 and are enabling a wide range of extraordinary things to happen in Cologne.

A Q&A with our CFO

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.

Soumen Das, Chief Financial Officer

To find out more about SEGRO visit www.segro.com

Soumen Das covers the following topics:

- Outlook for earnings growth
- Investment market activity and property valuations
- Potential growth opportunities and the funding of these
- Managing leverage through macroeconomic cycles

Scan here to see the video
www.segro.com/ara23/Soumen-Das

Financial review

Adjusted profit before tax

£409m

2022: £386m

IFRS loss before tax

£263m

2022: £1,967m loss before tax

Available cash and undrawn facilities

£1.9bn

2022: £2.2bn

Loan to value ratio

34%

2022: 32%

Financial position at 31 December 2023

As at 31 December 2023, the gross borrowings of SEGRO Group and its share of gross borrowings in joint ventures totalled £6,420 million (31 December 2022: £5,887 million), of which £6 million (31 December 2022: £7 million) are secured by way of legal charges over specific assets. The remainder of gross borrowings are unsecured. Cash and cash equivalent balances were £404 million (31 December 2022: £194 million). The average debt maturity was 6.9 years (31 December 2022: 8.6 years) and the average cost of debt (excluding non-cash interest and commitment fees) was 3.1 per cent (31 December 2022: 2.5 per cent).

Funds available to SEGRO Group (including its share of joint venture funds) at 31 December 2023 totalled £1,930 million (31 December 2022: £2,208 million), comprising £404 million cash and short-term investments and £1,526 million of undrawn credit facilities of which £148 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.

Financing

During 2023, we arranged £230 million of additional term loan facilities with existing relationship banks to finance the Group's obligations and strengthen liquidity. We have extended £1,096 million of SEGRO bank facilities and €600 million of SELP bank facilities by a further year. In response to increased interest rate volatility, we have expanded our interest rate cap portfolio to maintain the level of fixed and capped rate debt at 95 per cent.

Financing during the year

- **Short-term debt:** SEGRO has extended the term of €800 million of its revolving credit facilities by a further year, €200 million to 2028 and €600 million to 2026. SELP also extended the term of its €600 million of facilities a further year to 2027. In January 2024, SEGRO arranged a €100 million bilateral revolving credit facility with a new relationship bank, increasing available revolving credit facilities to €1.9 billion.
- **Medium-term debt:** SEGRO arranged £100 million and €150 million of new term loans, maturing in 2026, from existing relationship banks, and extended the term of £300 million and €115 million of term loans by a further year also to 2026. During the year, SEGRO drew £400 million and €558 million of term loans.
- **Long-term debt:** SEGRO repurchased the remaining £82 million of 6.75 per cent bonds maturing in 2024.

Financial position and funding

	31 December 2023		31 December 2022	
	SEGRO Group	SEGRO Group, JVs and associates at share	SEGRO Group	SEGRO Group, JVs and associates at share
Net borrowings (£m)	**4,972**	**6,016**	4,722	5,693
Available cash and undrawn facilities (£m)	**1,736**	**1,930**	1,920	2,208
Balance sheet gearing (%)	**45**	**N/A**	41	N/A
Loan to value ratio (%)	**34**	**34**	32	32
Net debt:EBITDA ratio (times)[3]	**10.4**	**N/A**	11.7	N/A
Weighted average cost of debt[1] (%)	**3.2**	**3.1**	2.6	2.5
Interest cover[2] (times)	**2.7**	**3.0**	4.3	4.5
Average duration of debt (years)	**7.6**	**6.9**	9.4	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 Calculation detailed in Table 2 in the Supplementary Notes.

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 a 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 2023 on this basis was 34 per cent (31 December 2022: 32 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. The gearing ratio of the Group at 31 December 2023, as defined within the principal debt funding arrangements of the Group, was 45 per cent (31 December 2022: 41 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 44 per cent from their 31 December 2023 values to reach the gearing covenant threshold of 160 per cent. A 44 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 2023 was 2.7 times, comfortably ahead of the covenant minimum. Net property rental income would need to fall by around 54 per cent from 2023 levels, or interest rates would need to rise to 7.4 per cent from the full year average interest rate of 3.4 per cent to breach the interest cover covenant threshold. On a proportionally consolidated basis, including joint ventures, the interest cover ratio was 3.0 times.

SEGRO also monitors its leverage on a net debt:EBITDA basis which is an increasingly important metric for rating agencies and our investors. SEGRO has a long-term issuer default rating of 'BBB+' and a senior unsecured rating of 'A-' from Fitch Ratings as at 31 December 2023. These ratings were reduced from 'A-' and 'A' respectively in May 2023, and placed on 'negative watch'.

SEGRO's net debt:EBITDA ratio at the end of 2023 was 10.4 times (2022: 11.7 times), reflecting the net impact of an £75 million increase in EBITDA and a £250 million increase in net debt. The elevated 2022 ratio was the prime reason cited by Fitch Ratings for downgrading our senior unsecured debt rating during the year to A- from A and applying a negative outlook. Fitch state that a net debt:EBITDA ratio of 9.5 times is consistent with an A- rating and we have made significant progress towards that during 2023 as a result of growing our rent roll and funding a significant proportion of our investment with the proceeds of disposals.

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, 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 covenants should property values decline.

The weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 6.9 years, with the closest maturity being SELP's €500 million euro bond in November 2025, followed by SEGRO's €195 million term loan in December 2025. This long average debt maturity comprises a 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 2023, including the impact of derivative instruments, 95 per cent (2022: 95 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures) were either at fixed rates or are protected from rising interest rates with interest rate caps, with a spread of expiry dates over the next 6 years and an average expiry of 3.4 years. The pure fixed level of debt is 76 per cent at 31 December 2023 (31 December 2022: 83 per cent), rising to 95 per cent including floating rate debt which is now subject to an active cap. The remaining 5 per cent of debt is at floating rates.

During the year, in line with our risk management processes and due to the higher levels of market volatility, the Group entered into €532 million of interest rate cap contracts to mitigate the risk of rising interest rates on our floating rate debt exposure. At 31 December 2023 all of these caps were triggered.

As a result of the fixed rate cover in place, if short-term interest rates had been 200 basis points higher throughout the year to 31 December 2023, the adjusted net finance cost of the Group would have been approximately £10 million higher (31 December 2022: £27 million higher) representing around 3 per cent (31 December 2022: 7 per cent) of Adjusted profit after tax. This decrease in sensitivity to interest rate increases since 2022 is attributed to the greater protection from our interest rate cap portfolio.

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 (34 per cent at 31 December 2023) and 100 per cent. At 31 December 2023, the Group was 74 per cent hedged by gross foreign currency denominated liabilities (31 December 2022: 76 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 2023 weakened by 10 per cent against sterling (to €1.27, in the case of euros), net assets would have decreased by approximately £151 million and there would have been a reduction in gearing of approximately 2.2 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2023 into sterling within the consolidated income statement of the Group was €1.15: £1. Based on the hedging position at 31 December 2023, and assuming that this position had applied throughout 2023, if the euro had been 10 per cent weaker than the average exchange rate (€1.27: £1), Adjusted profit after tax for the year would have been approximately £9 million (2.3 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £11 million (2.8 per cent) higher than reported.

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 2023
The impact of increased borrowings (due to £0.6 billion net investment) during the year and the reduction in asset values meant that LTV has increased from 32 per cent to 34 per cent at 31 December 2023.

What to expect in 2024
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 £1.9 billion (including our share of joint ventures and associates) on which we can draw to fund our investment plans.

Read more on our strategy on page 20

Financial review continued

Going concern

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

- In 2023, the Group extended the term of its €600 million and €200 million revolving credit facilities to 2026 and 2028, respectively, and extended the term of its £300 million and €115 million term loans to 2026.
- The Group added a further £100 million and €150 million term loan facilities, both maturing in 2026.
- Cash and available committed facilities at 31 December 2023 were £1.5 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 2023, property values would need to fall by around 44 per cent before breaching the gearing covenant. In terms of interest cover, net rental income would have needed to fall by 54 per cent or the average interest rate would have needed to reach 7.4 per cent before breaching the interest cover covenant. All would be significantly in excess of the Group's experience during the financial crisis.

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 year, the net profit after tax impact of the SELP performance fees recognised of £42 million have been excluded. Furthermore an impairment of a loan to an associate of £28 million has also been excluded. Both items are discussed in more detail in Note 2. In the prior year there have been no such adjustments and therefore Adjusted profit and EPRA earnings were the same.

Adjusted profit (note 2)

		2023 £m	2022 £m
	Gross rental income	547	488
	Property operating expenses	(85)	(76)
1	Net rental income	462	412
2	Joint venture management fee income	29	30
	Management and development fee income	4	5
	Net solar energy income	1	1
	Administrative expenses	(63)	(59)
3	Share of joint ventures and associates' adjusted profit[1]	82	71
	Adjusted operating profit before interest and tax	515	460
4	Net finance costs	(106)	(74)
	Adjusted profit before tax	409	386
5	Tax on adjusted profit	(10)	(11)
	Non-controlling interests share of Adjusted profit	–	(1)
6	Adjusted profit after tax	399	374

1 Comprises net property rental income less administrative expenses, net finance costs and taxation.

Net rental income

£50m higher

1

Net rental income increased by £50 million to £462 million (or by £65 million to £587 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 £31 million, or 6.5 per cent, compared to 2022.

This is due to strong rental performance across our portfolio. Continental Europe: 8.5 per cent increase, primarily through indexation; and UK: 5.3 per cent increase, primarily through capturing the reversionary potential in the portfolio through lease reviews and renewals (for more information see Performance review page 37.)

1 The like-for-like net rental growth metric is based on properties held throughout both 2023 and 2022 on a proportionally consolidated basis. This provides details of underlying net rental income growth excluding the distortive impact of acquisitions, disposals and development completions.

Income statement review

Income from joint ventures and associates

£10m higher

2 3

SEGRO's share of joint ventures and associates' Adjusted profit after tax increased by £11 million from £71 million in 2022 to £82 million in 2023, excluding performance fee expense. The increase is driven by net rental income growth partially offset by interest costs and taxation.

Joint venture fee management fee income decreased by £1 million to £29 million in 2023 due to a reduction in property values on which elements of the fees are based.

Performance fees from joint ventures have been excluded from Adjusted profit and are discussed in the IFRS loss section below.

Net finance costs

£32m higher

4

Net finance costs were £32 million higher than 2022 at £106 million. Average interest rates during the year were 3.2 per cent compared to 2.6 per cent in the prior year. This has been partially offset by a £42 million increase in capitalised interest compared to the prior year due to the higher rate of interest on debt used to finance development projects. Furthermore, gross debt levels were higher in 2023 compared to the prior year. At 31 December 2023 gross debt was £5,348 million, £464 million higher than the prior year.

Taxation

2.4% (effective rate)

5

The tax charge on Adjusted profit of £10 million (2022: £11 million) reflects an effective tax rate of 2.4 per cent (2022: 2.8 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 (EPS)

£25m higher (32.7p)

6

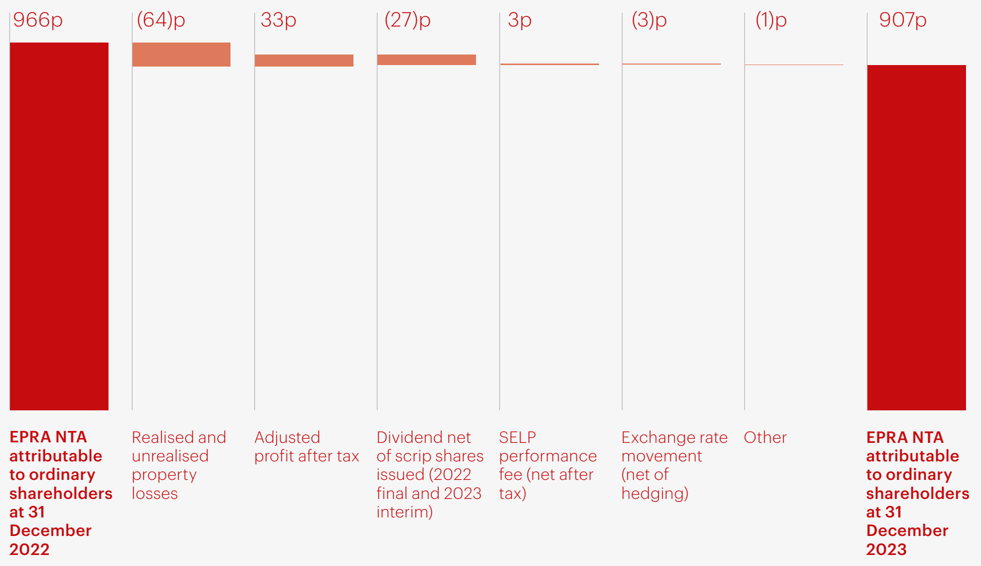
Adjusted profit after tax increased by £25 million to £399 million (2022: £374 million) as a result of the above movements, primarily growth in rental income offset by increased finance costs.

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

Adjusted earnings per share are 32.7 pence compared to 31.0 pence in 2022 due to the increase in Adjusted profit slightly offset by the 13 million increase in the average number of shares in issue compared to the prior year.

Financial review continued

Adjusted net asset value (pence per share)



IFRS loss

IFRS loss before tax in 2023 was £263 million (2022: £1,967 million loss), equating to basic post-tax IFRS loss per share of 20.7 pence compared with loss per share of 159.7 pence for 2022. A reconciliation between Adjusted profit before tax and IFRS loss before tax is provided in Note 2 to the Financial Statements.

The principal driver of IFRS loss is realised and unrealised property losses and gains which is the main reason for the lower loss per share in 2023 versus 2022. Total loss on properties is £760 million (2022: £2,175 million loss). This includes a £598 million realised and unrealised property loss on investment and trading properties in the wholly-owned business (2022: £1,939 million loss) and £162 million loss from joint ventures and associates at share (2022: £236 million loss). The largest component are valuation losses on investment and trading properties of £809 million including joint ventures at share (2022: £2,191 million), which is driven by yield expansion in most markets partially offset by increases in ERV. These are discussed in more detail in the Performance review on page 36. Other property movements include profit on sale of wholly-owned investment properties of £39 million (2022: £9 million profit).

There was also a loss of £28 million recognised in the year in relation to the impairment of a loan to an associate which is assumed to be recovered through the fair value of land which has fallen during the year. This is further detailed in Note 17(vi).

IFRS earnings in the year also included recognition of a performance fee from SELP following the ten-year anniversary of the joint venture. The overall net profit impact was £42 million (2022: £nil). This constituted a £89 million income less taxation of £10 million in respect of the wholly-owned business and a cost of the performance fee of £45 million less a tax credit of £8 million from the joint venture (at share).

Further detail on the performance fee including the recognition criteria and cumulative fee recognised are detailed in Note 7(ii).

IFRS earnings were also impacted by a net fair value gain on interest rate swaps and other derivatives of £24 million (2022: loss of £199 million).

In addition, SEGRO recognised a tax credit in respect of adjustments of £30 million (2022: £48 million) primarily in relation to property valuation movements.

Balance sheet

At 31 December 2023, IFRS net assets were £10,904 million (31 December 2022: £11,373 million), reflecting 886 pence per share (31 December 2022: 938 pence) on a diluted basis.

Adjusted NAV per share at 31 December 2023 was 907 pence (31 December 2022: 966 pence). The 6.1 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 £584 million are £105 million higher than the prior year. This is primarily due to increased rental income received during the year, and other working capital movements. As well as finance cost outflows of £162 million in servicing the debt facilities, a further £5 million was spent in closing out debt and reprofiling interest rate derivatives. Interest rate risk management is detailed further in the Financial review on page 49. In addition there were tax payments of £24 million primarily in France.

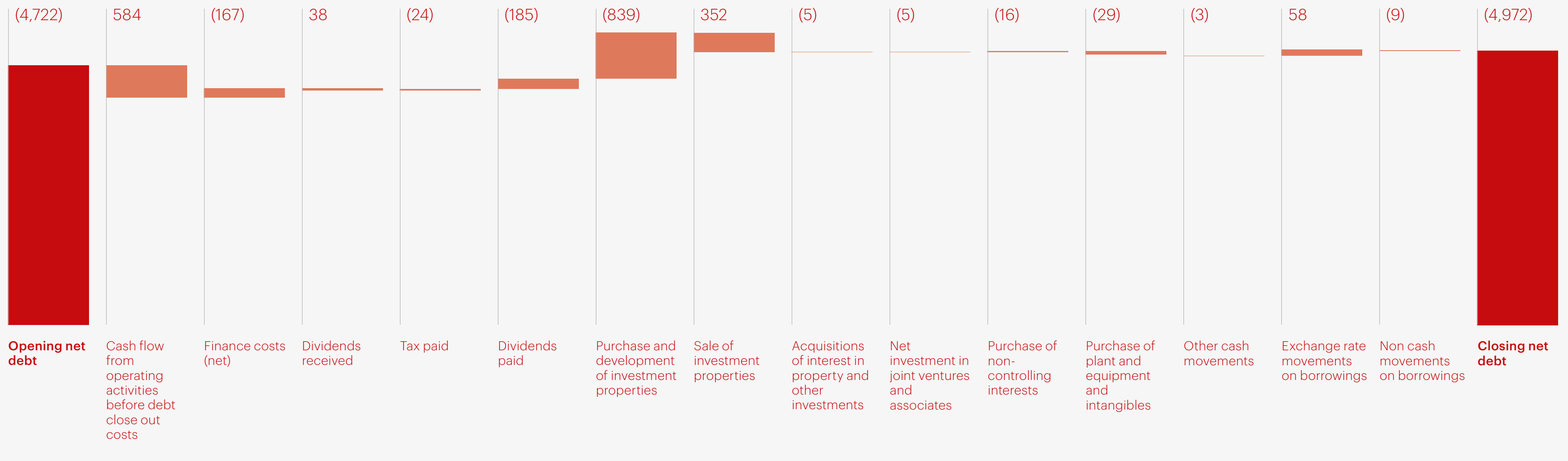
The Group made net investments of £487 million in investment and development properties during the year on a wholly-owned cash flow basis (2022: £1,162 million). This is principally driven by expenditure of £839 million (2022: £1,472 million) to purchase and develop investment properties to deliver further growth in line with our strategy. Disposals of investment properties increased by £42 million to £352 million compared to the prior year (2022: £310 million) as the business looked to recycle assets when the opportunity arose.

During the year £185 million (2022: £222 million) dividends were paid which is lower than the total dividend due to the level of scrip uptake of £129 million (2022: £79 million) and tax due after year end on a Property Income Distribution of £13 million (2022: £nil).

Other significant cash flows include £29 million acquisition of plant and equipment and intangibles primarily on enhancing the businesses technology and PV plant, and £16 million to acquire the residual non-controlling interest of Vailog Sarl.

Overall, net debt has increased in the year by £250 million to £4,972 million.

Cash flow bridge (£m)



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 £1,121 million, a decrease of £777 million compared to 2022, primarily from lower acquisition and development spend. More detail on this spend can be found in the Development and Investment Updates on pages 39 to 40.

Development capital expenditure was £527 million in the year (2022: £787 million) across all our Business Units, particularly Southern Europe and National Logistics, reflecting our development-led growth strategy. Interest of £68 million (2022: £24 million) has been capitalised in the year.

Spend on existing completed properties, totalled £67 million (2022: £62 million), of which £1 million (2022: £13 million) was for incremental lettable space. The balance mainly comprises refurbishment and fit-out costs, which equates to less than six 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 0.9 pence to 19.1 pence (2022: 18.2 pence). We will pay the 2023 final dividend as a PID and expect to pay the 2024 interim dividend as an ordinary dividend. The Board's recommendation is subject to approval by shareholders at the 2024 Annual General Meeting to be held on 18 April 2024, in which event the final dividend will be paid on 3 May 2024 to shareholders on the register at the close of business on 15 March 2024.

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 2023 and the outlook for earnings.

The total dividend for the year will, therefore, be 27.8 pence, a rise of 5.7 per cent versus 2022 (26.3 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 2023 final dividend (subject to approval by shareholders at the 2024 AGM), allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2023, 49 per cent of the 2022 final dividend and 21 per cent of the 2023 interim dividend were paid in new shares, equating to £129 million of cash retained on the balance sheet.

Managing risk

Effective risk management


We understand that a unified and responsive approach to risk management is essential for us to be able to address the risks to our strategy.

Soumen Das, Chief Financial Officer

An effective, proportionate, and reliable risk management process is essential to support our strategy and business model. Whilst we still face the challenges of the external environment, risk management is embedded in our decision-making processes, meaning our business can remain stable and resilient.

Annual risk management update

The macroeconomic and geopolitical challenges of 2022 have continued into 2023 which inevitably affect SEGRO in terms of higher interest rates, and pressure on our asset valuations. Our rigorous risk management approach is therefore as vital as it has ever been, to not only maintain SEGRO's stability and resilience into 2024 but also to remain well positioned in order to benefit from any positive trends in the near and longer-term future.

The Group's Board and key committees have continued to oversee our response to these challenges and the wider economic implications throughout the year. Consequentially, they have taken actions to mitigate the impact on both our operations and the wellbeing of our employees. We review our investment plans regularly and continue to manage our balance sheet proactively to help mitigate the impacts of future volatility.

The Group Risk Committee is made up of members of senior management and now includes the Group Customer & Operations Director. The members of the Committee have detailed knowledge of, and expertise in operational, financial and corporate aspects of our business. The Group Risk Committee has met three times during the year and has been responsible for overseeing the work of the risk management function on behalf of the Executive Committee.

Although SEGRO's principal risks do not dramatically change year-to-year there are key areas of focus in response to changes within the external environment or within the business. An example of a risk which has been a particularly are of focus this year is the risk associated with developments and construction.

The successful delivery of SEGRO's development programme required a suitable land bank in order to achieve SEGRO's strategy of operational excellence. The macroeconomic environment is driving supply chain instability and more concern over contractor insolvency. Although development and construction execution is a long-standing principal risk within SEGRO's risk register, the external environment impacts the type and significance of the risks associated with holding land and managing our development pipeline. We are therefore carefully monitoring our appetite for land holdings and undertaking due diligence associated with land, developments, appraisal assumptions and contractor performance. We have also extended this risk to specifically include reference to the potential impact of faulty design or construction, deleterious materials and changes in regulation affecting the compliance of our buildings.

Emerging risks

In addition to monitoring our principal risks in a risk register, we identify, assess and monitor emerging risks. We consider wide-ranging risks such as water availability and our buildings' water demands, energy usage and access to power and changes to public sentiment which may affect customer demand associated, for example with air travel or data centres.

Two examples of emerging risks we are currently monitoring are longer-term climate change and disruptive technologies.

Longer-term climate change
We consider the longer-term effects of some risks which are also principal risks within our risk register, for example, the effects of climate change. The further ahead the timescale, the harder it becomes to predict the physical effects of climate change, like temperature increases and heavier or more unpredictable rainfall, but we know this is something that will affect us in the future. In addition, SEGRO needs to consider how our actions to reduce carbon emissions will affect our strategy in the longer term, as well as potential new and rapidly changing liabilities associated with climate litigation. The impact of these risks could be a change in desired location of our assets, change in customer demand, reputation damage, downward impact on valuations and potential asset obsolescence.

Disruptive technologies
We also consider 'new' risks such as those associated with disruptive technologies. These may include developments such as the widespread adoption of autonomous vehicles and the resultant effect on demand and use of our assets, the longer term 'working-from-home' habits and the effect on urbanisation, use of data and automation within our warehouses and the rise of 'space-as-a-service' operators. While these changes could bring opportunities as well as threats, SEGRO cannot maintain a position of strength unless we continue to monitor the changes and increase our understanding over time.

Soumen Das
Chief Financial Officer

1 SEGRO Park Le Thillay

2 SEGRO Park Collégien

Our risk appetite

The Group's ability to effectively manage risk throughout the organisation is central to the ongoing success of the business. Risk management ensures that there is a structured approach to the decision-making process that looks 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 future.

We have put risk appetite at the heart of our risk management processes and it is integral both to our consideration of strategy and to our medium-term planning process. Our risk appetite is applicable throughout the organisation including joint ventures and associated companies.

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 also includes criteria for assessing the potential impact of risks and our mitigation of them.

Our risk appetite is dynamic, varying over time and during the course of the property cycle. We adjust our risk appetite in relation to different types of risks, as explained further below. However, overall, the Group maintains a 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 in order to enhance opportunities for superior returns. We strive for diversity in geographic locations and asset types, with an appropriate mixture of stabilised income-producing and opportunity assets. This is balanced against the backdrop of the geopolitical and macroeconomic environment and its impact on the property cycle.

Our portfolio should deliver attractive, low risk income returns with strong rental and capital growth when market conditions are positive and with reasonable resilience in a downturn. We aim to enhance these returns through development, 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 closely monitoring the churn and duration of our land holdings. We also seek to mitigate the risks, especially contractor covenant risks, that are inherent in development. With due consideration of our environmental responsibilities, we seek to develop buildings which meet and, preferably, exceed minimum regulatory requirements. Buildings which fail to achieve high environmental certification standards are increasingly less attractive to occupiers now and we expect this sentiment to intensify in the future.

We have a low appetite for risks to income from customers and therefore we maintain a diverse occupier base with strong covenants and avoid over-exposure to individual occupiers in specialist properties.

Financial risk

The Group maintains a low 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 also seek long-term growth in net asset value notwithstanding the impact of fluctuations from external factors which influence the property cycle. 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. These stakeholders include 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; protecting the health and safety of employees, suppliers, customers and other users of our assets; our impact on the environment; compliance with codes of conduct and ethics; ensuring business continuity; and making a positive contribution to our local communities.

Managing risk continued

Risk management

Our integrated and robust approach to risk management

The risk management process is designed to identify, assess and respond to significant risks to the Group's objectives. Most of these risks cannot be eliminated or avoided so, instead, the process aims to understand, document, mitigate and monitor the risks. The risk management process can therefore only provide reasonable and not absolute assurance.

The identification and review of emerging risks is integrated into our risk review process. Emerging risks are those risks or a combination of risks with a longer timescale. They are often rapidly evolving and, consequently, the impact and probability may be less predictable. Therefore, necessary mitigations are usually 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, as well as other relevant internal groups.

The Board has performed a robust assessment of the principal and emerging risks facing the Group. It formally reviewed the 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 then reviewed how the Group Risk Register has been compiled, at two points during the year.

The Board recognises that we have limited control over many of the external risks that the Group faces, such as global events as well as the macroeconomic, geopolitical, and regulatory environment, but still ensures we assess 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 effectively to manage those risks.

The most significant risks are detailed in the Group Risk Register. Risks are assessed in both inherent (before taking any relevant controls into account) 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 classed as 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. Each risk has a range of mitigating controls which are in place.

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.

The Register is used as a key input to determine priorities for the Group's internal audit assurance programme.

Furthermore, management's annual self-assessment of control effectiveness is driven by the Register.

Our risk management process is long-standing and therefore is embedded and well understood throughout our business.

Soumen Das
Chief Financial Officer

1 SEGRO Logistics Park East Midlands Gateway

2 SEGRO Logistics Park Poznań, Komorniki

Our framework for risk governance

The Group adopts the 'three lines of defence' model of risk management.

The first line of defence is provided by the function that has primary responsibility to own and manage the risk associated with day-to-day operational activities which may include operational management, the individual risk manager and executive risk owner.

The second line of defence is provided by the function that oversees the risk or which specialises in compliance or risk management. This would typically be a monitoring committee such as the Executive Committee, the Investment Committee or the Technology Committee, as well as the risk management function overseen by the Group Risk Committee.

The third line of defence is provided by Internal Audit which gives objective and independent assurance over whether the first and second lines of defence are operating effectively. 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.

The Board has overall responsibility for ensuring that risk is effectively and consistently managed across the Group. The Audit Committee monitors effectiveness on behalf of the Board. Further information on compliance with the risk management provisions of the UK Corporate Governance Code can be found in the Internal controls and risk management section of the Audit Committee Report.

Accountabilities for the Group's risk management are outlined in the diagram.

Our framework for risk governance

Board

- Overall responsibility for ensuring that risk is effectively managed across the Group
- Determines the Group's risk appetite and policy
- Conducts robust assessment of current and emerging risks

Audit Committee

Monitors effectiveness of the Group's risk management process and internal control systems

Stage 1

Executive Risk Owners

- Own risks in area for which they are responsible.
- Assign accountability for mitigating individual risks to risk managers.
- Ensure that risks are identified, assessed and adequately controlled and mitigated.
- Review and identify existing and emerging risks with the risk management function at least twice per year.

Risk Managers

- Responsible for ensuring the risk is within appetite.
- Drive design, implementation and operation of controls.
- Review, identify and assess existing and emerging risks with the risk management function at least twice per year.

Stage 2

Executive Committee

- Oversees execution of risk management across the business.
- Formally considers risks, including emerging risks, twice a year.
- Directly oversees strategic risks.
- Delegates accountability for risk management and monitors performance of risk controls.
- Assigns Executive Risk Owners to each risk.

Monitoring Committees

- Regularly identify and monitor the significant risks and corresponding controls within their function.
- Risk management team regularly attends these committees.

Group Risk Committee

- Coordinates the risk management process on behalf of the Executive Committee.
- Develops risk policy and appetite.
- Oversees the work of the risk management function, which in turn:
  - Manages, maintains and reports on the Risk Register.
  - Assesses and documents risks and controls.
  - Provides quality assurance and challenge to risk owners and managers

Stage 3

Internal Audit

- Agrees internal audit programme in conjunction with the Group Risk Register.
- Conducts internal audit programme and reports to Audit Committee.
- Continues to monitor issues as they arise, the resolution of issues identified and is agile in its response to such issues and amends the programme accordingly.

Principal risks

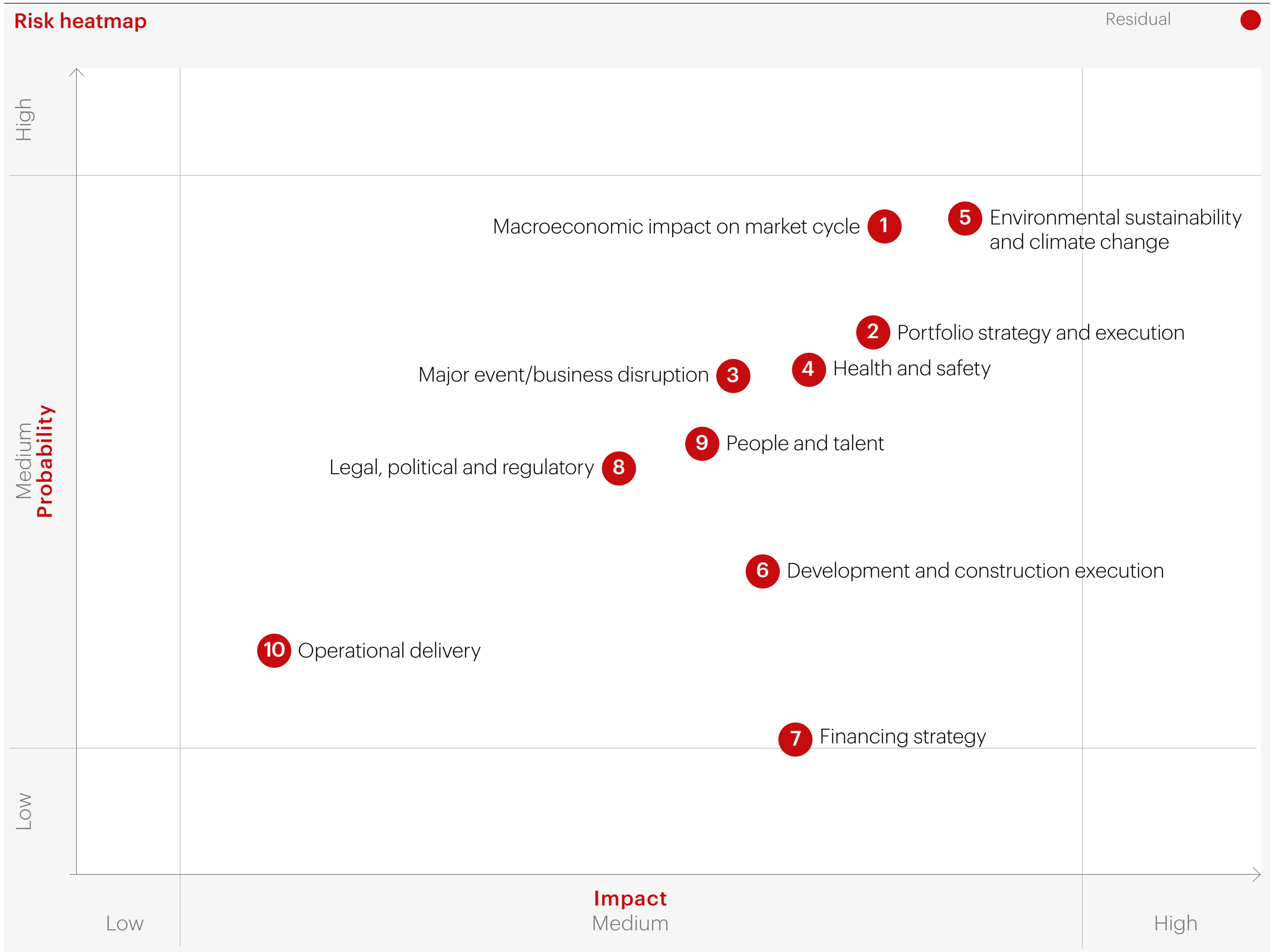
Principal risks and uncertainties

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 principal risks are reviewed and amended to reflect changing knowledge, understanding and assessment, including considering whether an emerging risk should be recorded, instead, as a principal risk.

The current principal risks that the Group is aware that it is facing are summarised in the diagram and described on the following pages. The descriptions indicate the potential areas of impact on the Group's strategy; the time-horizon and probability of the risk; the principal activities that are in place to mitigate and manage such risks; the committees that provide second line of defence oversight; changes in the level of risk during the course of the year; and link to further relevant information in this report.

A summary of the Group's principal risks including an update of changes during the period and activity during the year, is provided below. The principal risks remain the same as reported in the 2022 Annual Report but, as mentioned earlier, the development plan execution risk has been slightly amended and renamed 'Development and Construction Execution'. The impact and probability of each risk has not changed in the last year and the residual risk for each (after factoring in mitigations) remains within appetite.



1 Macroeconomic impact on market cycle

Change in 2023:
No change

The property market is cyclical in nature and there is a continuous risk that the Group could either misread or fail to react appropriately to the changing property market, cost of finance or wider macroeconomic and geopolitical conditions. This could result in the adoption of an inappropriate strategy or the ability to deliver a strategy being inhibited, and consequential impact on property performance and shareholder value.

Mitigations
The Executive Committee, Investment Committee and ultimately the Board monitor the property market cycle on a continual basis and adapt the Group's investment and divestment stance in response to experienced and anticipated 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 to inform our portfolio strategy (see separate principal risk).

Current year activity
The uncertain geopolitical and macroeconomic outlook has continued to cause volatility in the capital markets and reduced liquidity in the property investment market.

In response, we have continued to perform economic outlook assessments regularly and have ensured that portfolio strategy consequences are appropriately linked (see separate principal risk). We are therefore prepared to withstand these pressures even if they persist across the countries we operate in for some time.

Link to strategy:
Disciplined capital allocation; Efficient capital and corporate structure
Overseen by:
Executive Committee, Investment Committee

The market outlook is detailed in the Chief Executive's statement on page 8

2 Portfolio strategy and execution

Change in 2023:
No change

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 be caused by:

- Unexpected macroeconomic factors;
- Incorrect or ineffective capital allocation decisions;
- Poor or incorrect market or asset level assumptions including disruptions, for example from changing occupier and customer needs, technological developments and innovation;
- Inaccurate modelling or forecasting;
- Increased competition for our assets or target customers; and/or
- Lack of appropriate procedures and inadequate due diligence resulting in lengthy, onerous or costly transactions and missed opportunities.

Mitigations
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 strategy and to determine our response to changing opportunities and market conditions.

The Group's approach to capital allocation is informed by comprehensive asset plans and independent external assessments of market conditions and forecasts. Major capital investment and disposal decisions are subject to Board approval in line with portfolio strategy. Locally-based property investment and operational teams provide market intelligence and use their networks to source attractive opportunities. They are overseen by UK and CE Heads of Investment.

Regular 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 existing assets to determine where to invest capital and to identify assets for disposal. ESG credentials are playing an increasingly significant role in transactional considerations.

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.

Current year activity
The Group's approach to portfolio management and capital allocation remains disciplined and responsive to opportunities that arise, as detailed in the Investment and Development updates sections. We continue to review our portfolio and maintain appropriate investment criteria and hurdle rates to ensure we remain resilient to macroeconomic uncertainty.

Link to strategy:
Disciplined capital allocation; Operational excellence; Efficient capital and corporate structure
Overseen by:
Executive Committee, Investment Committee

The market outlook is detailed in the Chief Executive's statement on page 8

Principal risks continued

3 Major event/business disruption

Change in 2023:
No change

Unexpected global, regional or national events may 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, power/water shortages, weather-related event, war or civil unrest, acts 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.

Mitigations

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; holding insurance; strong customer base; organisational resilience of the workforce; 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.

Specialist employees, under the oversight of our Technology Committee, continue to ensure the resilience and security of our technology using controls, training, testing and audits. We maintain suitable processes and controls in respect of business continuity and IT disaster recovery. We use third parties to supplement internal expertise when testing our resilience to a cyber-attack.

Current year activity

The heightened geopolitical uncertainty (including the ongoing conflict in Ukraine and the Middle East) has exacerbated global macroeconomic volatility. This economic backdrop continues to cause a degree of uncertainty to the Group's operations and stakeholders.

The Group maintains a robust financing and portfolio strategy in order to be well positioned and flexible in response to major events/business disruption. The Board and other committees remain vigilant and responsive in managing the mitigation of risks as they evolve. Working groups are set up, as required and often at short notice, to collate and align the Group's response in an agile fashion as issues arise. These groups report directly to the Executive Committee.

Link to strategy:
Disciplined capital allocation; Operational excellence

Overseen by:
Executive Committee, Technology Committee

The market outlook is detailed in the Chief Executive's statement on page 8

4 Health and safety

Change in 2023:
No change

A health and safety incident may occur which involves harm to an individual or loss of life. This may be due to the failure of management processes, failure of a building or other physical asset, or negligence of a third-party. Furthermore, the Group may breach relevant legislation and fail to provide suitable employee support. This may consequentially result in litigation, fines, serious reputational damage and a negative impact on employees.

Mitigations

The Group operates an active health and safety management system, with a particular focus on the quality of and compliance with good health and safety practice of all our suppliers.

A published health and safety policy is supported by site inspections of existing assets (and potential new assets), as part of proactive management, and development project inspections in line with SEGRO's Health and Safety Construction Standard.

SEGRO has a zero-tolerance approach to poor health and safety and continues to work closely with our suppliers and health and safety consultants to increase understanding and implementation of SEGRO's requirements.

The Health and Safety Committee develops and manages the implementation of Health and Safety policies, reviews the outcomes of the Health and Safety Working Group as well as any other health and safety matters. The Health and Safety Working Group is responsible for the implementation of, and compliance with the Health and Safety Policy and Safety Management System. It undertakes continuous monitoring of health and safety practices, including incidents, inspections and training tracked across the Group. Legal guidance and further support is provided through local health and safety consultants and lawyers who provide regulatory assurance support to the Group alongside our internal expertise.

Current year activity

The health and safety of the workforce remains a key priority in locations where we operate, including when working away from the office. We have continued to expand our wellbeing activities with employees. We have closely monitored our development sites with in-person inspections, in local language, in order to ensure a safe and compliant working environment and detailed further on page 41. This risk is expected to remain a key focus going forward.

Link to strategy:
Operational excellence; Responsible SEGRO

Overseen by:
Executive Committee, Joint Operating Group

Approach to Health and Safety on page 41

1 SEGRO V-Park Grand Union

2 SEGRO Park Greenford Central

5 Environmental sustainability and climate change

Change in 2023:
No change

There is a risk that we fail to anticipate and respond to the impact of both physical and transitional risks from climate change on our business as well as changes in climate-related regulatory reporting. The likelihood of increased severity and unpredictability of weather-related events may result in more frequent and/or prolonged damage to our buildings causing disruption and increased costs to SEGRO and our customers. Non-compliance with changing laws, regulations, policies, taxation and obligations cause loss of value to the Group. Not keeping pace with social attitudes and customer behaviours and preferences whereby SEGRO may need to alter the design and build and/or energy provision of their assets could additionally cause reputational damage and reduce the attractiveness and value of our assets.

Climate-related risks, their time horizon and their management and mitigation are detailed further on pages 71 to 73.

Mitigations

The Responsible SEGRO framework sets out our corporate responsibility strategy, as well as medium and long-term commitments. Our dedicated Sustainability team is in place to support Group and local teams and share updates on legal and regulatory changes and best practice, as advised by a range of external expert advisors. Each significant investment appraisal includes an assessment of climate-related risk and other 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 as detailed further on page 71.

Current year activity

Our Responsible SEGRO framework continues to outline our strategy to reduce our corporate and customer carbon emissions and embodied carbon and is underpinned by minimum requirements set out in our Mandatory Sustainability policy. This risk has increasing prominence each year and we expect this to continue. See page 73 for details of further actions during 2023.

3 SEGRO Park Greenford North

Link to strategy:
Responsible SEGRO

Overseen by:
Executive Committee, Joint Operating Group

Responsible SEGRO, Carbon Climate Related disclosures on page 67

Principal risks continued

6 Development and construction execution

Change in 2023: **Increased**

The Group has an extensive current programme and future pipeline of developments which brings the following risks:

- Cost over-runs on larger, more complex projects, for example, due to contractor default or poor performance and management;
- Increased construction costs or over-optimistic appraisals leading to reduced or uneconomic development yields;
- Above-appetite exposure to non-income producing assets, reducing returns;
- Below-appetite land holdings restricting opportunities; and
- Additional costs, reputation damage, health and safety exposure or regulatory breach due to building defect or deleterious materials in buildings.

Mitigations

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. The development programme remains weighted towards pre-let opportunities. We retain a high level of optionality in our future development programme including at the point of land acquisition, commitment to infrastructure and commitment to building.

The risk of cost overruns or supply chain issues is, at least in part, mitigated by using our experienced development teams and a panel of trusted advisors and contractors, and typically using fixed price contracts. We work collaboratively with our contractors and remain in constant dialogue to identify possible issues and possible solutions ahead of time.

The risk of contractor default is mitigated by using a diversified selection of companies which have been through a rigorous onboarding process and closely monitoring their financial strength. Our short development lead-times enable a quick response to changing market conditions.

Internally, oversight is maintained via the Construction Steering Group, who link in with the Health and Safety team and manage challenges like defects or deleterious materials in our buildings. Additionally, our Partnership Development team engages with stakeholders as part of SEGRO's social responsibilities and also support planning processes.

Current year activity

As market conditions have remained challenging, as detailed in the Portfolio Strategy Execution risk above, we have maintained clear investment criteria. We continue to work closely with our contractors and were able to react with agility and responsiveness when a UK contractor faced difficulties during the year. Going forward, with an expected continuing volatile economic environment, similar pressures are likely to continue so we must carefully monitor the risks while we balance the needs of our contractors and customers. We have investigated our exposure to defective and deleterious materials in response to issues as they have arisen.

Link to strategy:
Disciplined capital allocation; Operational excellence

Overseen by:
Executive Committee, Investment Committee, Joint Operating Group

Development update on page 40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1 SEGRO Park Coventry

7 Financing strategy

Change in 2023: **No change**

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.

Mitigations

The Group's financing strategy is aligned with our long-term business strategy, the Medium-Term Plan and our risk appetite. Our Treasury policy defines key policy parameters and controls to support execution of the strategy.

The Group regularly reviews its changing financing requirements in light of opportunities and market conditions and maintains a good long-term relationship with a wide range of finance providers.

Funding requirements and liquidity are closely monitored and there is substantial headroom on all our financial covenants.

Current year activity

Despite uncertainty caused by the external geopolitical macroeconomic environment the Group can still access financial markets as seen by our funding activity (as detailed in the Financial review). The Group (including its largest joint venture SELP) maintains a meaningful presence in the Euro bond market as well as in the sterling bond and US Private Placement markets leaving us well positioned financially to fund activity in line with our strategy priorities. The Group continues to use fixed rate debt and relevant derivatives to mitigate against the risk of interest rates increasing both now and going forward.

Link to strategy:
Efficient capital and corporate structure

Overseen by:
Executive Committee

Financial review on page 48

8 Legal, political and regulatory

Change in 2023: **Increased**

The Group could fail to anticipate legal, political, tax or other regulatory changes, leading to litigation, censure, penalties and fines. This would result in a significant unforeseen financial or reputational impact.

In general, legal, regulatory and tax 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.

Mitigations

Legal and regulatory risks are reviewed regularly by internal specialists (e.g. Legal, Health and Safety, Sustainability) as well as the Executive Committee. Corporate heads of function regularly consult with external advisers, attend industry and specialist briefings, and sit on key industry bodies such as EPRA and the British Property Federation, as well as maintaining relationships with their peers.

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, in a timely fashion. 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 and associated shareholder agreements is managed by experienced property operations, finance and legal employees. Where necessary, comprehensive governance and compliance arrangements are in place, including specific management operating manuals.

Current year activity

The legal and regulatory environment remains dynamic with an ever-increasing number of new laws and regulations.

Tax authorities are continuing to update regulations and SEGRO is working closely with advisors to respond to this enhanced reporting environment.

In addition, the current economic situation means we are alert to an increased risk of unethical behaviour making our Code of Business Conduct and Ethics, with the accompanying training, even more important.

Link to strategy:
Disciplined capital allocation; Operational excellence; Efficient capital and corporate structure

Overseen by:
Executive Committee

Our Governance Framework on page 89