shareholder value

Annual Report 2008

SEGRO's vision is to deliver outstanding property solutions for our customers; superior returns for our shareholders and sustainable business practices for the future.

location

nment

omer care

WHERE BUSINESS WORKS

environment

SEGRO
SLOUGH ESTATES GROUP

Forward looking statements

This Annual Report may contain certain forward-looking statements with respect to SEGRO's expectations and plans, strategy, management objectives, future developments and performance, costs, revenues and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Certain statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Any forward-looking statements made by or on behalf of SEGRO speak only as of the date they are made. SEGRO does not undertake to update forward-looking statements to reflect any changes in SEGRO's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Nothing in this Annual Report should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.

Contents

SEGRO is listed on the London Stock Exchange and on Euronext, Paris, and has operated as a UK Real Estate Investment Trust (REIT) since 1 January 2007.

WHO WE ARE > A MULTINATIONAL PROPERTY INVESTMENT AND DEVELOPMENT COMPANY HEADQUARTERED IN THE UK, LISTED ON THE LONDON STOCK EXCHANGE AND EURONEXT PARIS

- We are focused on the provision of Flexible Business Space to a diverse range of customers and industries
- We operate from a network of 16 offices in 10 European countries, serving a diversified customer base of over 1,700 companies from small and medium-sized enterprises to global corporations in a wide range of business sectors
- We target markets and locations with good real estate fundamentals, centred around Europe's major cities and business regions

Our business case

- High-quality assets with pan-European footprint
- Experienced management team with broad property and international business experience
- Resilient business model with diversification of risk
- Well placed to take advantage of attractive investment opportunities when markets recover

2008 AWARDS

- Property Week International Property Achievement Award
- Best Corporate Marketing (Property Company) – SEGRO
- Best Industrial & Distribution marketing – Heywood Distribution Park
- IR Magazine UK Awards Most Progress in Investor Relations for a Non-FTSE 100 Company – Highly commended
- BDO Stoy Hayward Property Accounts Awards – Bronze Award

Chairman's Statement

Nigel Rich CBE
Chairman

Notwithstanding the difficult market conditions, we have been able to deliver a satisfactory level of underlying profitability largely due to our successful developments and a good letting and customer retention programme.

Going forward our efforts will be concentrated on; strengthening the balance sheet; retention of customers and filling voids; and preserving the dividends to our loyal shareholders.

Your Board began 2008 confident that we had positioned SEGRO to face the challenges that might lie ahead. However, like many others in our sector, we had not anticipated the severity of the banking crisis and the consequences for all classes of property which followed. The IPD (Investment Property Databank) UK All Property index recorded a fall of 15 per cent in the fourth quarter of 2008.

The performance of our portfolio has, to some extent, been mitigated by our Continental European business which performed comparatively well. Nonetheless, our NAV per share fell over the year to 462 pence. In anticipation of the risk of values continuing to fall, we decided to renegotiate our bank gearing covenants, some of which started at 125 per cent (net debt to adjusted shareholders funds). I am pleased to report that we reached agreement with all banks in February 2009 to increase the gearing covenant from 125 per cent to 160 per cent, in return for a higher cost of borrowing. The Board continues to monitor its financial ratios closely and has already taken, and will continue to pursue, actions to provide additional financial headroom such as asset sales, restricting capital expenditure and reducing costs.

The Board today announces a fully underwritten Rights Issue to raise net proceeds of approximately £500 million, through the issue of 5,240,650,704 New Ordinary Shares. The Rights Issue is subject to approval by shareholders at a General Meeting to be held on 20 March 2009.

Notwithstanding the difficult market conditions, we have been able to deliver a satisfactory level of underlying profitability, with adjusted earnings per share of 28.0 pence (2007: 28.2 pence from continuing operations), largely due to our successful developments and a good letting and customer retention programme which has reduced the void in the portfolio to less than 10 per cent by rental income.

The Directors have reviewed the dividend policy in light of the present economic conditions, the need to preserve capital and the difficulty in predicting, with any certainty, the likely level of near-term property trading profits. We have concluded that it would be inappropriate to distribute 2008's trading property profits and other income at this stage and to pay-out only from the recurring property rental earnings.

Accordingly, the Board is recommending a final dividend of 5.4 pence per share. This is subject to shareholder approval at the AGM to be held on 30 April 2009 and will be paid as a Property Income Distribution (PID) to shareholders on the register as at 3 April 2009. Accordingly, the total dividend for the year will be 13.7 pence per share (compared with 23 pence for the year ended 31 December 2007).

Going forward, the Board's dividend policy will be to balance the needs of the business with the requirement for dividend growth, taking into account the prevailing property market conditions, expected future earnings and the requirement under UK REIT rules to distribute annually at least 90 per cent of the REIT Group's tax-exempt profits as a PID.

It has not been an easy year for any property company but SEGRO employees have responded to the challenges well and we are very grateful to them. During the year, John Heawood and Walter Hens, both Directors, left the business and John Probert, the Company Secretary, retired. We are grateful to John Heawood, Walter Hens and John Probert for their many years of dedicated service to the Group. Ian Sutcliffe joined the Company in June as Managing Director, responsible for the UK, and Inès Reinmann was promoted to the Board as Managing Director responsible for Continental Europe. Elizabeth Blease joined the Company in March and became General Counsel and Group Company Secretary following the AGM in May.

It is extremely difficult to forecast the prospects for this year at a time of such great economic uncertainty. Our efforts will be concentrated on; strengthening the balance sheet; retention of customers and filling voids and preserving the dividends to our loyal shareholders. Once we achieve these goals, I believe your Group will be well placed to take advantage of further attractive investment opportunities in the years ahead. Being an optimist, I can only believe that economies will look better at the end of the year than they do now.

Nigel Rich CBE
Chairman
4 March 2009

Group at a Glance

WHAT WE DO > SUPPORTING OUR CUSTOMERS BY PROVIDING IDEAL BUSINESS SPACE SOLUTIONS

- We acquire, develop, manage and sell Flexible Business Space in attractive locations throughout Europe
- We forge long-term relationships, partnering our customers by supporting and helping their business

Every one of our customers has different expectations of a building. Our expertise lies in providing the right business space solutions to meet or exceed those needs and we do so through a flexible and creative approach. The Flexible Business Space we provide includes:

Light industrial buildings

- Assembly and production
- Data Centres
- Research and development space
- Workshops and small storage facilities
- A variety of other light industrial buildings

Logistics and distribution facilities

Suburban offices

SEGRO'S 1,700+ CUSTOMERS INCLUDE:

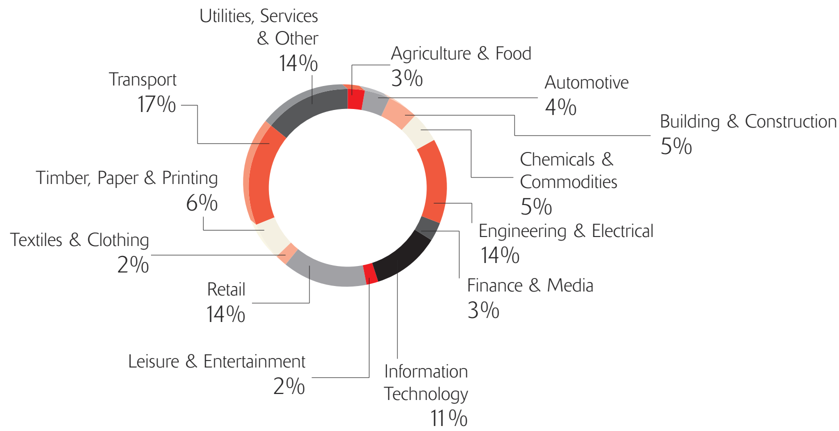
- Agilent Technologies
- Alcatel-Lucent
- Antalis
- Blackberry
- Cisco Systems
- Computer Associates
- Deutsche Poste (DHL)
- DITAC
- Fiat
- Fedex
- Ferrari
- Gefco
- Harris Systems
- Honda
- Karstadtquelle
- Knorr-Bremse
- Mars
- Masterfoods
- Meyer & Meyer
- MPM (Mannesmann)
- Neckermann.de
- O2
- Telefonica O2
- Tesco
- Thales
- TNT
- UPS
- Wolseley

OUR CUSTOMERS > LARGE AND SMALL, LOCAL AND INTERNATIONAL, SEGRO ACCOMMODATES EUROPE'S BUSINESSES

We want our customers to succeed. Their success drives us and our focus on partnership enables us to participate in their plans, their challenges and their ambitions.

It means a close relationship, based on shared trust, integrity and respect – a proven, commercially-rewarding approach that turns our property expertise into a tangible business asset for everybody.

Large and diverse economic base of over 1,700 customers
by rental income



Group at a Glance (continued)

WHERE WE DO IT >

WE TARGET MARKETS AND LOCATIONS ACROSS EUROPE WITH ATTRACTIVE REAL ESTATE FUNDAMENTALS AND CRITICAL MASS, CENTRED AROUND MAJOR CITIES AND BUSINESS REGIONS

Harris Systems
Winnersh Triangle, UK

16 offices in 10 European countries provide the local knowledge necessary to deliver strong business solutions that answer our customers' specific property requirements.

Bath Road Retail Park
Slough, UK

O2
Bath Road, Slough, UK

Alexander Bürkle, Martinszehnten
Germany

CERVA, Tulipan Park
Prague, Czech Republic

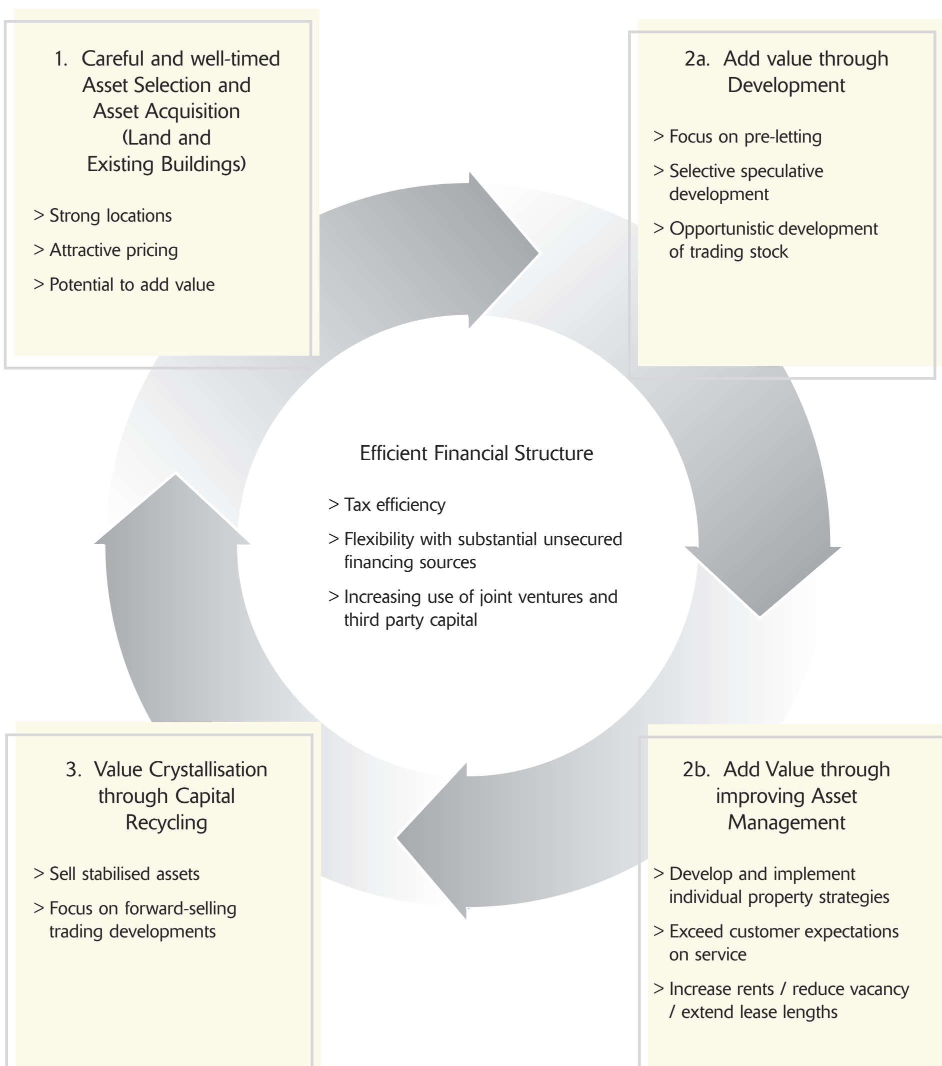
St Denis
Paris, France

Our Strategy

OUR GOAL > IS TO BE THE LEADING PROVIDER OF FLEXIBLE BUSINESS SPACE IN EUROPE. By investing in attractive locations, focusing on customer needs and delivering a stimulating environment for our employees, we aim to deliver superior returns for shareholders, enhance our reputation and serve the communities in which we operate.

OUR BUSINESS MODEL > OUR STRATEGY IS TO BUY SMART, ADD VALUE AND SELL WELL and to optimise the returns on our shareholders' equity by using an efficient financial structure.

Buy Smart, Add Value and Sell Well

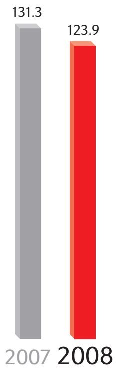


Highlights of our performance

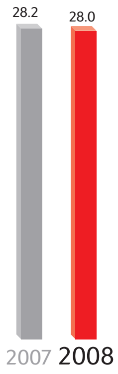
Financial Highlights

	2008	2007
Adjusted profit before tax (£m)	**123.9**	131.3
Loss before tax (£m)	**(939.2)**	(246.5)
Adjusted diluted EPS (p)	**28.0**	28.2
Basic EPS (p)	**(215.9)**	(53.6)
Adjusted diluted NAV per share (p)	**482**	704
Basic NAV per share (p)	**462**	690
Total dividend (p)	**13.7**	23.0

Adjusted profit before tax
(£m)



Adjusted diluted EPS
(p)

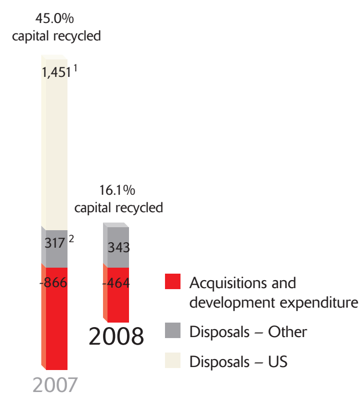


Supporting KPIs

Asset selection, development and capital recycling

	2008 Performance	2007 Performance
Investment (£m)[1]	**464**	866
Disposal proceeds (£m)	**343**	1,768
Total capital recycled (%)[2]	**16.1**	45.0

1. Expenditure on development activity and acquisitions.
2. Sum of development expenditure plus cost of acquisitions plus disposal proceeds divided by the total portfolio valuation at the start of the year.

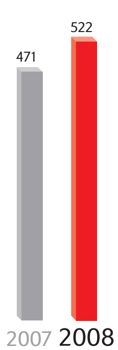


1. Exited US business with well timed £1.45 billion disposal and paid special dividend of £250 million.
2. Includes £48 million in respect of Slough Heat & Power.

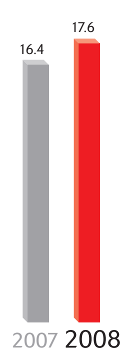
Asset management

	2008	2007
Total Property Return (%)[1]	**(14.9)**	(3.0)
Total space let (000s of sq m)[2]	**522**	471
New income secured (net) (£m)[3]	**17.6**	16.4
Vacancy rate by rent (%)[4]	**9.8**	10.4
Lease renewal rate (including percentage of break options not exercised) (%)[5]	**64**	65
Customer satisfaction (UK) %[6]	**78**	77

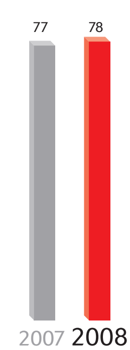
Total space let
(000s of sq m)



New income secured (net)
(£m)



Customer satisfaction[2]
(%)



1. Calculated as the change in capital value less any capital expenditure incurred plus net property rental income and plus or minus any gains or losses expressed as a percentage of capital employed.
2. 649,000 sq m and 596,000 sq m in 2008 and 2007 respectively if joint ventures and licences are included.
3. Annualised rental income relating to lettings less annualised rental income relating to take backs; excludes joint ventures.
4. Excludes trading properties and joint ventures.
5. UK only and excludes joint ventures; this will be tracked in Continental Europe from 01.01.09.
6. Measured as the percentage of independently surveyed customers who express their overall satisfaction with SEGRO as good or excellent, this measure has also been introduced into Continental Europe in 2008.

Other financial KPIs

	2008	2007
Total return on shareholders' equity (%)[1]	**(28.2)**	0.7
Operating cost ratio (%)[2]	**33.7**	31.8
Underlying tax rate (%)[3]	**2.3**	1.4

1. A measure of the return generated for each share over the period, based on the growth in the adjusted NAV and including any dividends paid to shareholders.
2. Property operating expenses plus administration costs expressed as a percentage of gross rental income plus trading profits.
3. Adjusted tax charge in the Group's results of operations, expressed as a percentage of adjusted profit before tax.

Our strategic priorities > IN 2009

Stay close to our customers and lease vigorously

> Maintain top quartile customer service levels

> Manage cash collections, exercise tight credit control and work closely with any customers who are facing financial difficulties

> Build on our reputation for excellent customer service, together with our flexibility on lease structure and maintain leasing momentum

Capital Recycling

> Continuous review of asset level business plans to optimise value creation over the medium term. Identify assets for disposal

> Identify institutional investors for assets that are reaching stabilisation and deliver sales proceeds

> Identify and deliver trading profit opportunities

Financial and Risk Management

> Carefully and prudently manage the Group's balance sheet ratios and funding resources in order to provide capital resources for ongoing investment

> Identify potential funding partners to enable the Group to leverage its own capital on major projects such as the plans to reinvigorate the Slough Trading Estate

> Maintain stringent control over all development activity

> Strong cost control

Capitalise on the current economic environment

> Identify high quality assets that fit our business model and which may be acquired at attractive prices in the months and years ahead

Directors' Report

Ian Coull
Chief Executive

David Sleath
Finance Director

In one of the most challenging environments, the Group's geographically diversified business model has demonstrated its resilience. Essential to this has been our 'stay close to our customers' principle, which underpins our Group's culture.

We view the current market conditions as creating an environment which will offer remarkable value creation opportunities over the years ahead and we are optimistic for the prospects of the Group.

BUSINESS REVIEW

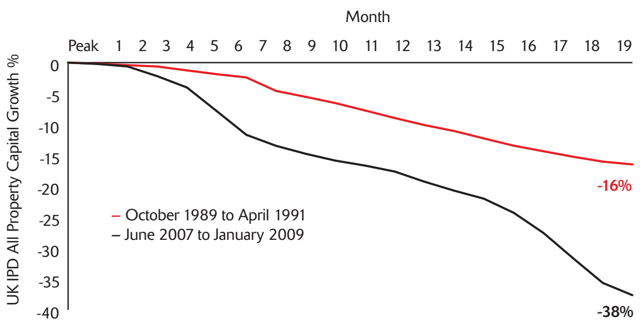
A challenging market environment with an unprecedented market downturn in the UK

2008 has provided one of the most challenging economic environments in living memory, and yet, in this environment, the Group's geographically diversified business model has demonstrated its resilience.

UK investment market – Flexible Business Space has proved a popular investment class over recent years as initial yields were driven down to an historic low of 5.3 per cent by the middle of 2007 (source: IPD). A correction was anticipated but the "credit crunch" prevented a soft landing as the lack of credit removed buyers from the marketplace and frustrated sales. Potential purchasers for investments were, in the main, limited to those with significant equity and without the need to raise debt. Since the correction started in June 2007, prime industrial yields have moved out by 220 basis points (bps) to 7.5 per cent by the end of December 2008, and all property prime yields have increased by 240 bps to 7.0 per cent by the end of the same period (source: IPD). Transaction volumes in all UK property sectors have fallen 52 per cent compared to 2007 (source: DTZ). The magnitude and speed of the fall in prices since June 2007 have been far greater than in the 1990s downturn, and UK All Property values have fallen by 38 per cent from June 2007 to January 2009.

However, in this period of economic weakness, the industrial sector's defensive qualities may be seen as increasingly attractive compared with other asset classes. It is worth noting that over the past 20 years, UK industrial property has shown an average annual total return of 9 per cent compared with offices and retail showing average annual total returns of 6.2 per cent and 7.5 per cent respectively (source: IPD). Furthermore, industrial property has appeared to perform better than non-industrial property during periods of economic slow-down, as indicated by comparing the IPD annual total performance return of industrial assets against other assets over the period from 31 October 1989 to 31 December 1993, which was 4.9 per cent for industrial compared to 0.9 per cent for non-industrial.

UK IPD All Property Capital Growth %

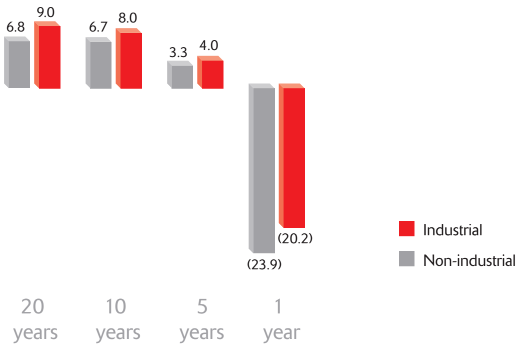


Key points

- A challenging market environment with an unprecedented market downturn in the UK
- Pre-emptive actions taken by the management team
- Resilient operating results in spite of difficult market conditions
- Staying close to our customers is key to delivering a resilient operating performance
- Development pipeline with excellent potential to capitalise on a market recovery
- Current market conditions will offer remarkable value creation opportunities for the years ahead

Directors' Report (continued)

UK IPD Property Total Returns
(%)

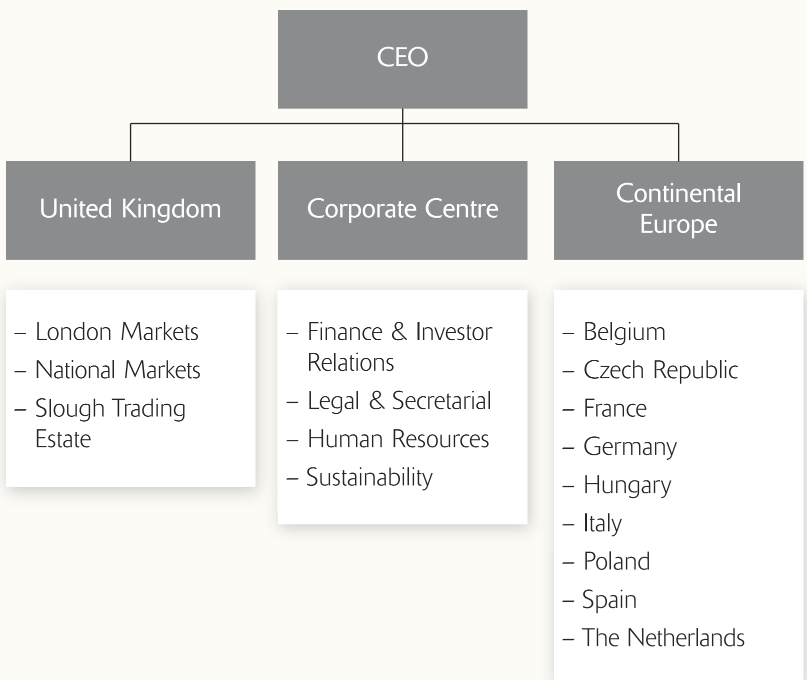


Source: IPD as at January 2009.
Note: Non-industrial is the simple average of the All Office and All Retail indices.

Continental European investment market – Yields for Flexible Business Space in Continental Europe also fell over the last few years with values peaking at the end of 2007. However, yields never reached the low levels seen in the UK (partly due to shorter lease lengths and indexation) and, therefore, the unwinding of yields since then has been more gentle than in the UK. Through 2008, yields have risen for all asset classes typically by 50-100 bps (source: DTZ/CBRE). Property investment transactions for all property in Continental Europe declined by 53 per cent last year when compared with the level for 2007 (source: CBRE). However, of that total, investment in the industrial and logistics sector declined by only 39 per cent and, at €11.4 billion, represented around 10 per cent of the total volume compared with only 5-6 per cent four years ago (source: CBRE).

UK occupier market – The Group tracks occupier activity in the UK through measuring enquiry levels and viewing levels. After a strong first nine months of the year, the occupational market in the UK slowed in the fourth quarter of 2008, with customer enquiries trending downwards as companies delay relocation or expansion in light of economic uncertainty. The IPD Industrial index for industrial rents fell marginally to show a total fall of 0.3 per cent in ERV over the full year (source: IPD).

Management Structure



Changes to empty rates tax legislation were introduced in April 2008, making owners of industrial / warehousing property liable for business rates if premises are unoccupied for periods longer than six months. For owners of office buildings the period of rate relief is three months. The impact on the Company was an increase in operating costs of approximately £5.5 million in 2008.

Continental European occupier market – During 2008, occupier demand continued to be strong in several areas of Continental Europe, most notably Poland. However, towards the end of the year, potential occupiers were noted to be more cautious as they attempted to gauge the extent to which they may be affected by the current economic difficulties. In our Western European portfolio, Italy and Spain are potentially likely to come under more pressure than some of the other countries. While demand continued to be strong in Poland throughout the year, it is likely that a reduction in Euro zone consumption will begin to impact on occupier demand during 2009.

Pre-emptive actions taken by the management team

Having foreseen some weakening in the economic and investment market environment but perhaps not the full magnitude of the capital value decline which was to follow in the UK, we took firm steps starting in 2007 to prepare the business for the challenges it would face in 2008. The actions taken included:

- scaling back expansion plans and initiating no significant property acquisitions
- reducing speculative development starts by 52 per cent compared with 2007 and, of the speculative starts in 2008, 81 per cent of these were in Continental Europe where we could continue to exploit strong pockets of demand
- focusing the development pipeline on pre-lets. Assets in the course of construction as at 31 December 2008 were 64 per cent pre-let on the basis of rental income and 57 per cent pre-let on the basis of space (31 December 2007: 37 per cent pre-let on the basis of space)
- continuing to sell non-core or mature assets generating proceeds of £343 million during 2008, and over the last three years, the Group has completed asset sales of c.£2.3 billion
- strengthening the management team with the appointment of Ian Sutcliffe as Managing Director of the UK and Inès Reinmann as Managing Director of Continental Europe
- announcing in September 2008 that we were devolving to our two main operating businesses a number of activities and services that were previously managed at the centre. The Group now has two strong, well-balanced businesses, with high-quality management in place. These changes were designed to ensure that the Group operates as efficiently and effectively as possible, with a small focused corporate centre
- reducing our cost base and overheads by way of a headcount reduction of c.15 per cent of employee numbers in the Group Head Office and UK Business
- increasing the gearing covenant on banking facilities from 125 per cent to 160 per cent

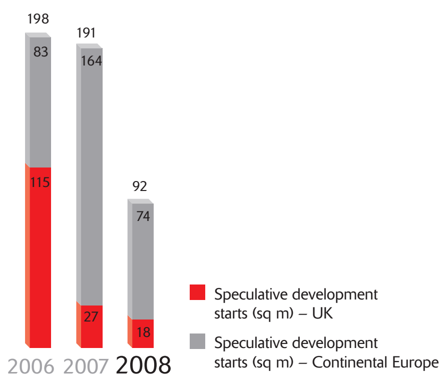
In addition, it is worth noting that we are entering the current downturn with specific key factors operating in our favour:

- our UK industrial portfolio has a void rate by rental income of 10.1 per cent[1] as at 31 December 2008 as compared with the IPD All Industrial void rate of 14.6 per cent
- within the sub 10,000 sq m unit size category of industrial stock, available new industrial stock as a percentage of total available industrial stock was just 8.8 per cent at the end of 2008 compared with 22.2 per cent at the end of 1990 (source: King Sturge). This bodes well for our UK business. Apart from 5 per cent (by valuation) of the UK industrial portfolio comprising large unit logistics, the remaining 95 per cent of the UK industrial portfolio primarily comprises assets with unit sizes under 10,000 sq m

Resilient operating results in spite of difficult market conditions

The business benefited from steps taken in the past to diversify risk through developing a wider geographical platform. In addition, the portfolio also has a broad customer base of over 1,700 customers with the largest customer accounting for just 5 per cent of rental income, and the top 20 and top 50 customers accounting for 32 per cent and 43 per cent of rental income respectively. Therefore, our Flexible Business Space activities, appealing to different occupier sectors across different geographic locations and reinforced by top quartile independently monitored customer satisfaction levels, has contributed to resilience in our operating performance in spite of the challenging economic environment.

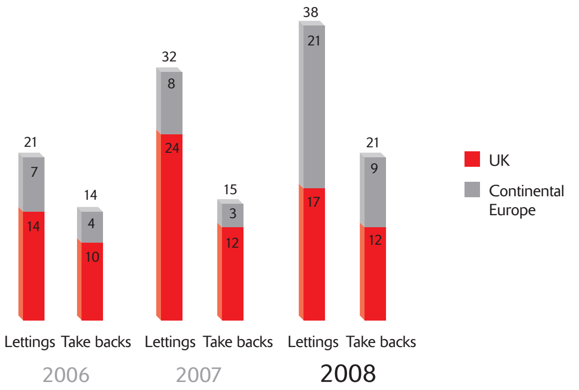
Speculative development starts in 000s of square metres



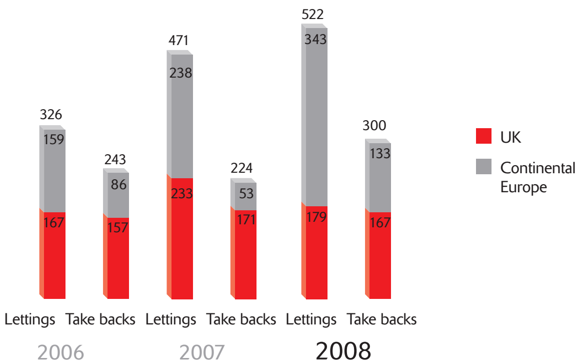
1 Excluding share of joint ventures and trading properties.

Directors' Report (continued)

£ millions annualised rental income from lettings and take backs[1]



Lettings and take backs in 000s of sq m[1]



1 Excluding rent frees, share of joint ventures and short-term licence income.

This was another successive year of exceptionally strong leasing performance and the leasing teams secured 522,000 sq m of lettings in 2008 which was up 10.8 per cent year on year (2007: 471,000 sq m). Including joint ventures and licences, the equivalent figures were 649,000 sq m and 596,000 sq m in 2008 and 2007 respectively. The lettings completed in 2008 corresponded with annualised rental income (after the expiry of rent free periods) of £38.2 million which was up 20.5 per cent on the £31.7 million of annualised rental income secured in 2007. The lettings in 2008 also had an increased component of pre-let data centres and pre-let suburban offices which contribute to increasing the security of income through having relatively longer lease lengths. After accounting for income lost through the take back of space, net incremental annualised rental income gained during 2008 amounted to £17.6 million which was higher than the rental income gained in 2007 of £16.4 million.

The leasing performance of the UK and Continental Europe benefitted from the steps we had taken to diversify our geographic risk. Lettings in the UK, at 179,000 sq m were down 23 per cent on the levels achieved in 2007, primarily due to potential customers taking a more cautious approach to securing new space in light of the economic uncertainty seen in the UK. With our focus on cash flow, we showed commercial pragmatism in securing new lettings in the UK which were completed at a rental level that was 1.5 per cent below December 2007 ERV. The reduction in year on year lettings in the UK was, however, more than offset by the strong performance of our Continental European operations, where lettings in 2008 grew by 44 per cent to 343,000 sq m.

While securing immediate income from lettings completed in 2008, the leasing teams also stayed focused on the future and secured 128,000 sq m of new pre-lets contracted to generate £10.2 million per annum of additional rental income (after expiry of rent free periods) in future years.

Major Lettings in 2008

Customer	Building type	Location	sq m	Rent pa (£000s)
Telefonica O2 UK	Office	Slough, UK	10,338	3,005
Ernst & Young	Office	Pegasus Park, Belgium	17,081	2,182
Unnamed*	Data Centre	Slough, UK	14,019	1,811
Zabka Polska S.A.	Logistics Warehouse	Komorniki, Poland	16,350	1,023
DHL	Office	Pegasus Park, Belgium	7,664	888
Multi-Contact	Industrial	Essen, Germany	11,155	825
Cosmetic Essence	Logistics Warehouse	Stryków, Poland	12,238	717
Decathlon	Logistics Warehouse	Gliwice, Poland	20,967	695
Cerva Logistics	Industrial	Hostivice, Czech Republic	11,315	656
Nec Logistics	Industrial	Hoeksteen, The Netherlands	9,463	643
Pol-Fret	Logistics Warehouse	Lodz, Poland	15,304	625
Aster	Office	Warsaw, Poland (now sold)	4,492	599
Experian	Industrial	La Courneuve Damiers, France	5,111	498
JJB Sports	Industrial	Heywood, UK	9,615	481
Transport Connections	Logistics Warehouse	Northampton, UK	9,621	461
ABX Logistics Deutschland GmbH	Logistics Warehouse	Alzenau, Germany	9,319	461
DSV Solutions	Industrial	Hoeksteen, The Netherlands	7,243	451

* Not disclosed due to confidentiality agreement.

Major Lettings in 2008 (continued)

Pre-lettings

			sq m	Rent pa (£000s)
Fluor	Office	Farnborough, UK	19,638	*
Equinix	Data Centre	Slough, UK	10,777	1,508
Athletic	Logistics Warehousing	Nadarzyn, Warsaw, Poland	24,486	952
SAP Italia	Industrial	Vimercate Energy Park, Italy	6,009	866
Plastic Omnium	Logistics Warehousing	Silesia Gliwice, Poland	14,184	727
Black & Decker	Logistics Warehousing	Silesia Gliwice, Poland	9,982	398

* Not disclosed due to confidentiality agreement.

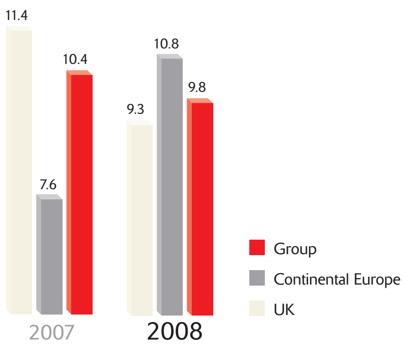
Development completions during the year amounted to 370,000 sq m of which 79 per cent (by net income) and 79 per cent (by space) was either let or sold by 31 December 2008, as compared with 320,000 sq m of development completions in 2007 of which 71 per cent (by space) was either let or sold by 31 December 2007. In the UK, the figures were 53,000 sq m and 75 per cent for 2008, and 117,000 sq m and 55 per cent for 2007. In Continental Europe, the figures were 317,000 sq m and 79 per cent for 2008, and 203,000 sq m and 81 per cent for 2007.

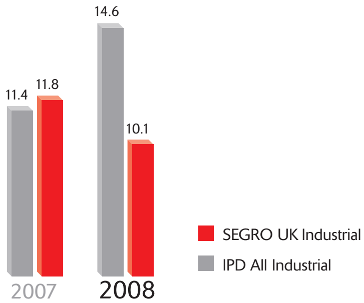
At 31 December 2008, our void rate by rental income for the Group (excluding joint ventures and trading properties) was 9.8 per cent, and has shown an improvement compared to one year ago when it stood at 10.4 per cent. Furthermore, compared with available external benchmarks, our UK industrial portfolio has a void rate by rental income of 10.1 per cent as compared with the IPD All Industrial void rate of 14.6 per cent which is a testament to the quality of our assets and the vigorous leasing and customer-focused asset management demonstrated by our operating teams.

Operational highlights of the UK business include:

- completions of previously contracted pre-let to Telefonica O2 (10,000 sq m / £3.0 million annualised rental income excluding rent frees) and a major financial institution of 14,000 sq m / £1.8 million annualised rental income excluding rent frees
- pre-let to Equinix (11,000 sq m / £1.5 million annualised rental income excluding rent frees), on the Slough Trading Estate
- signing a new pre-let to Fluor (20,000 sq m) during the fourth quarter, the largest in the Thames Valley since 2001
- disposals totalling £215 million of stabilised and / or non-core properties
- submission of a new Masterplan for the Slough Trading Estate covering a 20 year phased development period
- vacancy rate by rental value has been reduced to 9.3 per cent in 2008 from 11.4 per cent in 2007

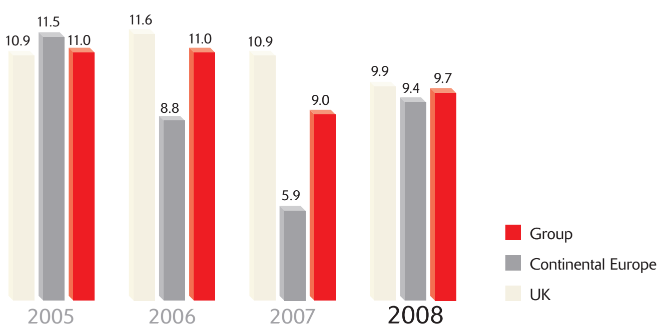
% void by rental income[1]





1. Excluding share of joint ventures and excluding trading properties.

% void by space[1]



1. Excluding share of joint ventures and excluding trading properties.

Directors' Report (continued)

Operational highlights of the Continental European business include:

- letting of 343,000 sq m of accommodation, an increase of 44 per cent on the previous year
- opening new offices in Madrid and Berlin to support our growth in these important economic clusters
- £128 million disposals of stabilised and / or non-core properties (all trading properties)
- £39 million of trading profits including joint ventures
- voted Property Week European Industrial Developer of the Year, for the third time in succession

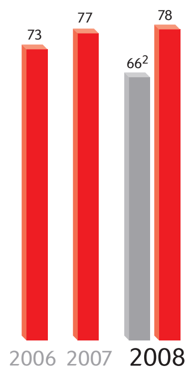
For a full review of our UK and Continental European businesses, see pages 28 to 47.

Staying close to our customers is key to delivering a resilient operating performance

Our stay close to our customers principle, which underpins our Group's culture, has been essential to the resilience shown by our business in the face of the challenges seen in 2008. The level of our customer satisfaction is measured independently and the results are, yet again, a tangible demonstration of our customer focus. The UK business showed an improvement with the percentage of customers appraising our overall service as good or excellent increasing to 78 per cent (2007: 77 per cent). In addition, for the first time this year, we conducted the same independent survey in Continental Europe. 66 per cent of our Continental European customers appraised our overall service as good or excellent, with 88 per cent of them stating that they would recommend SEGRO to others. These rewarding results only serve to strengthen the determination of the asset management teams to earn a further improvement in these results each year.

Our stay close to our customers principle helps us develop an in depth understanding of our customers' real business needs. This is demonstrated by our strong retention rates on lease expiry or potential break of 65 per cent and 64 per cent respectively (by rental income) in 2008 which is almost identical to the strong performance delivered in 2007. This also compares very favourably with the IPD / Strutt and Parker 2007 Industrial Lease Renewal benchmark rate of just 24 per cent (the 2008 study has not yet been released). As at 31 December 2008 (excluding joint ventures), our weighted average lease length to expiry was 8.3 years (6.0 years with break options). The outperformance on lease renewals relative to the IPD All Industrial benchmark, together with contracted rental streams from pre-lets and the consistently high customer satisfaction levels, further reinforces our belief in the resilience of our future income streams.

% of customers expressing overall satisfaction as good or excellent



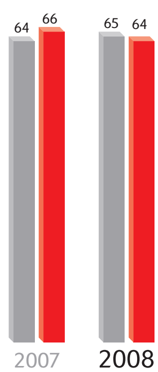
UK

Continental Europe

1 Based upon independent surveys carried out by RealService Ltd.
2 Measurement of customer satisfaction scores was launched in Continental Europe from 2008; 88% of customers surveyed said that they would recommend SEGRO to others.

Customer retention in the UK[1]

1 This information was not collected for Continental Europe before 01.01.09



UK Leases renewed by rental value

UK Breaks unexercised by rental value

Consistently high levels of customer satisfaction also translate into tangible results on rental growth on lease rent reviews and lease renewals. For example, in the UK in 2008, rent reviews and lease renewals were agreed at 3.6 per cent and 0.6 per cent above ERV respectively.

This is important in making further progress on crystallising the £7.6 million per annum of reversionary potential within our currently occupied properties, and the £32.4 million per annum of ERV potential on our vacant properties.

% Growth over ERV in the UK

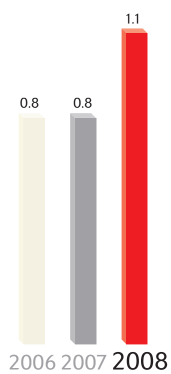
Reversionary Potential as at 31 December 2008

	Passing rent subject to rent review in 2009 (£m)	2010 (£m)	2011 (£m)	2012 (£m)	Reversion to ERV on occupied properties (£m)	ERV of vacant properties (£m)
United Kingdom						
Logistics warehouses	2.5	1.7	–	–	0.1	0.7
Other industrial	14.9	21.7	17.2	17.1	8.5	16.6
Offices	3.2	4.4	3.4	7.4	(2.0)	2.6
Retail	–	0.6	0.5	–	0.1	–
Continental Europe	–	–	–	–	0.9	12.5
Total	**20.6**	**28.4**	**21.1**	**24.5**	**7.6**	**32.4**

Investment properties only, excluding joint ventures.

By staying close to our customers, we can also identify early signs for any who may potentially face difficulties and work with them to develop a mutually beneficial way forward. However, we have not yet seen any cause for concern regarding insolvency levels in the portfolio. During 2008, annualised rental income lost from insolvencies was 1.1 per cent of total annualised rental income. This was a slight increase on the ratio of 0.8 per cent seen in 2007 and 2006, due in particular to one significant insolvency in France in June 2008. On time cash collection has continued to be strong with, for example in the fourth quarter of 2008 in the UK, 95.7 per cent of cash collected within 10 days of the rent quarter day (2007 fourth quarter: 94.4 per cent). We believe that having over 1,700 customers across the breadth of the economy reduces our vulnerability to the fortunes of specific sectors.

Annualised rental income relating to insolvencies as % of total annualised rental income (%)



Directors' Report (continued)

Portfolio Performance

The virulence of the credit crunch and its effect on the investment market has had a significant impact on portfolio valuation. The valuation process was made more difficult by the scarcity of comparable transactions in the investment market.

Looking specifically at completed investment properties (excluding joint ventures), the Group portfolio incurred a valuation deficit of 7.6 per cent in the first half of the year (UK falling 10.5 per cent while Continental Europe had a 0.7 per cent valuation gain) and in the second half of the year, the Group portfolio incurred a valuation deficit of 11.5 per cent (with UK and Continental Europe falling 16.6 per cent and 3.5 per cent respectively).

For the full year the Group property portfolio of completed investment properties suffered a valuation decline of 18.2 per cent comprising 25.4 per cent in the UK and 2.8 per cent in Continental Europe. The valuation decline of 25.4 per cent in the UK should be taken in the context of the IPD All Property capital value decline of 26.4 per cent and the IPD All Industrial capital value decline of 25.7 per cent. In the fourth quarter of 2008 alone, the IPD All Property capital value index fell by 15.0 per cent. Overall Group portfolio capital value declines were lessened due to the Group's geographic diversification over the last few years.

Completed Investment Properties*

		Rental Data				Vacancy		Valuation Data					
	Lettable space (sq m)	Passing rent ** at 31.12.08 (£m)	Market rental value (ERV) at 31.12.08 (£m)	Gross rental income 2008 (£m)	Net rental income 2008 (£m)	Vacancy rate by space (%)	Vacancy rate by ERV (%)	Valuation at 31.12.08 (£m)	Valuation surplus/ (deficit) (£m)	Valuation surplus/ (deficit) (%)	Initial yield (%)	Topped up initial yield† (%)	True equivalent yield (%)
United Kingdom													
Logistics warehouses	169,235	7.8	8.6	7.8	6.5	7.1	8.1	89.9	(28.0)	(23.7)	8.7	8.7	8.8
Other industrial	2,016,206	134.3	162.9	158.2	119.8	10.6	10.2	1,801.9	(654.1)	(26.6)	7.5	7.6	8.3
Offices	206,752	37.3	39.5	34.4	25.4	6.6	6.6	466.5	(121.1)	(20.6)	8.0	8.3	8.2
Retail	14,458	2.3	2.4	5.1	4.3	0.7	0.5	28.4	(8.6)	(23.2)	8.1	8.1	7.8
Total	**2,406,651**	**181.7**	**213.4**	**205.5**	**156.0**	**9.9**	**9.3**	**2,386.7**	**(811.8)**	**(25.4)**	**7.6**	**7.8**	**8.3**
Continental Europe													
Logistics warehouses	1,263,776	49.7	59.4	48.6	37.1	8.5	9.9	744.3	(21.0)	(2.7)	6.7	6.7	
Industrial	516,711	32.5	32.7	30.1	24.9	12.2	11.9	422.9	(10.5)	(2.4)	7.7	7.8	
Offices	194,536	16.4	21.4	17.2	13.1	8.7	12.1	250.7	(10.6)	(4.1)	6.5	7.1	
Retail	23,439	2.1	2.2	2.0	1.5	7.3	4.5	24.5	0.4	1.7	8.6	8.6	
Total	**1,998,462**	**100.7**	**115.7**	**97.9**	**76.6**	**9.4**	**10.8**	**1,442.4**	**(41.7)**	**(2.8)**	**7.0**	**7.1**	**7.6**
Group													
Logistics warehouses	1,433,011	57.5	68.0	56.4	43.6	8.4	9.7	834.2	(49.0)	(5.5)	6.9	6.9	
Industrial	2,532,917	166.8	195.6	188.3	144.7	10.9	10.5	2,224.8	(664.6)	(23.0)	7.5	7.7	
Offices	401,288	53.7	60.9	51.6	38.5	7.6	8.5	717.2	(131.7)	(15.5)	7.5	7.9	
Retail	37,897	4.4	4.6	7.1	5.8	4.8	2.2	52.9	(8.2)	(13.4)	8.3	8.3	
Group Total	**4,405,113**	**282.4**	**329.1**	**303.4**	**232.6**	**9.7**	**9.8**	**3,829.1**	**(853.5)**	**(18.2)**	**7.4**	**7.6**	**8.1**

* All completed investment properties at 31 December 2008, excluding joint venture properties, trading properties, properties for own occupation, land and properties in the course of construction.

** Excluding approximately £6.7 million of annualised rent associated with leases signed which were the subject of rent-free periods as at 31 December 2008.

† Includes value of rent-frees.

Full details of the Group's property portfolio are available on the website (www.segro.com/segro/investors/property.htm)

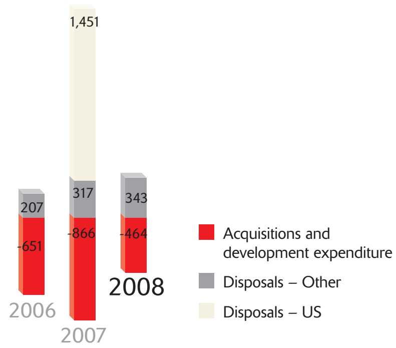
Capital Recycling

The Group continued to recycle capital proactively with £343 million of disposals during the year including £92 million for the sale of the Bath Road Retail Park on the Slough Trading Estate, £110 million for two UK portfolios of non-core assets, £47 million for the sale of a newly developed office in Warsaw and £48 million for the Group's share of the sale of the Portes de France office development scheme in St Denis. The Group also completed acquisitions, of £190 million including £90 million for a sale and leaseback transaction with MPM (Mannesmann Plastic Machinery) in Germany and £43 million on completion of the 2007 transactions with Neckermann and DHL. Looking at capital recycling activity over the last three years, the Group has completed asset sales of £2.3 billion (including £1.45 billion relating to the disposal of the US business).

Development Pipeline

A key strength of our development pipeline is the ability to scale down or accelerate activity quickly in anticipation of changes in market demand. This is due to the relatively short construction times for most of our product which can range from 6 to 12 months. As already discussed, the speculative development pipeline was significantly scaled back in response to the market downturn, and the pipeline was focused on pre-lets to mitigate development risk. As at 31 December 2008, 297,000 sq m of assets in the course of construction and committed developments were already 64 per cent pre-let.

£2.3 billion of asset sales in the last three years



Current Projects

(Projects currently under construction or committed at 31 December 2008)

		UK	Western Europe	Central Europe	Total
Land area	ha	14	16	30	60
Space:					
Logistics warehousing	sq m	–	13,858	119,511	133,369
Light Industrial	sq m	13,433	54,030	14,865	82,328
Other Industrial	sq m	10,777	–	–	10,777
Offices	sq m	59,569	11,312	–	70,881
Retail	sq m	–	–	–	–
Total		83,779	79,200	134,376	297,355
Investment properties	%	92	36	89	90
Trading properties	%	8	64	11	10
Pre-let	%	79	28	62	64
Planning status					
– fully approved	%	100	100	100	100
– zoned/outline approval	%	–	–	–	–
Rental value when completed	£m	18.2	7.3	5.9	31.4
Current book value – at valuation	£m	81.2	52.4	57.1	190.7
Forecast future costs to completion	£m	167.8	33.5	19.3	220.6

Directors' Report (continued)

Looking at the medium term when the markets start to recover, the Group has a substantial discretionary development pipeline and land bank which represents latent potential for future growth. The Group has strategically located land extending to approximately 426 hectares, with the potential to develop 1.9 million sq m of buildings over the coming medium term, which will be exploited when markets sufficiently recover. At today's prices, the Directors estimate that this could entail future development expenditure of approximately £1.2 billion and could produce estimated incremental annual rents in the region of £138 million per annum. As described earlier, the ability to accelerate development of our pipeline at short notice puts us in a strong position to take advantage of markets when they recover.

Future Projects

(Potential future projects on land owned as at 31 December 2008)

		UK	Western Europe	Central Europe	Total
Land area	ha	43	159	224	426
Space:					
Logistics warehousing	sq m	6,503	253,500	839,979	1,099,982
Light industrial	sq m	149,996	381,734	15,188	546,918
Other industrial	sq m	–	–	–	–
Offices	sq m	33,911	204,548	–	238,459
Retail	sq m	10,266	–	–	10,266
Total		200,676	839,782	855,167	1,895,625
Investment properties	%	100	31	84	62
Trading properties	%	–	69	16	38
Pre-let	%	–	–	–	–
Planning status					
– fully approved	%	14	14	1	8
– zoned/outline approval	%	61	67	99	81
Rental value when completed	£m	25.6	74.1	38.0	137.7
Current book value – at valuation	£m	64.8	159.6	100.8	325.2
Forecast future costs to completion	£m	204.1	707.8	331.3	1,243.2

Strategy in Action

The way in which the Group does business has been radically transformed over the last five years with a deep seated change to the underlying business model, to become a proactive Buy smart, add value, sell well model below:

2004

Focus

- Land Securities and SEGRO property c.£700 million retail for industrial swap
- Disposed of Pfizer Centre in San Diego for £191 million
- Exited Canada

Reorganisation

- Continental European business

2005

Focus

- Sale of Tipperary (Australia) for £111 million
- Sale of non-core offices in California for £106 million
- Acquired two of the largest industrial parks in the UK

European expansion

- Entered the Netherlands
- Entered Central Europe with the acquisition of assets from Grontmij[1]
- Expanded German portfolio with the acquisition of assets from KarstadtQuelle

Reorganisation

- UK business into regional structure

New appointments

- Walter Hens appointed head of Continental Europe

2006

Focus

- Disposed of £207 million of non-core assets

European expansion

- Entered Italy and Spain
- Expanded Polish operations

New appointments

- Nigel Rich CBE appointed Chairman
- David Sleath appointed Group FD

2007

REIT and SIIC status

Focus

- Exited US with well timed £1.45 billion disposal and paid special dividend of £250 million
- Disposed of Slough Heat and Power for £48 million
- Other disposals with net proceeds of £269 million

European expansion

- Strengthened presence in France, Germany, Italy and Poland

SEGRO brand launched

2008

Focus

- Disposed of £343 million of assets

European expansion

- Strengthened presence in Germany with signing of agreement with Berlin Airport Authorities to develop a business and logistics park, and sale and leaseback transaction with Mannesmann Plastic Machinery

Slough Trading Estate Masterplan

New appointments

- Inès Reinmann appointed Managing Director of Continental Europe
- Ian Sutcliffe appointed Managing Director of UK

Strategy in Action:
Careful and well-timed Asset Selection and Asset Acquisition (Land and Existing Buildings) – Buy Smart

In both the UK and Continental Europe, we look for sites and properties that will give us good opportunities in locations we know will work well for us – those in strong commercial centres with critical mass and good real estate fundamentals. These are assets that offer us the potential for attractive returns through either development or asset management or a combination of both. The key to success is making selections that will attract new customers and offer existing customers new or extended facilities. Wherever possible, we seek to utilise 'capital light/opportunity rich' structures such as a joint venture with a landowner. This defers a proportion of upfront capital outlay but secures the opportunity, allowing us to drawdown land as and when occupier demand dictates.

For example, in January 2008, we entered into a partnership agreement covering 38 ha with the Berlin Airport Authorities to develop a business and logistics park (230,000 sq m) in the area of the new international airport that will service Berlin. From 2011, the Berlin Brandenburg International Airport will be the only airport serving the city. The site covered under the partnership agreement offers us huge development potential and shows how, by securing high quality land holdings at the right time, we can realise significant growth opportunities for the future.

Strategy in Action:
Add value through Development

We work closely with our customers and offer support as their needs change for a variety of reasons – for example, as their business expands and they need larger premises or premises in more than one location, we are able to offer them the flexibility of developing new facilities on our existing sites or finding them a new location. For us, working with our customers in this way enables us to carry out lower risk development where we transform our raw material of cleared land into income producing investment stock and, in so doing, add value to our estates and business parks.

An example this year was a second pre-let for Equinix, an existing data centre customer for whom we had already created 7,000 sq m on the Slough Trading Estate in 2007, and

Directors' Report (continued)

who was looking to expand. Data centres are an increasingly important part of our business (leading developer of data centres in the UK) and we are providing a second facility of 11,000 sq m producing a completed investment with a rent roll of £1.5 million per annum. Through developing sites like these we are able to add significant value to our existing holdings.

Strategy in Action:
Add value through improving Asset Management

Managing customer relationships is a vital component of our business approach. We offer a flexible, innovative and entrepreneurial approach to how we do business with our customers. This can be in a range of areas such as flexibility with lease agreements, through to working with planners to represent how they wish the premises to be designed and constructed.

A demonstration of adding value to SEGRO and our customers' business through proactive customer relationship and asset management in 2008 was the creation of a new UK head office campus for O2. In April 2007, we announced we had been successful in bringing together all of O2's UK head office functions to a single location on the Slough Trading Estate. They already occupied 15,000 sq m but needed an additional 10,000 sq m of space. In December 2008, we officially handed over their new combined headquarters on the Bath Road. The new building will be connected to O2's existing building by a state of the art glass walkway. The building and walkway include energy efficient features. By working flexibly with a valued customer, we have retained O2, adding value to our portfolio, as well as contributing to their business success by creating facilities they need and that exceed their expectations.

Strategy in Action:
Value Crystallisation through Capital Recycling – Sell well

During 2008 we disposed of £343 million of assets across our UK and Continental European portfolio. This capital was released from stabilised and non-core assets which had reached their point of value maximisation for our business. They presented attractive investments for long-term investors with different risk and returns profiles to ourselves but we could use the proceeds more effectively to generate higher returns for our shareholders.

In the UK, in the second half of the year, we achieved three significant sales including the Bath Road Retail Park which was sold to The Crown Estate for £92 million. In August, we announced the sale of two industrial portfolios – one again to The Crown Estate for £64.4 million and the other to a client of Protego Real Estate Investors LLP for £45.8 million. These portfolios comprised 11 individually small estates which were located outside our core locations with little scope for further development.

In Warsaw, in July, we sold Tulipan House to Commerz Real for £47 million (€59 million). Tulipan House is situated in one of the prime Warsaw office areas and was a site that we had developed and 90 per cent leased. In Hungary, we announced the sale, in November, of Vendel Park in Budapest. Again, a development undertaken after site acquisition, the park had been substantially let (Phase 1 100%, Phase 2 85%) to a mixture of both international and Hungarian companies.

All of these sales demonstrate our business model in action – from buying, improving and adding value through asset management and development, to selling when we can no longer add value but recognising that the assets are attractive propositions for others.

Outlook and Immediate Priorities

The global economic environment is likely to remain difficult through the course of the coming year with the International Monetary Fund (IMF) suggesting a global growth rate of just 0.5 per cent against a long-term average of 3 per cent since 1980. With continued turmoil in the financial markets, an early return to an active investment market is also unlikely, although there is increasing evidence in recent weeks that a number of buyers, particularly those with no requirement for new debt facilities, have become active once again. Consequently, yields on real estate may continue to move out until they find their floor. Certainly for the first half of the year, we expect values to continue to decline with the dual impact of illiquidity in the capital markets and weakening rental levels as the global economy continues to struggle. This will make recycling of capital more difficult as buyers' and sellers' price aspirations remain mismatched. However, we will continue to take opportunities to sell non-core and stabilised assets wherever possible, providing prices are sufficiently attractive.

Given these prevailing conditions, which are likely to last for some time and possibly well into 2010, our approach to 2009 will be cautious and disciplined. Our immediate priorities remain:

- staying close to our customers: aim to maintain top quartile customer service levels, combined with a vigorous and commercial approach to leasing
- capital recycling: identify assets reaching value maximisation and conduct disposals when acceptable pricing can be achieved
- financial and risk management: stringent cost control, limited and low risk development and pro-active balance sheet management
- capitalising on the current economic environment: identify attractively priced investment opportunities and secure them at the appropriate point in the market cycle

We view the current market conditions as creating an environment which will offer remarkable value creation opportunities over the years ahead and we are optimistic for the prospects of the Group.

Principal Risks and Uncertainties

The Group views effective risk management as integral to delivering SEGRO's strategic priorities and the process for identifying, assessing and reviewing risks faced by the Group are described in the Corporate Governance Report on page 60.

As a consequence of prevailing market conditions, a number of risks identified in last year's Annual Report have increased significantly and other risks have emerged which were not previously considered material. The table below outlines the principal risks and uncertainties we face in delivering our strategic priorities in 2009.

1. Financial Risks

Risk	Mitigating factors and additional commentary
General economic environment Changes in the macro-economic environment may affect the Group in a number of ways, including: • A decline in the value of the Group's property assets • A loss of rental income and increased vacant property costs due to a reduction in the demand for flexible business space, the exercise of lease break options by customers, the failure of tenants to renew expiring leases or the bankruptcy of customers • An inability to sell assets at acceptable prices due to a decline in the demand for investment properties	The Board monitors the external financial environment closely and has established a number of strategic priorities in order to respond to anticipated changes in the global economic environment. During 2008, the slow-down in the global economy and rapid deterioration in international financial and property markets had an adverse impact on the environment in which the Group operates. There are few, if any, geographic markets in which the Group operates which will not face an economic recession in 2009 which is likely to mean these risks become a reality to varying degrees in all areas of the business.
Liquidity, covenants and availability of credit facilities Liquidity risk is the risk of the Group having insufficient funds available to meet the needs of the business or the inability of a counterparty to honour its pre-existing lending commitments. A decline in the value of the Group's property assets or a material loss of rental income could result in the Group's failure to comply with the financial covenants within its credit facilities. A breach of covenant could accelerate the Group's obligations to repay those borrowings or to cancellation of those facilities. In such circumstances, the failure of the Group to negotiate a covenant waiver could force the Group to sell assets at distressed prices and, ultimately, could bring into question the Group's ability to continue as a going concern.	The Group has a flexible funding strategy and manages liquidity in accordance with Treasury policies which are designed to ensure the Group has adequate funds for its ongoing needs. The policies are described in the Financial Review on page 52. The Board monitors covenant ratios closely and completes scenario analyses to inform its financial planning. As UK property values have been falling rapidly, this risk has increased in significance. The Group took a number of steps in 2008 in order to mitigate the risk of a covenant breach and to provide additional liquidity including a reduction in planned capital expenditure; further, in early 2009, we successfully renegotiated certain of the Group's financial covenants in order to provide further financial headroom. The Group's current financial position is described on page 51.
Interest rates The Group is exposed to changes in interest rates affecting the cost of debt.	The majority of borrowings are fixed and details of the Group's approach to interest rate management are set out on page 52
Foreign exchange rates A reduction in the sterling value of assets, earnings or borrowings could arise if foreign currencies (principally the euro) depreciate against sterling (and vice versa if foreign currencies appreciate against sterling).	The majority of foreign currency assets are matched by borrowings denominated in the same currencies. This provides a natural hedge against the value of the Group's overseas assets and earnings but significant exchange rate changes can also impact the Group's gearing ratio; e.g. in December 2008, the decline in sterling against the euro caused the gearing ratio to increase by approximately 14 per cent. See page 52 for a discussion of the Group's foreign exchange rate risk management policies.
Tax risks and REIT compliance Potential tax penalties or loss of REIT status by failing to comply with the new REIT rules in the UK.	The Group maintains internal monitoring procedures to track compliance with the appropriate rules. The Directors believe the Group to be in compliance with all REIT requirements for 2008 and expect to remain so in 2009.

Directors' Report (continued)

2. Real Estate Investment Risks

Risk	Mitigating factors and additional commentary
Increased vacancy through customer default and reduced demand A potential loss of rental income and increased vacant property costs, including empty rates liabilities, could result from customer insolvency, customers exercising break clauses or terminating occupancy at the end of a lease.	SEGRO has over 1,700 customers in a wide range of business sectors and geographic territories; there is limited exposure to any single customer. The Group stays close to its customers, monitoring the credit worthiness of the customer base and working closely with individual customers facing financial difficulty. We have a vigorous and pragmatic approach to leasing and we aim to provide a high level of customer service so as to minimise the likelihood of customers leaving the Group's properties at the end of a lease or at the point of a break option. Despite these mitigating factors, the Directors believe there is increased risk that vacancy rates will rise during 2009, given the economic environment.
Inability to acquire or dispose of assets at attractive prices The Group's strategy relies on being able to acquire properties and land for development and to dispose of properties. Property market conditions may not be conducive to acquiring and disposing of properties at acceptable prices. The Group may not have sufficient funds available to acquire properties. The Group could misjudge the property cycle and miss both attractive acquisition opportunities and the right time to sell properties.	The Group develops asset management plans for all estates which are intended to identify the optimum point at which to develop, refurbish, redevelop or sell each asset. Local property teams in each market are well placed to identify suitable properties to acquire. The Group was successful in both acquiring properties and in making disposals in the first three quarters of 2008. However, property investment market conditions deteriorated significantly in the fourth quarter, after which it became very difficult to achieve sales at acceptable prices in most markets. The Group's Capital Approvals Committee oversees all significant acquisitions and disposals. Investment decisions are based on experience and analysis, with reference to data from a wide range of external specialists and internal sources.
Decline in the value of property assets The value of property assets could decline as a result of a variety of factors including: • A decline in investment market conditions reducing the demand for the Group's properties • A weakening in demand for flexible business space affecting vacancy rates or market rental levels • Changes in legislation or customer requirements which render some of the Group's properties obsolete • The over-development of properties by the Group or its competitors causing an excess supply of flexible business space	Property investment market conditions have been weak throughout 2008 and are expected to remain so in 2009 which may lead to a further decline in the valuation of the Group's properties. The Group actively monitors the external environment including the macro-economic situation, local market conditions, the property investment market, customer trends, legislative changes and competitor activity in order to mitigate the risk of loss of value. In the present economic environment, it may not be possible to sell certain assets at the optimum point or at acceptable prices.

3. Development Risks

Letting and end value of development projects Developments may fail to deliver expected financial returns due to changes in the demand for space or a reduction in the value of completed developments.	Sensitivity analysis is carried out on all potential investments to ensure that target returns can still be achieved with a delay to leasing assumptions and with lower end value assumptions. The Group adapts the pace of speculative development to current and anticipated market conditions so as to reduce the risk of un-let developments. During 2008, the Group progressively reduced the amount of speculative development projects under development.

3. Development Risks (continued)

Risk	Mitigating factors and additional commentary
Project management risks Developments may fail to deliver expected financial returns due to delays in planning approval, increased construction costs or other project management factors.	Most sites are acquired with outline zoning or planning consent already in place. We work closely with local communities and other stakeholders to help reduce the risk that planning approvals are delayed or refused. Contingencies are built into all development appraisals to allow for cost overruns. We seek to transfer construction risk to our specialist construction partners. We oversee construction projects using in-house and external project managers and we undertake regular project reviews to monitor progress against plans.
Holding excess development land The cost of holding development land may damage the Group's overall financial performance if new developments are postponed or cancelled.	The Group aims to balance the requirement for development land with the cost of holding a non-productive asset and the Executive Committee regularly reviews the Group's land holdings. The recent slowdown in the economic environment is likely to reduce the amount of development undertaken in 2009. Whilst we believe it is important to maintain an appropriate supply of land, we will seek to reduce land holdings where feasible in 2009 and do not anticipate adding materially to the overall land bank. Details of the Group's land holdings and development pipeline are provided within the Property Analysis section of the website (www.segro.com/segro/investors/property.htm)

4. Operational Risks

Key people Failure to attract, retain and motivate key employees needed to deliver the Group's strategic goals.	The Remuneration Committee oversees the remuneration structure which is regularly benchmarked against external market indicators. Succession plans are developed for senior positions. All employees have personal development plans and on-going training.
Legal and regulatory Failure to comply with legal or regulatory requirements. In addition, the introduction of new requirements could impact the Group's reputation and financial position.	The business and its portfolio are actively managed to maintain compliance with legislation and reduce the potential impact of new regulations.
Corporate sustainability Failure to achieve the Group's sustainability objectives and damage to the Group's reputation and possible criminal or civil action.	The Group Sustainability Committee sets targets, monitors performance and drives a programme of continuous improvement and the Group continues to invest in sustainable developments (also see page 54).
Business disruption or IT system failure Business disruption following a major physical event or IT incident.	A basic IT disaster recovery plan is in place and we are planning a further upgrade during 2009.
Business Information System efficiency The business may operate inefficiently or management may take sub-optimal business decisions if information systems are not continually improved to reflect current technological and external developments.	Information technology and business information systems have been improved with a new Group-wide financial consolidation system, a wide area network and other system enhancements introduced in 2008. A new property management and accounting platform is planned for implementation in Continental Europe during 2009.
Health and safety The risk of injury or illness to employees or third parties.	The Group Health & Safety Manager establishes appropriate policies, training and monitors accident reports which are reviewed and approved by the Executive Committee. All significant accidents are reported to the Board.

Directors' Report (continued)

Our strategy of providing Flexible Business Space together with high levels of customer service allows us to work with customers over the longer term and meet their changing business needs.

Ian Sutcliffe
Managing Director, United Kingdom

Investment Portfolio*

		Rental Data		Vacancy		Valuation Data				
	Lettable space (sq m)	Passing rent** at 31.12.08 (£m)	Market rental value (ERV) at 31.12.08 (£m)	By space (%)	By ERV (%)	Valuation at 31.12.08 (£m)	Valuation surplus/ (deficit) (£m)	Valuation surplus/ (deficit) (%)	Initial yield (%)	True equivalent yield (%)
Slough Trading Estate	640,929	69.3	78.2	6.3	5.4	922.8	(277.6)	(23.1)	7.5	8.3
London Markets	537,300	38.9	46.9	11.7	13.2	542.4	(202.9)	(27.2)	7.2	7.7
National Markets	1,228,422	73.5	88.3	11.0	10.8	921.5	(331.3)	(26.4)	8.0	8.7
Total	**2,406,651**	**181.7**	**213.4**	**9.9**	**9.3**	**2,386.7**	**(811.8)**	**(25.4)**	**7.6**	**8.3**

* All completed investment properties at 31 December 2008, excluding joint venture properties, trading properties, properties for own-occupation, land and properties in the course of construction.

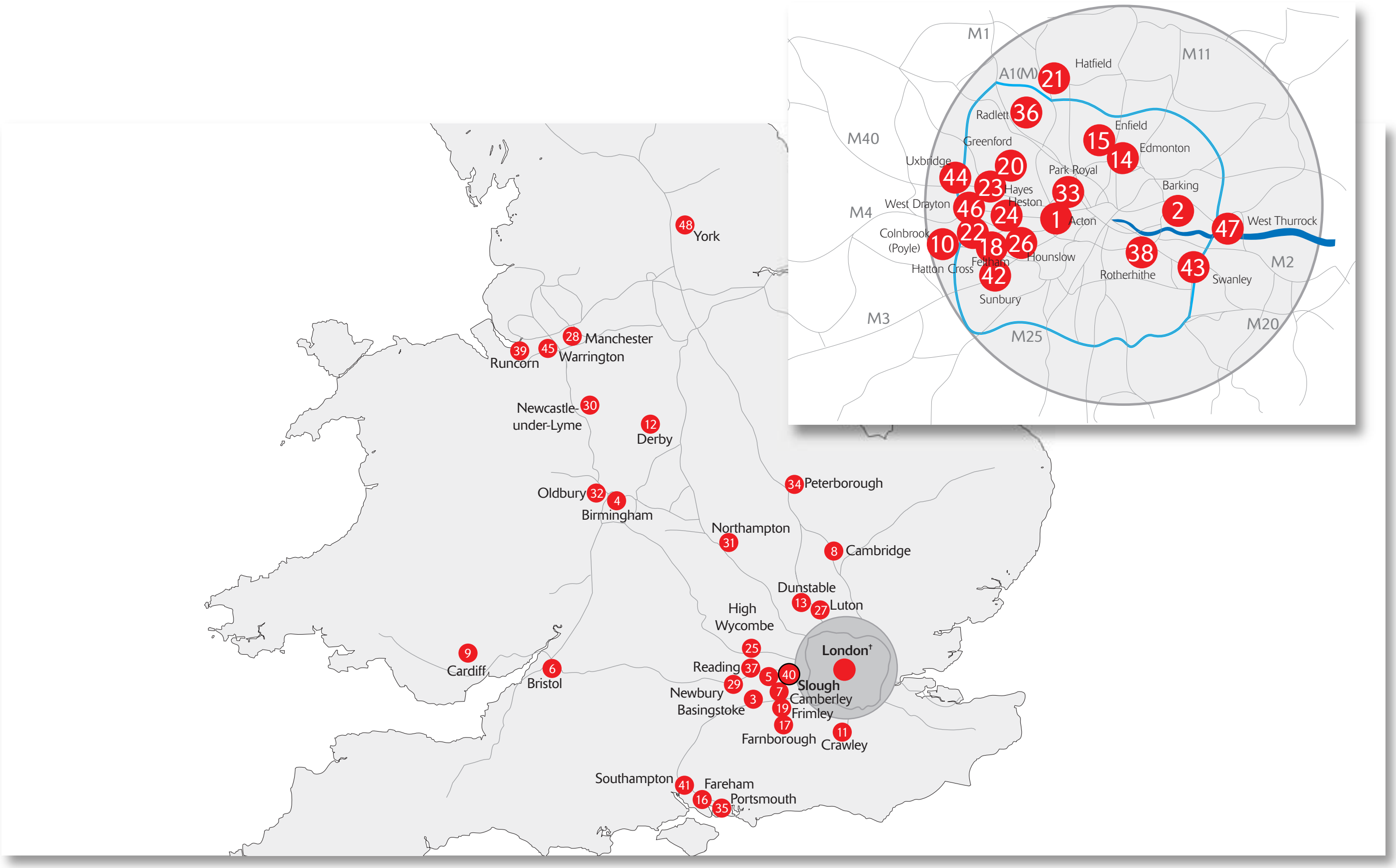
** Excluding approximately £5.1 million of annualised rent associated with leases signed which were the subject of rent-free periods as at 31 December 2008.

United Kingdom

Our UK Business

– Structured into three business units (Slough Trading Estate, London Markets, National Markets)
– Has 2.4 million sq m of space in 63 separate estates (2.5 million sq m in 71 estates including joint ventures)
– 934 hectares of land with the majority of holdings located in the South of England
– Serves approximately 1,400 customers
– Has passing rent (excluding the value of rent free periods) of £183 million at end December 2008 (£196 million including joint ventures)
– 154 employees excluding head office employees

London Markets



1 Acton	11 Crawley	21 Hatfield	32 Oldbury	42 Sunbury
2 Barking	12 Derby	22 Hatton Cross	33 Park Royal	43 Swanley
3 Basingstoke	13 Dunstable	23 Hayes	34 Peterborough	44 Uxbridge
4 Birmingham	14 Edmonton	24 Heston	35 Portsmouth	45 Warrington
5 Bracknell	15 Enfield	25 High Wycombe	36 Radlett	46 West Drayton
6 Bristol	16 Fareham	26 Hounslow	37 Reading	47 West Thurrock
7 Camberley	17 Farnborough	27 Luton	38 Rotherhithe	48 York
8 Cambridge	18 Feltham	28 Manchester	39 Runcorn	
9 Cardiff	19 Frimley	29 Newbury	40 Slough	
10 Colnbrook	20 Greenford	30 Newcastle-under-Lyme	41 Southampton	
		31 Northampton		

Directors' Report (continued)

SEGRO has been operating in the UK for over 80 years, building a broad geographic coverage, and by the end of 2008, we owned 63 estates (71 including joint ventures), predominantly in the south-east of England but with material holdings in the Midlands, the north, the west of England and South Wales.

The business is split into three Business Units, Slough Trading Estate, London Markets and National Markets, each with a self-contained team able to identify, acquire, manage, develop and recycle assets.

Across the three Business Units, we deliver Flexible Business Space to a range of companies, from household names such as Argos, Intel and LG to the many smaller businesses who are a vital part of the local economy.

Market conditions

Market conditions in 2008 were difficult, especially in relation to the investor market which had flow through effects for asset valuation. Material declines in asset valuation were experienced in all asset classes as seen in the IPD All Industrial index which showed a 25.7 per cent capital value fall over the year. Our own portfolio of completed investment properties incurred a capital decline of 25.4 per cent.

By contrast, the occupier market held up reasonably well for most of the year to the end of the third quarter. From the fourth quarter however, enquiries and viewings slowed down as potential customers took a more cautious approach in light of the economic uncertainty. Given the economic climate, it is worth noting that rental values have held up reasonably well, especially in industrial assets, with the IPDs All Industrial rental index recording a 0.3 per cent year on year decline compared to a 1.4 per cent decline recorded in the IPD All Property rental index.

Highlights of 2008

Operational highlights of the UK business in 2008 included:

Business Unit	Highlights for the year
London Markets	• Letting of Waterside House in Uxbridge to Cleanevent and Xerox for a total rental of £473,000 pa • Pre-let of 3,700 sq m at Parkbury in Radlett to Blanco Ltd • Other significant lettings in our Heathrow portfolio cluster to Amsafe Bridport, International Automotive Distributors and Map Cargo: 6,800 sq m with a total rental value of £828,000 pa • Purchase of Lowery Premises, Heston Centre, Heston to complete our ownership of this large ring-fenced estate
National Markets	• Pre-let of 20,000 sq m to Fluor Ltd, thought to be the largest pre-let deal in the Thames Valley since 2001 • Ground breaking on Harris Communications' new site at Winnersh Triangle, Reading • Fire control centre at IQ Cambridge completed and handed over to occupiers in October 2008 • Agreed construction contract for 168-bedroom Holiday Inn Hotel at Winnersh Triangle, Reading • At Kings Norton, bringing a significant letting to Wates of 3,700 sq m
Slough Trading Estate	• Submission of Masterplan for redevelopment of Slough Trading Estate over a 20 year phased development period • Completion of 14,000 sq m data centre to a major financial institution and a pre-let to Equinix of 11,000 sq m due for completion in 2009 • Completion and handover to 02 of new 10,000 sq m UK Headquarters on Bath Road • Sale of Retail Park to Crown Estates for £92 million, reflecting an initial yield of 5.5 per cent • Significant new customers attracted including Finnish Wartsila and Signet International

United Kingdom

Financial and Operating Performance

Against this backdrop of tough market conditions, our UK business demonstrated resilience in our core activities with rental income (excluding the impact of acquisitions and disposals) growing by 2.4 per cent to £173 million in 2008. Even after excluding the impact of the letting of new developments and take backs for re-development, the underlying portfolio showed a growth in rental income of 2.2 per cent to £164 million in 2008. In light of the economic environment, this was a highly creditable performance delivered by the operating teams.

Like-for-Like Rental Income

£m	2008	2007
Completed properties owned throughout 2007 and 2008	**163.8**	160.2
Development lettings	**8.8**	4.0
Properties taken back for development	**0.5**	4.8
Total rental income pre acquisitions/disposals	**173.1**	169.0
Properties acquired	**5.9**	1.2
Properties sold	**7.3**	15.5
Total rental income pre-exceptionals	**186.3**	185.7
Lease surrenders and dilapidations	**8.3**	11.6
Service charges and recharges	**10.9**	9.3
Total rental income per accounts	**205.5**	206.6

Our delivery of trading profits was impacted by the rapid decline in the investor market resulting in trading profits of £5 million compared with £16 million a year earlier. Trading profits, by their nature, tend to follow the economic cycle closely, and we should not forget that during the run up to the peak in 2007, the UK division consistently delivered on trading profits.

During 2008, 179,000 sq m were let (248,000 sq m including joint ventures and licences), producing £16.9 million of annualised new income. This was below our record 2007 performance but was still ahead of the 167,000 sq m let in 2006 when market conditions were benign and competition was not as fierce. After taking account of space returned, the net absorption in the UK was 12,000 sq m with additional £5.0 million of annualised rental income. The successful letting in November of Waterside House, a 1,900 sq m office building in Uxbridge, to Xerox Property Services Ltd and Cleanevent UK was achieved in the face of strong competition in the West London Market.

In line with our 'stay close to our customers' principles, high levels of customer retention enabled the UK business to retain, in spite of the economic climate, a high proportion of income streams coming up to lease expiry or lease break. Approximately 65 per cent of leases were renewed and a similar proportion of customers who had a break clause decided not to exercise the break. This was consistent with the retention rate in 2007 and compared very favourably with the industry average of 24 per cent in 2007 for lease renewal rates (source: Strutt & Parker/ IPD studies; 2008 study not yet published).

> Key points

- Difficult market conditions
- Investment property portfolio decline in line with IPD
- Resilient performance on rental income
- High levels of customer retention
- High levels of customer satisfaction
- Increase in occupancy levels

Directors' Report (continued)

We measure our ability to deliver on the stay close to our customers principle through verifying customer satisfaction by way of independently conducted surveys. In our 2008 customer satisfaction survey, 78 per cent of customers surveyed declared their overall satisfaction as an occupier as either good or excellent, which was a continuous improvement on our 2007 score of 77 per cent and our 2006 score of 73 per cent. In these difficult economic times, we believe that the reciprocal close relationships that exist with our customers enables us to continuously identify and deliver on their specific needs, and this translates into other tangible results such as the settlement of rent reviews this year at an average of 3.6 per cent above ERV (2007: 3.0 per cent above ERV).

Much of our development activity during 2008 was focused upon delivering commitments agreed in prior years. On the Slough Trading Estate the delivery of a new data centre re-affirmed the strong data centre proposition of the location. O2's landmark new UK HQ office facility was also handed over at the end of the year and all of SEGRO's Bath Road offices are now fully let. This confirms the Slough Trading Estate's position as an attractive location for world-class companies, not only for industrial purpose buildings, but also increasingly for modern suburban office space. Similarly, solid progress in delivering pre-lets was made at our Winnersh Triangle site at Reading. Of the 53,000 sq m of new space completed (excluding joint ventures) during the year, 75 per cent of this space had been let by the end of the year.

Significant progress was achieved on vacancy rates where we ended the year with a 9.3 per cent vacancy rate (by rental value) compared to 11.4 per cent at the end of December 2007. Given the rateable status of empty industrial and office buildings, it is important to control vacancy levels. With our focus on cash flow, and through pragmatic and vigorous leasing, it is creditable that we have achieved our lettings this year at just 1.5 per cent less than ERV in a highly competitive market.

Despite the worsening economic climate, the annualised rental value of insolvencies was a modest 1.1 per cent of passing rent at 31 December 2008. This is testament to our diversified customer base, robust credit control processes and ability to work with customers as they face up to their own challenges.

And finally, we were clear that costs needed to be managed tightly and in the second half of the year headcount reductions of approximately 10 per cent were achieved and the cost saving benefits will flow through into performance in 2009 and beyond.

Strategy in Action

With a focus on Flexible Business Space, we run our operations on the basis of our Group's "Buy smart, Add value, Sell Well" business model. As the Winnersh Triangle case study (opposite) illustrates, we work very flexibly with customers over extended periods of time and share in their success. This case study is demonstrative of value adding and customer centric actions taken across our portfolio of estates.

As well as the retail sale in Slough, we completed two well timed and well priced sales in August 2008. A portfolio of estates in Basildon, Croydon, Isleworth, Oxford, Swindon and Wimbledon were sold to the Crown Estate and a further 5 estates within the London Markets portfolio were sold to clients of Protego. Across the two transactions, we obtained a price of £110 million with an initial yield of 7.2 per cent. These were assets where we believed that we could not add further value.

Key Disposals

Location	Price £m	Loss over book value £m
Bath Road Retail Park, Slough	92.0	(10.9)
Industrial portfolio to Crown Estate	64.4	(13.5)
Industrial portfolio to Protego	45.8	(10.8)

Acquisitions were extremely limited and related to specific local opportunities. In total, only £9.2 million was spent on UK acquisitions in 2008.

Acquisitions

Location	Price £m	Annual rental income £m
Heston	3.7	0.1
Watchmoor Park, Camberley	5.5	1.1

Looking ahead, an area where we have a great opportunity to demonstrate our value-enhancing skills over the coming decade and beyond is the Slough Trading Estate which is the single largest asset in the Group portfolio valued at approximately £1.0 billion as at 31 December 2008. We have submitted our application for a new Masterplan describing a phased programme of development over 20 years to serve the evolving needs of existing and future customers. The Plan focuses on mitigating development risk with a bias towards seeding it with pre-lets. We are now entering the formal planning stage with the Slough Borough Council.

United Kingdom

Development Pipeline

Against the market backdrop, we reduced our speculative development starts by 34 per cent compared to 2007 to just 18,000 sq m. It is worth remembering that even in 2007, in anticipation of the market decline, we had reduced speculative starts in 2007 itself by 77 per cent compared to 2006.

At the same time, we continue to have a relatively healthy flow of pre-let development coming through. During 2008, we signed up pre-lets of 35,000 sq m, and as at 31 December 2008, 79 per cent of assets in the course of construction or committed projects were already pre-let. Looking at the mid term, when the markets start to recover, we have a pipeline of discretionary projects of approximately 200,000 sq m, which we anticipate, at current prices, would entail future costs of approximately £200 million, and could produce additional rental income of approximately £26 million pa.

Outlook

In 2009, we expect UK commercial property values to fall further and indications are that occupier demand will also suffer given the further decline in the economy and its potential impact on occupiers.

Higher insolvencies and bad debts are an area of risk to our operating performance in 2009. To mitigate this, we are increasing the focus on our credit control processes and it has been encouraging to see cash collections in December 2008, with 95.7 per cent rent due collected within 10 days (in line with December 2007 levels).

2009 will clearly be a challenging year for all operators in our sector. The basic disciplines we have put in place such as credit control, cost containment and performance management, will help us to steer through these times. The breadth of our customer base (our top 20 customers only account for 24 per cent of our secured rental income) also prevents over reliance on any particular customer.

We are determined as a business to continue to demonstrate the resilience we have shown in 2008, which was driven by the effectiveness and customer focused culture of our operational teams. And when the markets do start to recover, we will be positioned to take careful advantage of the medium term value creating opportunities that will materialise.

Winnersh Triangle – Flexible Business Space in practice

Our Winnersh Triangle development is just off the M4 near Reading. Over the past 24 months, we have worked with a number of existing customers to meet their evolving requirements, illustrating the value of our Flexible Business Space proposition:

1. **Agilent** previously occupied an historic warehouse of 9,200 sq m that had been adapted over time. They have now moved to a state of the art bespoke solution of 1,900 sq m Grade A offices, plus a 2,600 sq m Research and Development (R&D) facility
2. For **Harris Systems** we are currently completing a move from their existing outdated offices and R&D facility to 6,700 sq m of Class A office accommodation plus an option to take more warehousing on site
3. **Jacobs Engineering** previously occupied 2,000 sq m on a short-term flexible arrangement. We have moved this relationship into a pre-let development of 12,400 sq m
4. We are in the process of completing a design and build facility for **Microchip** to move them from 1,800 sq m of industrial / warehousing to 2,900 sq m of modern office and R&D facilities
5. **Sally Hair & Beauty** moved from 725 sq m of mixed warehousing / offices to 2,200 sq m of offices

These five examples above provide clear evidence of SEGRO's Flexible Business Space offer enabling us to evolve with our customers' changing business requirements and provide them with a range of business solutions.

United Kingdom

01 Savvis, Slough Trading Estate

Access to secure data storage is important for a number of our customers and SEGRO is now the UK's leading provider of this specialised accommodation. When Savvis, a leading global IT Infrastructure Service Provider and a long-standing customer based at Winnersh Triangle, needed to expand, they were able to stay with SEGRO by also taking this newly-completed building on Slough Trading Estate.

Thanks to the Estate's Specialised Planning Zone (SPZ) status, SEGRO was able to facilitate a speedy change-of-use to data centre occupation and, because of the on-site power station, deliver secure and fast access to the power required. The property comprises 5,700 sq m of floor space, a fixed mezzanine floor within the warehouse area and 131 car parking spaces.

02 Bath Road Retail Park, Slough

The Bath Road Retail Park was sold to The Crown Estate for £92 million in June 2008. Located within the south west corner of the Slough Trading Estate, the retail park is currently occupied by ten national retail chains including Next, JJB Sports, Mothercare, Argos and B&Q Warehouse. Disposing of this non-core activity allowed SEGRO to focus on its core assets and the provision of Flexible Business Space.

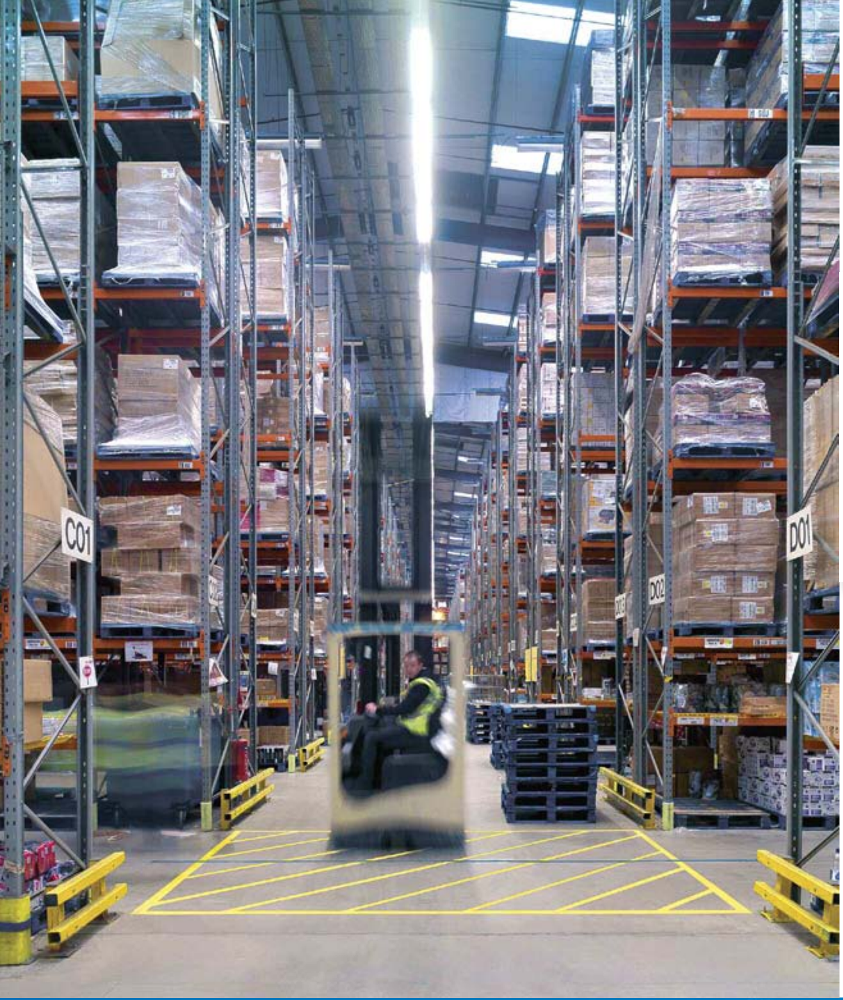
03 O2 UK Headquarters, Slough Trading Estate

The new UK headquarters for O2 is based on the Bath Road, and represents one of the most modern office buildings on Slough Trading Estate. The building totals 10,300 sq m and was completed in December 2008 after 17 months of construction. Design features of the building include significant measures to reduce energy and water consumption resulting in a BREEAM rating of Very Good and an EPC rating of B which further demonstrates SEGRO's commitment to the environment.

United Kingdom

04 Harris Systems, Winnersh Triangle

Harris Systems has been a customer of SEGRO since 1982 at Winnersh Triangle. In March 2007, we signed a deal to build a new 6,740 sq m office building. A ground breaking ceremony was held in June 2008 to mark the start of construction of the new building. Phase 1 is on schedule for completion in Q1 2010.



05 Heywood Distribution Park, Manchester

Heywood Distribution Park is one of the UK's largest distribution parks in single ownership at over 79 ha and a major distribution hub for occupiers such as Argos, Bibby Distribution and Eddie Stobart. Ideally situated just one mile from junction 3 of the M66 and two miles from junction 18 of the M62, the Park comprises units from 160 sq m to 46,400 sq m.

06 Waterside House, Uxbridge

Acquired in 2005, the Uxbridge Estate totals 15,972 sq m. It is home to a number of companies including Manpower plc, Aristocrat Technologies and Lion Apparel Systems Ltd. Waterside House forms the centrepiece to the Estate. In 2008, the building was 100 per cent leased to two customers: Xerox, who took 950 sq m and Cleanevent UK, who leased 900 sq m.

Directors' Report (continued)

Our strategy in developing clusters of Flexible Business Space around important business regions across Continental Europe allows us to adapt to the new conditions of the market. Our recent expansions into key locations such as Milan, Madrid, Berlin, Frankfurt and Munich have been complemented with further business from existing customers.

Inès Reinmann
Managing Director,
Continental Europe

Investment Portfolio*

		Rental Data		Vacancy		Valuation Data				
	Lettable space (sq m)	Passing rent** at 31.12.08 (£m)	Market rental value (ERV) at 31.12.08 (£m)	By space (%)	By ERV (%)	Valuation at 31.12.08 (£m)	Valuation surplus/ (deficit) (£m)	Valuation surplus/ (deficit) (%)	Initial yield (%)	True equivalent yield (%)
France	554,323	27.7	32.4	17.8	16.4	416.5	(20.4)	(4.7)	6.7	7.7
Germany	733,943	30.3	30.9	1.2	1.3	386.8	(2.8)	(0.7)	7.8	7.4
Belgium	178,787	16.2	21.8	17.6	20.6	282.9	(14.5)	(4.9)	5.7	7.4
The Netherlands	86,038	6.1	5.6	1.0	3.6	66.8	0.3	0.5	9.1	7.0
Italy	68,567	6.8	7.5	–	–	83.1	(0.7)	(0.8)	8.2	7.0
Spain	2,222	0.1	0.1	–	–	1.4	(0.1)	(6.7)	7.1	7.4
Central Europe	374,582	13.5	17.4	12.5	12.1	204.9	(3.5)	(1.7)	6.6	7.9
Total	**1,998,462**	**100.7**	**115.7**	**9.4**	**10.8**	**1,442.4**	**(41.7)**	**(2.8)**	**7.0**	**7.6**

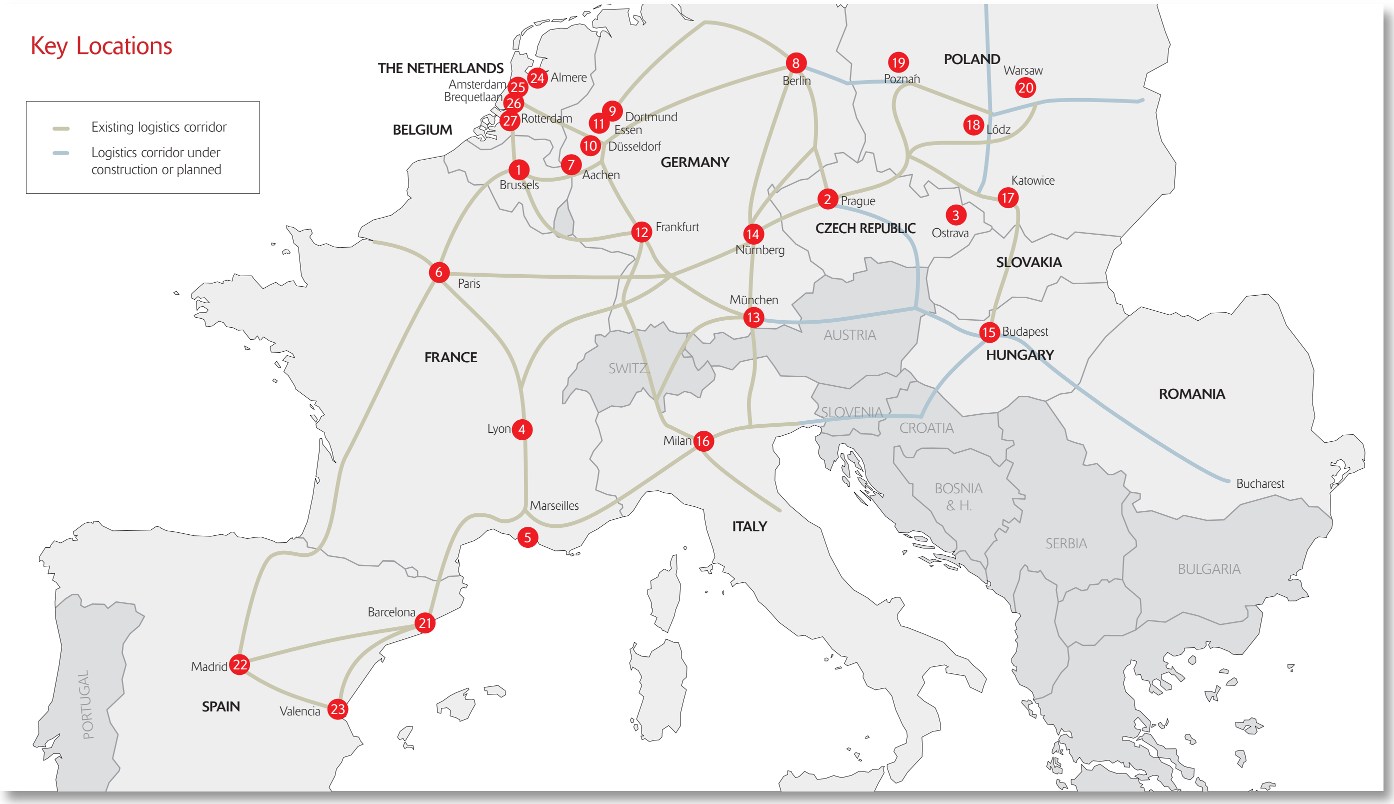
* All completed investment properties at 31 December 2008, excluding joint venture properties, trading properties, properties for own-occupation, land and properties in the course of construction.

** Excluding approximately £1.6 million of annualised rent associated with leases signed which were the subject of rent-free periods as at 31 December 2008.

Continental Europe

Our Continental European Business

– Structured into nine country level business units
– Has 2.6 million sq m of space in 141 separate estates (or 2.7 million sq m and 151 estates including joint ventures)
– 928 hectares of land
– Serving more than 300 customers
– Has passing rent (excluding the value of rent free periods) of £122 million at end December 2008 (£127 million if joint ventures are shown at 100 per cent)
– 122 employees



Belgium	Germany	Hungary	Spain
1 Brussels	7 Aachen	15 Budapest	21 Barcelona
Czech Republic	8 Berlin	**Italy**	22 Madrid
2 Prague	9 Dortmund	16 Milan	23 Valencia
3 Ostrava	10 Düsseldorf	**Poland**	**The Netherlands**
France	11 Essen	17 Katowice	24 Almere
4 Lyon	12 Frankfurt	18 Lodz	25 Amsterdam
5 Marseilles	13 München	19 Poznań	26 Brequetlaan
6 Paris	14 Nürnberg	20 Warsaw	27 Rotterdam

Directors' Report (continued)

Overview of the Business

In Continental Europe, we are the leading provider of Flexible Business Space, having successfully grown more than threefold in both income and value over the last three years. This growth was an integral part of the Group's geographical risk diversification strategy.

We operate from 13 offices in 9 countries and manage a portfolio of approximately of 2.6 million sq m (2.7 million sq m including joint ventures) valued at £2.1 billion (€2.2 billion) as at the end of 2008, with over 300 customers generating a passing rent roll of £122 million pa as at 31 December 2008 (£127 million if joint ventures are shown at 100%).

Our aim of developing clusters of flexible business space around important economic areas across Europe has underpinned expansion into key locations such as Milan, Madrid, Berlin, Frankfurt and Munich. These were achieved through a combination of sale and leaseback transactions with new customers, and new lettings to existing customers. We also have well located land banks at key logistics locations, and over the medium term, these will become a major source of value creation as we carefully develop them to satisfy market demand.

In Germany, we have major assets in the three principal cities of Frankfurt, Munich and Berlin (in addition to Düsseldorf where we have been established for many years). In Frankfurt, the Neckermann.de head office and distribution campus consists of 332,000 sq m of lettable space just 4 kms east of the city centre. In Munich the MPM (Mannesmann Plastic Machinery) facility totals 154,000 sq m of office, production and logistics space on a 22 ha site to the north west of the city centre. In Berlin we have entered into a partnership agreement with the Berlin Airport Authorities to develop a business and logistics park of up to 230,000 sq m in the immediate vicinity of the Berlin Brandenburg International Airport at Schönefeld which is currently under construction.

In France, we have several large schemes such as a prime logistics park at Marly La Ville, new light industrial parks at Le Blanc Mesnil, La Courneuve and Gonesse to the north of Paris and our warehouse and distribution facilities next to the airport at St Exupery in Lyon.

In Belgium, we own 99,000 sq m of class A office space at Pegasus Park, close to Brussels Airport. Occupiers at Pegasus Park include Cisco Systems, DHL, Ernst & Young and Deloitte.

In The Netherlands, we hold 8 ha adjacent to Schiphol airport in Amsterdam. In the medium term, we plan to develop 116,000 sq m of Flexible Business Space in this attractive location as part of our S (security) Park concept.

In Italy, at Energy Park in Vimercate to the north of Milan, Alcatel Lucent's head office and technology facility has 69,000 sq m of space, and over the medium term, we intend to develop a further 45,000 sq m business and technology park.

In Poland, we have over 350,000 sq m of newly-built space situated at all the key distribution hubs at Komorniki in Poznań, Stryków near Lodz, Gliwice near Katowice and Nadarzyn near Warsaw.

In the Czech Republic, at Tulipan Park, a logistics centre adjacent to Prague airport, we have 55,000 sq m of warehousing and hold an additional 50 ha of well located land bank either side of the new R6 motorway linking the city centre to the west of the country and beyond.

In Hungary, having developed a major logistics park just outside Budapest, we sold this in November 2008, and realised the value added to the original asset.

We also have a small presence in the Spanish market.

Market Conditions

Investment activity in Continental Europe fell significantly during 2008 with the overall volume of deals in the European Market reducing by 53 per cent compared to the levels seen in 2008 (source: CBRE). Despite this, yields during the first half were largely stable, but in the second half of the year, there was an outward movement of between 25 and 50 basis points (bps) across Europe.

As at 31 December 2008, our portfolio was valued at £2.1 billion (€2.2 billion). Values of completed investment properties in our portfolio increased by 0.7 per cent in the first half of the year but decreased in the second half to give a modest overall decline for the full year of 2.8 per cent. Looking at specific countries, values declined in France, Belgium, Germany and to a lesser extent Spain, and were partially offset by valuation gains in Italy, the Netherlands and Poland.

Occupier demand stayed healthy throughout most of 2008 and the demand for large unit logistics space remained robust, especially in Central European markets, although the average unit size of requirement reduced from typically 25,000 – 30,000 sq m in previous years to around 15,000 – 20,000 sq m by the end of 2008, albeit often with options for extensions for further space. However, in the fourth quarter of 2008 potential occupiers became noticeably more cautious in light of the increasing economic uncertainty. Whilst overall letting activity has not yet slowed down, this has translated into an increase in the time taken to convert initial interest into completed lettings.

Continental Europe

Highlights of 2008

A selection of operational highlights of the Continental European business in 2008 included:

Country	Highlights for the year
Belgium	• Letting 17,000 sq m of office space to Ernst & Young at Pegasus Park for an annual rental of £2.1 million
Czech Republic	• Letting 11,000 sq m of industrial space to Cerva Logistics at Hostivice for an annual rental of £0.7 million
France	• Disposal of a pre-sold 27,000 sq m office development at Portes de France (operated via a 50:50 joint venture) for total proceeds of £97 million with a group share of profit before tax on the sale of £16.1 million
Germany	• Letting 11,000 sq m of industrial space to Multi Contact at Essen for an annual rental of £0.8 million • Signed a major partnership agreement with the Berlin Airport Authorities to develop, over the medium term, a business and logistics park of up to 230,000 sq m
Hungary	• Sold a 29,000 sq m light industrial park in November 2008 following the completion of the second phase of its development
Poland	• Letting 16,000 sq m of logistics warehousing space to Zabka Polska S.A. at Komorniki for an annual rental of £1.0 million • Letting 21,000 sq m of logistics warehousing space to Decathlon at Gliwice for an annual rental of £0.7 million • Letting 15,000 sq m of logistics warehousing space to Pol-Fret at Lodz for an annual rental of £0.6 million • Pre-letting 24,000 sq m of logistics warehousing space to Athletic at Lodz for an annual rental of £1.0 million • Pre-letting 14,000 sq m of logistics warehousing space to Plastic Omnium at Silesia Gliwice for an annual rental of £0.7 million • Sale of 18,000 sq m of class A suburban office space in Warsaw for proceeds of £47 million

> Energy Park, Vimercate – Flexible Business Space in practice

- 15.2 ha business park situated at Vimercate, north of Milan
- Acquired €98.4 million of properties in August 2007
- Home to the headquarters of Alcatel Lucent
- Additional land of 7.6 ha to develop
- 11,000 sq m under construction
- 6,000 sq m pre-let to leading technology business SAP Italia for completion in November 2009

> Key points

- Difficult investment market
- Modest valuation decline
- Resilient occupier demand
- 122 per cent growth in total rental income
- Record lettings up 44 per cent on 2007
- High levels of customer retention
- Excellent potential in medium term development pipeline

Directors' Report (continued)

Financial and Operating Performance

In 2008 our rental income, in sterling, more than doubled to £115.9 million compared to 2007 as we secured lettings for developed assets, recognised the additional income generated from previous acquisitions, achieved an increase of around 80 per cent in the rental income we earned from trading properties, and benefited from exchange differences due to the strengthening of the euro against the pound. Excluding the impact of acquisitions, rental income grew by 36.9 per cent to £55 million in 2008. In addition, after excluding the impact of the increase in rental income earned from trading properties and from the letting of new developments of investment properties, the like for like portfolio of investment properties showed a growth in rental income of 2.8 per cent.

Like-for-Like Rental Income

£m	**2008**	2007
Completed properties owned throughout 2007 and 2008	**25.7**	25.0
Rent from trading properties	**18.0**	9.9
Development lettings	**10.8**	4.9
Total rental income pre acquisitions	**54.5**	39.8
Properties acquired	**36.9**	9.9
Total rental income pre-exceptionals	**91.4**	49.7
Lease surrenders and dilapidations	**1.2**	–
Service charge, recharges and exchange differences	**23.3**	2.5
Total rental income per accounts	**115.9**	52.2

We continued to take advantage of strong pockets of demand for our trading developments, and recorded a growth in profit on sale of trading properties to £19 million compared to £7 million in 2007. Trading activity by nature is opportunistic and tends to follow the economic cycle closely.

2008 was a record year for lettings as our teams secured 343,000 sq m of lettings (up 44 per cent compared to 2007) producing £21.3 million of annualised new income. Including joint ventures and licences, total lettings amounted to 402,000 sq m. The leasing teams continued to attract major international customers such as Ernst & Young and DHL amongst others to our properties. Over 80,000 sq m of lettings were achieved in Germany alone in 50 separate transactions, and in Poland, 145,000 sq m of new lettings were completed. It is worth noting that, of the 317,000 sq m of new space (excluding joint ventures) that had been completed during the year, 79 per cent of this has already been let by the end of the year. After taking account of space returned, the net absorption in Continental Europe was 210,000 sq m with £12.6 million of additional annualised rental income (which was more than double that achieved in 2007).

Vacancy rates (by rental value) stood at 10.8 per cent as at 31 December 2008 (as compared with 7.6 per cent in 2007), but this was anticipated for the short term as certain developments were completed towards the end of the year.

In addition to vigorous leasing during the year, the leasing teams also secured 92,000 sq m of pre-lets which will start generating new income in future years. This included 14,000 sq m to Plastic Omnium and 10,000 sq m to Black and Decker in Gliwice near Stryków, and 25,000 sq m to Athletic at Nadarzyn near Warsaw.

During 2008, we started to obtain independent measurement of customer satisfaction, and 66 per cent of surveyed customers stated that their overall satisfaction with the service provided by SEGRO was good or excellent. The survey also provided valuable additional insights that will now be translated into further actions to improve the overall experience of our customers.

In 2008, we continued to develop the organisational structure of our Continental European operations and we put in place more robust processes and re-engineered our finance function to create more timely reporting, improved controls and better transparency.

In anticipation of an increased amount of insolvencies as a result of the worsening economic conditions, a credit risk review of occupiers was put in place to monitor existing customers' financial health on a regular basis. In addition, we use this process when agreeing leases with potential new occupiers. However, during 2008, annualised rental income related to insolvencies as a percentage of passing rental income, as at 31 December 2008 has been modest at 1.2 per cent.

Strategy in Action

The Group has a straightforward Buy smart, Add value, Sell well business model, and this underpins the running of our operations. The examples below demonstrate the consistent application of this model.

In Frankfurt, we developed an overall Masterplan for the 13.2 ha site purchased in September 2007 which is predominantly leased to Neckermann.de, one of Europe's largest mail order firms. This is anticipated to add significant value to this site over the medium term. Within this site, there was a 3,300 sq m retail outlet centre which was successfully re-let on a new 15 year lease, and in 2009, we intend to refurbish a 13,000 sq m office building, demolish redundant buildings in the centre of the site, and relocate existing car parking areas to make better use of the land and take advantage of the improved roadside frontage.

The timely disposal in November 2008 of our investment property at Vendel Park in Hungary, was an example of crystallising the value added to our original asset once we reach a point where we believe no further value can be added by us.

Continental Europe

Key Disposals

Location	Price £m	Gain/(loss) over book value £m
Tulipan House, Warsaw	£47m (€59m)	18.1
Vendel Park, Budapest	£16m (€20m)	2.4
Portes de France, St Denis (Group share)	£48m (€61m)	16.1
Apicing and Apiqua, Belgium	£8m (€10m)	1.7
Lutkemere	£6m (€8m)	0.5

Key Acquisitions

Location	Price £m	Annual Rental Income £m
Mannesmann Plastics Machinery portfolio, Germany	£90m (€113m)	5.2
Neckermann.de, Germany (majority completed in 2007)	£25m (€31.5m)	1.7
DHL, France (majority completed in 2007)	£17.9m (€22.5m)	1.2

Development Pipeline

As at 31 December 2008, assets in the course of construction amounted to 214,000 sq m, and 49 per cent of this space had already been pre-let by the end of the year. A very cautious approach is being taken to developments in 2009 with a focus on pre-lets.

In the medium term, Continental Europe has a very attractive pipeline of discretionary projects on land banks strategically located near major urban conurbations and logistics routes. These land banks were acquired some time ago at relatively low prices before the rest of the market had begun to appreciate their strategic potential. The potential pipeline of discretionary projects amounts to approximately 1.7 million sq m, and we anticipate that at current prices, these would entail future development costs of approximately £1.0 billion and could generate additional rental income of approximately £110 million pa.

Outlook

We anticipate that the occupier markets will continue to slow in 2009 as many businesses look to cut costs and consolidate where possible. Nevertheless, we are still seeing demand in all our core markets although the size of requirements has diminished and we believe that it will take longer to complete letting transactions due to potential customers taking a more cautious approach to securing new space. The trend for manufacturing companies to outsource their supply chain requirements to specialised logistics providers will continue, and in the cases of Germany and Central Europe potentially even accelerate, as the majority of companies still manage these functions in-house.

When economic conditions start to improve, we anticipate our asset class of industrial space, particularly light industrial and logistics, will see resurgent investor demand as there remains an ongoing shortage of prime modern logistics stock across many parts of Continental Europe.

We are confident that we have the operational teams and track record to demonstrate resilience in 2009 in the face of an uncertain economic outlook. When markets eventually start to recover, we will be well positioned to exploit the latent potential in our medium term development pipeline, and to carefully take advantage of other medium term value creation opportunities that the market conditions might present.

Continental Europe

01 Ernst & Young Office, Pegasus Park, Brussels

The new Ernst & Young HQ built-to-suit office is located on Pegasus Park at Diegem near Brussels airport. With 17,081 sq m of lettable space spread over nine floors, the building comprises offices, meeting rooms, a fully-equipped kitchen, a staff and VIP restaurant, business centre, reception and car parking. Started in March 2007, construction was completed in August 2008 and the building let on a 15-year lease. It is the first true green and intelligent office building in the outskirts of Brussels and incorporates solar panels, energy-saving lighting, radiant cooling ceilings, rainwater recovery and uses 100 per cent green energy.

02 Tulipan Park Prague, Czech Republic

The land for Tulipan Park Prague was acquired in December 2005 as part of the €19 million purchase of the Central European property development arm of Grontmij. The Park was completed in 2009 and comprises 70,000 sq m of lettable accommodation of which 78 per cent is now occupied. The Park's occupiers are leading domestic and international companies including Kuehne + Nagel, Expeditors, SiG and others.

03 Vendel Park, Hungary

The land for Vendel Park also came into the SEGRO portfolio in December 2005 as part of the Grontmij acquisition. Phase 1 of the Park was completed in 2007 and has been fully let since February 2008. Phase 2 of the Park was completed in June 2008 and is now 85 per cent let. The Park's occupiers comprise leading Hungarian and international companies including GEFCO, Puma, Eurogate, Muller and Grundfos. Vendel Park was sold in November 2008 to SEB Investment GmbH for €20 million.

Continental Europe

04 Am Martinszehnten, Frankfurt

The land was acquired in December 2002 and the first phase of 8,300 sq m development was completed in 2007. The rent roll is €0.7 million per annum. Phase 2 of the development is currently under construction with 5,900 sq m to be completed in Q1 2009.

05 Tulipan House, Warsaw

Tulipan House, an Office Development Trading Property, comprises a total of 18,000 sq m of office accommodation and is located in Mokotow, Warsaw's main decentralised office location. Land for the development was acquired in December 2005 as part of the Grontmij transaction and construction on the project was completed in June 2008. Tulipan House was sold in July 2008 for €59 million to Commerz Real at an initial yield of 5.9 per cent. At the date of sale, the property was 90 per cent leased.

06 St Denis, Portes de France, Paris

St Denis, a Development Trading Property, includes two offices close to the Stade de France on the A86. It has a total built area of 26,500 sq m and also features 400 parking spaces. St Denis was completed in Q3 2008 as a 50/50 joint venture with Capital and Continental. The property was pre-sold in December 2006 to CGI.

Directors' Report (continued)

FINANCIAL REVIEW

Analysis of Movement in Net Asset Value

The principal drivers of the change in adjusted diluted NAV are set out in the table below, with the most significant factor being the property losses of £1,015 million (233.9 pence per share), mainly reflecting significant declines in UK property valuations as the economy and real estate investment market continue to be adversely impacted by the global financial market conditions. Adjusted profit after tax added £121.1 million to NAV whilst dividends paid were £100.0 million and currency translation differences assisted NAV by £45.4 million.

	£m	Pence per share
Adjusted diluted equity attributable to shareholders at 31 December 2007	**3,056.0**	**704.3**
Property losses	(1,015.0)	(233.9)
Adjusted profit after tax	121.1	27.9
Currency translation differences	45.4	10.5
Ordinary dividends paid	(100.0)	(23.0)
Actuarial gains	(17.2)	(4.0)
Fair value deficit on available-for-sale investments	(3.8)	(0.9)
Other items	8.4	1.9
Dilution adjustment for movement in number of shares	–	(0.8)
Adjusted diluted equity attributable to shareholders at 31 December 2008	**2,094.9**	**482.0**

Valuation Movements

Overall property losses of £1,015.0 million includes £981.5 million arising in the UK and £33.5 million in Continental Europe.

Property (losses)/gains	**2008 £m**	2007 £m
Property losses on:		
Completed investment properties	**(853.5)**	(308.4)
Recycled land (within investment property)	**(66.4)**	(31.1)
Land held for development	**(55.7)**	(45.7)
Unrealised valuation losses taken through the income statement	**(975.6)**	(385.2)
Gains & losses realised on the sale of investment properties	**(34.8)**	3.0
	(1,010.4)	(382.2)
Gains & losses on the revaluation of JV investment properties	**(20.5)**	(1.1)
Total property losses taken to the income statement	**(1,030.9)**	(383.3)
Gains & losses taken through the SORIE	**15.9**	11.2
Total property losses	**(1,015.0)**	(372.1)

The overall valuation deficit on completed investment properties amounted to 18.2 per cent for the year, comprised of 7.6 per cent in the first half of the year and a further fall of 11.5 per cent in the second half of the year.

The UK portfolio suffered a loss for the year of 25.4 per cent, whilst the Continental European portfolio saw an overall decline of just of 2.8 per cent. In Continental Europe, the Netherlands, Germany, Italy and Poland all recorded modest gains or losses whilst more significant losses were experienced in France (4.7 per cent) and Belgium (4.9 per cent). The three UK business regions suffered valuation deficits of 23 per cent (Slough), 26 per cent (National Markets) and 27 per cent (London Markets), respectively, broadly in line with the IPD All Industrial Capital Growth index deficit of 25.7 per cent. Further analysis of the valuation gains and losses is provided in the Completed Investment Properties tables in the Property Analysis section of the website (www.segro.com/segro/investors/property.htm).

The trading property portfolio had an unrecognised valuation surplus of £50.2 million at 31 December 2008, which has not been recognised in the financial statements. Impairment charges of £4.0 million (2007: £2.3 million) were recorded and are offset against the profit on sale of trading properties. An additional impairment charge of £3.3 million (2007: £1.6 million) is reflected within the share of profits from joint ventures after tax.

Adjusted Profit Before Tax

Adjusted profit before tax for the year amounted to £123.9 million (2007: £131.3 million). This reflected increased net rental income of £41.0 million, offset by increased finance costs (£34.0 million) and a reduction in other income of £16.7 million (2007: £18.4 million). These movements are explained in more detail below.

Reconciliation of adjusted profit before tax	**£m**
Adjusted profit before tax 2007 – continuing operations	**131.3**
Increase in net rental income	41.0
Increased profits from sales of trading properties	1.9
Decrease in other income	(16.7)
Increased finance costs	(34.0)
Increased administration expenses	(5.5)
Other (increase in share of profits from JVs after tax)	5.9
Adjusted profit before tax 2008	**123.9**

The increase in net rental income and the increase in finance costs are explained below.

2008 once again produced excellent profits from the disposal of trading properties, with the Group recording an increase in such profits of £1.9 million to £23.9 million (2007: £22.0 million). In addition, the Group's share of profits from joint ventures included £11.4 million (2007: £3.0 million) from trading property disposals. Highlights in 2008 included the sale of the Group's office developments in Warsaw and St Denis (Paris), as well as the Group's only development in Hungary, a logistics scheme west of Budapest.

The reduction in other income has reduced adjusted profit before tax by £16.7 million, as 2008 saw a lower level of realisations of previous investments by the Candover and Charterhouse USA venture capital investment funds. There was also an increase in administration expenses of £5.5 million to £40.0 million (2007: £34.5 million), mainly due to a full year's impact of the expanded Continental European business, including the Continental European head office and new offices in Germany and Italy. A restructure in the second half of the year resulted in exceptional restructuring costs of £2.6 million, but the resulting reduction in headcount and focus on cost reduction are expected to generate overhead savings in 2009.

Rental Income

Gross rental income increased by £62.6 million (24.2 per cent) to £321.4 million and net rental income, on the same basis, increased by 20.1 per cent to £244.9 million.

The key drivers of the increase in net rental income are set out in the table below:

	£m
Net rental income 2007	**203.9**
Acquisitions	40.2
Disposals	(10.3)
New developments, re-lettings and rent reviews	34.7
Space returned	(12.4)
Increase in property operating expenses, net of service charge income	(10.1)
Decrease in lease surrender premiums	(2.1)
Other	1.0
Net rental income 2008	**244.9**

Rental income on acquisitions included Neckermann.de and MPM, Germany (£13.9 million), Lyon and DHL, France (£8.3 million), Vimercate, Italy (£3.3 million) and other acquisitions of £9.9 million in Continental Europe, plus £4.8 million from various small acquisitions in the UK. The increase in rental income from acquisitions was partially offset by loss of rental income on disposals, mainly on the disposals of the Bath Road Retail Park (£2.8 million), two UK industrial portfolios (£2.4 million) and various other disposals in the UK and Continental Europe (£3.3 million and £1.8 million respectively).

Lettings of new developments, including Thales, Crawley in the UK (£4.0 million), Poland (£3.6 million) and various others in the UK (£5.6 million) and Continental Europe (£8.3 million) contributed to the growth in net rental income, along with re-lettings in the UK (£9.2 million) and Continental Europe (£4.0 million).

Net property operating expenses increased as 2008 saw the full year impact of the growth in the Continental European business and the abolition of empty rates relief in the UK, which added £5.5 million of additional costs in the year.

Directors' Report (continued)

Analysis of Like-for-Like Rents

Gross Rental Income	United Kingdom 2008 £m	United Kingdom 2007 £m	Continental Europe 2008 £m	Continental Europe 2007 £m	Group 2008 £m	Group 2007 £m
Completed properties owned throughout 2007 and 2008 (Like-for-like rents)	**163.8**	160.2	**25.7**	25.0	**189.5**	185.2
Development lettings	**8.8**	4.0	**10.8**	4.9	**19.6**	8.9
Properties taken back for development	**0.5**	4.8	**–**	–	**0.5**	4.8
Properties acquired	**5.9**	1.2	**36.9**	9.9	**42.9**	11.1
Properties sold	**7.2**	15.5	**–**	–	**7.2**	15.5
Rent from trading properties	**–**	–	**18.0**	9.9	**18.0**	9.9
Total rental income pre-exceptionals	**186.3**	185.7	**91.4**	49.7	**277.7**	235.4
Lease surrenders and dilapidations	**8.3**	11.6	**1.2**	–	**9.5**	11.6
Service charge, recharges and exchange differences	**10.9**	9.3	**23.3**	2.5	**34.2**	11.8
Total rental income per accounts	**205.5**	206.6	**115.9**	52.2	**321.4**	258.8

Net Finance Charges

The £34.0 million increase in adjusted net finance costs to £116.5 million is mainly the result of acquisitions and capital expenditure incurred in the second half of 2007 and 2008, resulting in higher levels of net borrowings. Net losses of £32.8 million (2007: £1.9 million net gain) arising on the revaluation of interest rate swaps and other derivatives have been excluded from adjusted earnings in accordance with EPRA guidelines.

Tax

The underlying tax charge on the adjusted profit before tax of £2.8 million (2007: £1.9 million) was 2.3 per cent (2007: 1.4 per cent) reflecting the Group's REIT and SIIC status in the UK and France, respectively.

Earnings per Share

Adjusted diluted earnings per share were in line with the prior year at 28.0 pence, with a basic unadjusted loss per share of 215.9 pence (2007: 53.6 pence), reflecting the valuation deficits across the Group. The 0.7 per cent decrease in adjusted diluted earnings per share is lower than the decrease in adjusted profit before tax of 5.6 per cent mainly due to the lower weighted average number of share in 2008 compared to 2007, due to the effects of the share consolidation in August 2007.

Capital Expenditure

During the year, the Group made investments totalling £464.1 million, compared with £776.6 million in 2007 (continuing operations only). The most significant acquisition in 2007 was the Mannesmann (MPM) acquisition and leaseback of three industrial sites in Munich, Nuremberg and Hanover, further enhancing our portfolio in Germany. The Group also acquired some further properties as part of the previously contracted Neckermann and DHL transactions. During the year, the Group also signed a major partnership agreement with the Berlin Airports Authority (Berlin BBI) to develop a business and logistics park.

A number of disposals were also made during the year, as the Group continued to recycle properties where we can no longer add value, including the disposal of two industrial portfolios for £110.2 million and the sale of Bath Rd Retail Park in Slough for £92.0 million. Disposals of trading property included the disposal of the joint venture Portes de France development in Paris, France, Vendel Park in Hungary and Tulipan House, an office development in Warsaw, in Poland.

Development expenditure including joint ventures and trading properties amounted to £273.9 million, comprising £96.5 million relating to UK developments and £177.4 million relating to Continental Europe. In addition, land purchases of £22.3 million were made to provide future development opportunities (2007: £74.8 million) comprising Tulipan Park, Prague in the Czech Republic £11.4 million, Komorniki, Poznań in Poland £9.2 million and small sites in Gliwice, Poland and Aachen, Germany totalling £1.7 million.

Capital Expenditure on Properties	2008 £m	2007 £m
Land acquisitions	**22.3**	74.8
Development expenditure	**222.4**	186.4
Acquisitions of income producing properties	**118.6**	423.6
	363.3	684.8
Trading properties	**96.3**	77.5
Joint venture properties	**4.5**	14.3
Total capital expenditure	**464.1**	776.6
Less sales proceeds:		
– from disposals of investment properties	**(201.5)**	(185.1)
– from disposals of trading properties	**(141.8)**	(84.0)
Net capital expenditure	**120.8**	507.5

Regarding future capital expenditure plans, we previously agreed acquisitions (both income producing and development land) amounting to £72 million, which will be completed in 2009. This includes land in Gdansk, Poland (€30 million), Düsseldorf, Germany (€10.4 million) and Berlin, Germany (€25.7 million). Future committed development expenditure on projects is approximately £220 million.

Cash Flow

A summary of the cash flow for the period is set out in the table below:

	2008 £m	2007 £m
Cash flow from operations	**226.0**	181.9
Finance costs (net)	**(160.1)**	(124.6)
Dividends received (net)	**6.5**	2.5
Tax received/(paid) (net)	**(4.3)**	4.1
Free cash flow	**68.1**	63.9
REIT/SIIC conversion charge paid	**(45.2)**	(44.5)
Tax paid on PIDs	**(9.6)**	–
Sale of subsidiary undertakings	**(13.5)**	1,499.7
Tax paid on sale of US subsidiary undertaking	**(217.0)**	(87.2)
Capital expenditure	**(403.8)**	(756.9)
Property sales (including joint ventures)	**199.9**	207.3
Ordinary dividends	**(100.6)**	(335.9)
Other items	**11.4**	1.2
Net funds flow	**(510.3)**	547.6
Net increase/(decrease) in borrowings	**282.4**	(361.9)
Net cash (outflow)/inflow	**(227.9)**	185.7
Opening cash and cash equivalents	**340.2**	151.0
Exchange rate changes	**50.2**	3.5
Closing cash and cash equivalents	**162.5**	340.2

Cash flows generated from operations for the period were £226.0 million, an increase of 24.2 per cent from 2007 primarily as a result of increased net rental income. Cash flows generated from continuing operations were £226.0 million (2007: £147.8 million) and from discontinued operations were £nil (2007: £34.1 million).

Finance costs of £160.1 million, net of interest income, increased 28.5 per cent, consistent with the increase in borrowings during the year. Net tax of £4.3 million was paid during the year (2007: £4.1 million tax refund). In addition, US tax of £217.0 million was paid in 2008 relating to the sale of the US property business in 2007, REIT and SIIC conversion charges of £40.9 million and £4.3 million, respectively, were paid and tax on PIDs of £9.6m was paid.

After payment of the dividend, there was a net funds outflow of £510.3 million (2007: £547.6 million inflow). Allowing for the increase in borrowings in 2008, the net cash outflow for the period was £227.9 million (2007: £185.7 million inflow).

Proceeds from disposals amounted to £199.9 million compared to 2007 (£1,707.0 million), which included £1,499.7 million from the sale of the US property business and Slough Heat & Power, and £207.3 million from the sale of investment and development properties.

Further analysis of acquisitions and disposals in the year is included on pages 32 and 43.

Financial Position

At 31 December 2008, the Group's borrowings totalled £2,661.6 million (31 December 2007: £2,039.1 million). Cash balances totalled £165.8 million (2007: £348.3 million) resulting in reported net debt amounting to £2,495.8 million (2007: £1,690.8 million). The weighted average maturity of the debt portfolio was 8.1 years.

Unsecured borrowings represent 96 per cent of gross debt at the year end. Secured debt totalled £108.8 million representing some historical mortgage debt domiciled in the Group's overseas operations. £1,724.9 million of debt domiciled in the UK was unsecured and was issued by the Parent Company without any supporting up-stream guarantees. £827.9 million of unsecured debt was issued by subsidiary companies predominantly located overseas.

The market value of borrowings of the Group at the end of December 2008 was £2,252.6 million, £409.0 million lower than the book value representing approximately 94 pence per share.

Dividends

The Board recommends a final dividend of 5.4 pence per share to be paid on 6 May 2009 to shareholders on the register at the close of business on 3 April 2009. The total dividend for the year amounts to 13.7 pence, all of which will be paid as a PID.

Directors' Report (continued)

Gearing and Financial Covenants

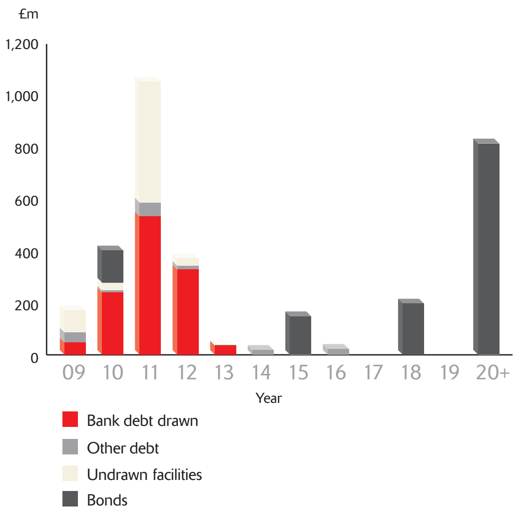
The loan to value ratio (net debt divided by property assets) was 53 per cent (2007: 34 per cent) at 31 December 2008 and the adjusted gearing ratio (consolidated net debt divided by consolidated net worth with deferred tax added back) was 119 per cent (2007: 56 per cent).

The gearing level has been adversely affected by the fall in UK property values and the weakening of sterling against the euro which contributed approximately 39 per cent and 14 per cent, respectively, to the increase in gearing. The Group's tightest financial covenant at 31 December 2008 required that adjusted financial gearing remained under 125 per cent and, subsequent to the year end, the Group negotiated an increase in this limit to 160 per cent in order to provide further financial flexibility.

Interest cover, based upon adjusted profit before interest and tax and adjusted net finance costs, was 1.9 times, or 2.0 times if capitalised interest is included. The Group's financial covenant on interest cover requires that net interest before capitalisation be covered at least 1.25 times by property rental income. The Group comfortably met this ratio at 1.9 times.

Liquidity Position

Funds availability at 31 December 2008 totalled £777.5 million, comprised of £165.8 million of cash deposits and £611.7 million of undrawn bank facilities. Only £44 million of the Group's facilities are uncommitted overdraft lines, with the balance of undrawn facilities being fully committed and with £501.5 million remaining available to 2011/13. The Group's debt maturity profile is set out in the graph below.



Hedging Policies

The Group has set policies on interest rate and foreign currency translation exposures, liquidity and funding which are regularly reviewed by the Board. The current policies are to hedge approximately 85 per cent of the Group's debt portfolio with fixed or capped rates of interest and to hedge between 60 per cent and 90 per cent of foreign currency denominated assets with liabilities of the same currency.

Interest Rate Exposure

As at 31 December 2008, 89 per cent (2007: 83 per cent) of the gross debt portfolio attracted a fixed or capped rate of interest at a weighted average rate of 5.5 per cent (2007: 5.6 per cent). Much of this debt was in the form of fixed rate debt issues raised through Sterling Eurobonds with an average rate of 6.2 per cent. Such fixed rate debt issues are held in the balance sheet at amortised cost. Interest rate swaps, caps, collars and forward rate agreements are also used to convert variable rate bank debt to fixed rate and at 31 December 2008, the Group had £1,074.5 million of such borrowings (mostly Euros) fixed at an average rate of 4.6 per cent. The 11 per cent of debt remaining at a variable rate of interest brought the overall weighted average cost of debt to 5.2 per cent (2007: 5.5 per cent) for the year.

The Group has decided not to elect to hedge account its interest rate derivatives portfolio. Therefore, movements in the fair value are taken to the Income Statement but, in accordance with EPRA recommendations, these gains and losses are eliminated from adjusted profit before tax and adjusted EPS.

Foreign Currency Translation Exposure

Due to the nature of the Group's business, it has no cross-border trading transactions and, therefore, foreign exchange transaction exposure is negligible. However, it does have operations located overseas which transact business in the domestic currency of the country in which the business is located – mostly in euros. The Group's main currency exposure, therefore, is the translation risk associated with converting foreign currency assets and liabilities back into sterling in the Group consolidated accounts at each balance sheet date. As at 31 December 2008, the Group had foreign currency assets amounting to £2,091 million, which were 87 per cent hedged by foreign currency denominated liabilities of £1,819 million. A 10 per cent movement in the value of sterling against all currencies in which the Group operates would change net assets by £30.2 million, net assets per share by 7 pence or 1 per cent and adjusted gearing by approximately 7 per cent.

Going Concern

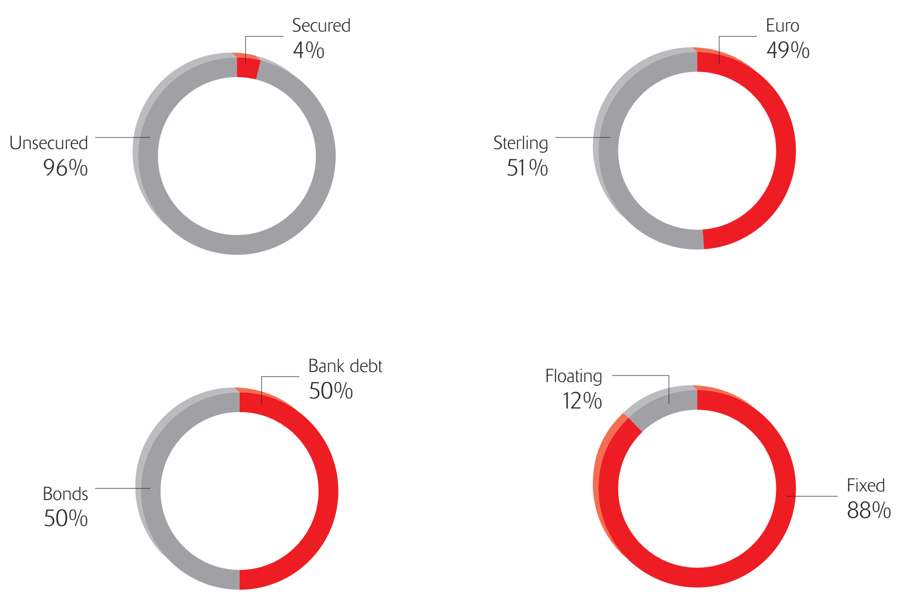
As explained above, the Group had significant funds availability as at 31 December 2008, totalling £777.5 million and comprised of £165.8 million of cash deposits and £611.7 million of undrawn bank facilities. The Group has a relatively good debt maturity profile, with significant long term funding in place. Funds availability is more than adequate to meet the capital expenditure plans and other financial commitments of the Group for the foreseeable future.

In order to provide further financial flexibility, the Group renegotiated its bank gearing covenant to 160% in February 2009 and, on 4 March 2009 announced a fully underwritten rights issue which is expected to raise additional equity of approximately £500 million after costs.

The current economic conditions have created a number of uncertainties as set out on page 25. Whilst there is uncertainty over future market-driven valuation movements which may affect our ability to remain within our bank covenants, we consider that the revised gearing covenant and the additional equity provide the Company and Group with sufficient financial flexibility for the foreseeable future.

Accordingly, after making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Analysis of gross debt between bank and bond finance



Directors' Report (continued)

OUR APPROACH TO SUSTAINABILITY

We have always taken our responsibilities to the environment and society seriously. This is now being driven further by growing regulation, as well as by rising demand from stakeholders, such as investors, customers and employees.

At SEGRO, sustainability is about managing and balancing environmental, social and economic issues to add value to our business, so that it is attractive to existing and prospective customers, employees and investors. In a challenging market, it provides us with another means to differentiate ourselves from the competition, offering opportunities to manage risk and cut costs, both for our business and for our customers.

Our Sustainability Strategy

Following a review of our material issues and dialogue with stakeholders, we have updated our Sustainability Strategy, set a number of five year targets and changed our approach to reporting.

Our Key Material Issues

- **Resource efficiency:** To use energy, water and materials responsibly, reducing, reusing and recycling
- **Regeneration:** To make a positive contribution to communities where SEGRO has a presence
- **Flexibility:** To construct buildings that can be used by at least two kinds of occupier without significant structural alteration
- **Accessibility:** To ensure our properties are accessible by more than one mode of transport
- **Safety:** To maintain an outstanding health and safety record by implementing robust management controls and careful auditing procedures
- **Stakeholders:** To listen to our stakeholders and respond to their feedback to meet their needs

Our 2014 Sustainability Targets

- Construct buildings with 30 per cent better **energy efficiency** than base build
- Reduce SEGRO's **energy consumption** by 30 per cent
- Investigate the feasibility of **renewable energy** for every development site
- Reduce **water use** in common parts of managed buildings (including our head office) and landscaping activities by 20 per cent
- Incorporate **water-efficiency** measures and water recycling to reduce mains water use by 20 per cent compared to base build
- Reduce the proportion of non-hazardous construction and excavation **waste to landfill** by 70 per cent compared to 2007
- **Reuse or recycle** 80 per cent of non-hazardous construction and demolition waste
- Engage with a significant number of **customers** to improve sustainability, reducing occupier energy and water costs
- Invest in **communities** where we have a major presence and report the level of investment on an annual basis
- Ensure **Community Engagement Plans** are in place where we have a major presence
- For all appropriate new developments and managed estates to have **a tailored travel plan**

> Our 2008 achievements

- **EXCELLENT environmental rating**
  Voyager Park in Portsmouth received a BREEAM Excellent rating for environmental performance. Marly la Ville near Paris is also on target to achieve an Haute Qualité Environnementale Award.
- **200,000 kWh renewable energy**
  Photovoltaic roof panels were installed on our properties at Pegasus Park in Brussels and Westendstrasse in Essen. These will generate an estimated 200,000 kWh of clean power every year.
- **LEADER low carbon emissions**
  SEGRO was recognised in the Carbon Disclosure Leadership Index 2008. Our redevelopment at Winnersh Triangle near Reading is on target to achieve carbon emissions 52 per cent below those of a standard office.
- **1,000+ cubic metres recycled**
  At Bilton Industrial Estate in Bracknell, we recycled more than 1,000 cubic metres of waste. We also signed up to an initiative to halve the amount of construction waste sent to landfill by 2012.
- **78% customer satisfaction**
  We achieved a customer satisfaction rating of 78 per cent in the UK and 66 per cent in Continental Europe. SEGRO was also ranked in the top quartile of the Real Service Index for customer satisfaction.
- **70 investors and analysts**
  We took 70 investors and analysts on tours of our properties and developments, including a three-day visit to our portfolio in France, Germany and Poland.
- **400+ employee training days**
  We provided more than 400 training days to employees and ran a full-day corporate induction programme for more than 30 new starters.
- **200+ local people**
  More than 200 people attended an exhibition on the proposed Masterplan for the Slough Trading Estate. The majority of feedback was positive. Consultation with local people has helped to shape the Masterplan.
- **£820,000+ community investment**
  SEGRO invested £827,971 in good causes through money, time and business space. We presented our Charity of the Year, Dogs for the Disabled, with a cheque for more than £100,000.
- **1,600+ hours volunteering**
  Our employees spent more than 1,600 hours on volunteering, fundraising and managing community initiatives.
- **20,000 workers benefit**
  When the redevelopment of Winnersh Triangle is complete, up to 20,000 workers will benefit from improved accessibility. SEGRO is committing £5 million to local infrastructure.
- **100+ health and safety sessions**
  We ran 106 health and safety training sessions for employees in the UK and Continental Europe. We also worked with more than 50 contractors to manage health and safety performance.
- **50%+ CCTV coverage**
  Our customers' property is now protected by monitored CCTV cameras at more than 50 per cent of our UK properties by area, contributing to a 35 per cent improvement in UK customer satisfaction with security.

Directors' Report (continued)

Charitable, Political and Other Donations

The Group made charitable donations of £320,441 during the year. Donations are made to a variety of community and social charities and in particular those connected to localities in which the Group is represented. The Group also provided benefit in kind to the value of £487,859, including the provision of a rent-free building to Corporate Health (a registered charity) which it uses to provide occupational health services to the Slough Trading Estate.

The Group raised £108,976 for Dogs for the Disabled during the year. Many employees were involved in raising money for this worthwhile Charity. Activities included a desert walk, sailing day, corporate golf day, an aviation day and various other events.

There were no political donations during the year and it is the Group's policy not to make any donations to political parties. However, the definition of political donations is very broad and, as a result, could cover activities that form part of the relationships between the Group and bodies with political affiliations. Therefore, authority from shareholders will be sought at the AGM to ensure that the Group acts within the provisions of the current UK law when carrying out its normal business activities.

Health and Safety

Health and safety continues to be a high priority for SEGRO. By continuing to report and recognise safety performance across the Group, we maintain our focus on continuous improvement. Policies, procedures and standards are under constant review to ensure that employees and visitors operate in a safe and healthy environment.

In January 2008, we introduced the Health and Safety Management System to the UK. This involved bringing together all the health and safety procedures which existed in different parts of our business. The aim of this work is to ensure that SEGRO has a system which is easy to follow and which can be audited to the international ISO 18001 standard.

The Management System was then reviewed and implemented across the whole Group, including Continental Europe.

We provided 106 health and safety training sessions to employees in the UK and Continental Europe. We also distributed our new 'Health and Safety for Employees' booklet and provided additional health and safety information on our intranet. We sourced a computer-based training programme for use throughout Continental Europe. This programme, which has been translated into eight different languages, will be rolled out to all Continental European employees in 2009. This follows the successful roll-out of a computer-based health and safety programme to 95 per cent of UK employees in 2007.

In 2008, we worked with more than 50 contractors to manage and monitor health and safety performance. The greatest risk area of our business operations occurs during construction and refurbishment. We therefore work closely with our supply chain to manage and monitor health and safety on these projects. Where suppliers do not meet SEGRO standards, we help them to improve performance, often in partnership with our external health and safety advisers.

We continue to measure ourselves against targets for work related fatalities, reportable incidents and instances of non-compliance with Health and Safety legislation.

Total incidents for SEGRO employees

	2006 (UK only)	2007 (UK only)	**2008 (UK and Continental Europe)**
RIDDOR*	2	1	**1**
Non-RIDDOR	9	10	**7**

* RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurances Regulations).

Accident Incident Rate for SEGRO UK employees**

	2006	2007	**2008**
AIR	909	455	**455**

Accident Incident Rates for SEGRO UK construction sites**

	2006	2007	**2008**
AIR	1,852	2,500	**1,102**

** Per notional 100,000 employees.

Employees

The Group remains committed to equality of opportunity in all of its employment practices. The Group recognises values and promotes the involvement of its employees and engages with them in two-way communication. It seeks to keep employees informed on areas affecting their employment, as well as the financial and economic factors affecting the Group's performance. The Chief Executive and other Executive Directors regularly communicate with employees in a variety of ways such as email and face-to-face briefings both in the UK and Continental Europe. The aim of these briefings is to keep employees up to date and informed about the performance of the Group. Periodically, the Group conducts employee surveys. The aim of our surveys is to gauge how engaged employees are with the Group, where areas may need improving and how plans can be put in place to address any issues that are raised.

Employees are encouraged to participate in internal training courses to further understand Group policies as well as further their own development and expertise.

In 2008, we amended the operation of the Share Incentive Plan (SIP) so that participating employees are awarded shares not only in relation to their salary but also by reference to the Group's prior year performance which is measured through Group profit before tax. The Group also launched a new Global Share Incentive Plan for our Continental European based employees. This is one of the ways in which we encourage our employees to become shareholders in our business.

The Group welcomes applications for employment by disabled persons. Employment of disabled people is considered on merit with regard to the ability of any applicant to carry out the function required. In the event of an employee becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' Report (continued)

01. 02. 03.

04. 05.

Directors' Biographies

01. Nigel Rich CBE Aged 63

Chairman

Chairman of the Nomination Committee

Appointed a Non-Executive Director on 1 July 2006 and became Chairman on 1 October 2006. He is Chairman of Xchanging Ltd, a Non-Executive Director of Bank of the Philippine Islands (Europe) plc, Matheson & Co Ltd, Pacific Assets Trust and KGR Absolute Return PCC. He was previously Chairman of Exel PLC, CP Ships and Hamptons Group Ltd and, in his career, he was Managing Director of Hongkong Land and then Jardine Matheson. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

02. Ian Coull Aged 58

Chief Executive

Member of the Nomination Committee

Appointed Chief Executive on 1 January 2003. He is also on the London Regional Board of Royal & SunAlliance and chairs the British Property Federation's (BPF) REITs task force, having been President of the BPF from June 2005 until July 2006. Prior to joining SEGRO, he was a Director at J Sainsbury plc and held Board and Senior Management positions at Ladbrokes, Texas Homecare and Cavenham Foods. He is a Fellow of the Royal Institution of Chartered Surveyors.

03. Inès Reinmann Chevalier de la Légion d'Honneur Aged 51

Managing Director, Continental Europe

Appointed a Group Executive Director on 1 November 2008. She is responsible for the Continental Europe property portfolio. Prior to joining SEGRO, she was Chairwoman and Chief Executive Officer of ICADE Emgp, CEO of ICADE Eurogem, Business Property Market Director (ICADE), CEO (ICADE Tertial), and Managing Director (ICADE). Prior to ICADE, she held senior management positions with responsibility for development, operations and corporate real estate at Coprim. She is a Member of the Royal Institution of Chartered Surveyors.

04. David Sleath Aged 48

Group Finance Director

Appointed as Group Finance Director on 1 January 2006. Previously, he was Finance Director of Wagon plc, the international automotive engineering group from 1999 to 2005. From 1982 to 1999, he worked for Arthur Andersen, latterly as a partner and Head of Audit & Assurance for the Midlands. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Non-Executive Director of Bunzl plc.

05. Ian Sutcliffe Aged 49

Managing Director, UK

Appointed a Group Executive Director on 1 July 2008. Previously he was a Director of Taylor Wimpey plc and Chief Executive of Taylor Wimpey UK and had held a number of senior international roles with Royal Dutch Shell plc, lastly as Vice President Retail for Shell Oil in the US. He was also Retail Director of Shell UK.

06. 07. 08.

09. 10. 11.

06. Lord Blackwell Aged 56

Senior Independent Non-Executive Director

Member of the Audit Committee, the Nomination Committee and the Remuneration Committee

Appointed a Non-Executive Director on 1 April 2001. He is Chairman of Interserve plc, Senior Independent Director of Standard Life plc and a Non-Executive Board Member of the Office of Fair Trading Limited. He is also a Board member and former Chairman of the Centre for Policy Studies. He was previously a partner with McKinsey & Company, Head of the Prime Minister's Policy Unit between 1995-97, Director of Group Development at NatWest Group, a Non-Executive Director of The Corporate Services Group plc and Chairman of Smartstream Technologies Ltd. He became a Life Peer in 1997.

07. Stephen L Howard Aged 55

Non-Executive Director

Chairman of the Remuneration Committee, member of the Audit Committee

Appointed a Non-Executive Director on 16 May 2001. He is a Non-Executive Director of Balfour Beatty plc, holds memberships of the advisory councils of various private and non-profit organisations, and is the Chief Executive of Business in the Community. He was previously Group Chief Executive of Cookson Group plc and then Novar plc.

08. Lesley MacDonagh Aged 56

Non-Executive Director

Member of the Remuneration Committee

Appointed a Non-Executive Director on 1 January 2007. She is a Non-Executive Director of Bovis Homes Group and BDO Stoy Hayward LLP. She was previously the worldwide Managing Partner of Lovells LLP, the international law firm, a Governor of the London School of Economics, a member of the Property Advisory Group for the UK Government, and a Council Member of the Law Society.

09. Andrew Palmer Aged 55

Non-Executive Director

Chairman of the Audit Committee

Appointed a Non-Executive Director on 28 January 2004. He is Group Finance Director of Legal & General Group plc where he has held a number of financial and operational roles in the asset management, insurance and international businesses. He is Chairman of the Financial Regulation and Taxation Committee of the Association of British Insurers (ABI). He is a Fellow of the Institute of Chartered Accountants in England and Wales.

10. Christopher Peacock Aged 63

Non-Executive Director

Member of the Nomination Committee and the Remuneration Committee

Appointed a Non-Executive Director on 28 January 2004. He is a Director of Howard De Walden Estates Limited and a member of the Advisory Board to The Landon Trust. He was previously President and Chief Executive Officer of Jones Lang LaSalle. He is a Fellow of the Royal Institution of Chartered Surveyors.

11. Thom Wernink Aged 63

Non-Executive Director

Member of the Audit Committee and the Nomination Committee

Appointed a Non-Executive Director on 23 May 2005. He is a Non-Executive Director on a number of property and investment companies based in Continental Europe. He was previously Chairman of the European Public Real Estate Association and of Corio NV, a Netherlands-based property company with interests across Europe.

Corporate Governance Report

Statement of Compliance

The Board is committed to maintaining high standards of corporate governance in its management of the Group. Throughout the year ended 31 December 2008, the Company complied with the provisions set out in section 1 of The Combined Code on Corporate Governance 2006 (the Code) and for which the Board is accountable to its shareholders. The Code was revised in June 2008 and the Company complied with the revised Code from this date. The Company's application of the principles of the Code is set out in this report and the Remuneration Report on page 66.

The Board, Balance and Independence

The details of each of the Directors who served throughout the year, together with their biographical details are shown on pages 58 and 59. At the date of this report, the Board comprises a Non-Executive Chairman, four Executive Directors and six independent Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Group. In July 2008, John Heawood resigned from the Company and in December 2008, Walter Hens retired. Ian Sutcliffe and Inès Reinmann were appointed Executive Directors in July 2008 and November 2008 respectively.

The Board considers it is of sufficient size for the discharge of its duties and that the balance of skills and experience are appropriate for the requirements of the business.

Taking into account the provisions of the Code, the Board has determined that each of the Non-Executive Directors is independent and free from any relationships which could compromise their independent judgement. The Chairman was considered independent on appointment.

Attendance at Board and Board Committee Meetings

All Directors are expected to attend each Board meeting and Board Committee meetings of which they are members. On the few occasions when a Director is unable to attend, they will be provided with the papers and given an opportunity to discuss their comments with the Chairman prior to the meeting.

Name	Board	Remuneration Committee	Audit Committee	Nomination Committee
Nigel Rich	9	n/a	n/a	4
Lord Blackwell	9	3	4	4
Ian Coull	9	n/a	n/a	4
John Heawood*	5	n/a	n/a	n/a
Walter Hens**	9	n/a	n/a	n/a
Stephen Howard	9	3	4	4
Lesley MacDonagh	7	1	n/a	3
Andrew Palmer	9	n/a	4	3
Christopher Peacock	9	3	n/a	3
Inès Reinmann ***	2	n/a	n/a	n/a
David Sleath	9	n/a	n/a	n/a
Ian Sutcliffe ****	4	n/a	n/a	n/a
Thom Wernink	8	n/a	4	4
Total number of meetings	9	3	4	4

* John Heawood resigned from the Board on 4 July 2008.
** Walter Hens resigned from the Board on 31 December 2008.
*** Inès Reinmann joined the Board on 1 November 2008.
**** Ian Sutcliffe joined the Board on 1 July 2008

In addition to the Board meetings, the Directors attended an annual Strategy Day to consider and review Group strategy.

Throughout the year, the Chairman and the Non-Executive Directors met periodically to discuss business matters and to consider any concerns they wished to raise.

Corporate Governance Report

Role of the Board

The Board is responsible to shareholders for optimising financial returns over the medium to long term. It also has a responsibility to the Group's employees, customers and suppliers and to the communities where it operates and invests.

There is a Schedule of Matters Reserved for Decision by the Board which was reviewed during the year. The Schedule includes the approval of final and half-yearly results, matters of strategy, changes in the Group's capital structure, financial reporting, internal controls, risk management, Board and Committee membership, delegation of authority, corporate governance, major acquisitions and disposals and development approvals.

The division of responsibilities between the Chairman and Chief Executive is recorded and agreed by the Board. The Chairman is primarily responsible for the leadership and effective working of the Board. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. Responsibility for all operational matters, which includes the implementation of Group strategy, is delegated to the Chief Executive who is supported by the Executive Committee, which comprises the Executive Directors. This Committee meets monthly to develop strategies and policies for recommendation to the Board.

Board meetings are held on a regular basis throughout the year, with additional ad-hoc meetings being arranged when necessary. The Chairman, with the assistance of the Company Secretary, is responsible for ensuring that the Board receives timely advice and information about the Group, its activities and performance. Board papers are generally circulated one week in advance of Board meetings.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with Board procedures. Directors have the right to consult with the Company's professional advisers and to seek independent professional advice at the Company's reasonable expense.

The Board has delegated a number of its responsibilities to the Audit, Remuneration and Nomination Committees, details of which are set out below. The Terms of Reference of these Committees, which were all reviewed during the year, can be found at www.SEGRO.com.

Board Performance Evaluation

During the year, a thorough external review of the effectiveness of the Board, its Committees and the individual Directors was undertaken. Each of the Directors, together with a number of senior executives, completed a wide-ranging appraisal questionnaire and attended an interview with the external evaluators.

The conclusions were presented to the Board and the Chairmen of the Committees. The Chairman received a report on the effectiveness and performance of the individual Directors and has discussed these conclusions with each of them. The Senior Independent Non-Executive Director received a report on the Chairman. The Non-Executive Directors met, in the absence of the Chairman, to appraise his performance, taking into account the conclusions arising from the review.

The review concluded that the Board, its Committees and the Directors, including the Chairman, were operating effectively and there were no areas of concern. As a result of the 2008 review, the Chairman recommended the following actions: that the Board should continue to hold some of its meetings at different locations across the Group, the Non-Executive Directors should visit a number of sites during the year and the Chairman should have private meetings with each of the Directors.

Re-election

In accordance with the Articles of Association, one-third (rounded down) of the Directors are required to retire by rotation at each AGM together with the Directors appointed by the Board since the last AGM.

The Directors retiring by rotation at the 2009 AGM and offering themselves for re-election are Nigel Rich, Andrew Palmer and Chris Peacock. In addition, Inès Reinmann and Ian Sutcliffe, who were appointed since the last AGM, will be offering themselves for re-election at the 2009 AGM. The Nomination Committee has confirmed that the Directors subject to re-election continue to perform effectively and have demonstrated commitment to their respective roles.

The appointment and replacement of the Directors is subject to shareholder approval at the AGM and governed by the Combined Code, the Companies Acts and other prevailing legislation and also by the Articles of Association, which are available on request.

Board Development

On appointment, Ian Sutcliffe had a tailored induction to familiarise him with the Group's business including site visits and meetings with senior management and external advisers. Inès Reinmann, who had worked for the Company before joining the Board, received training on the UK regulatory environment. Both Directors met shareholders on a number of occasions during the year. Directors are encouraged to continually update their professional skills and capabilities, together with their knowledge of the business. During 2008, the Board was briefed on the newly-introduced conflicts provisions in the Companies Act 2006. Internal specialists and external advisers presented to the Board during the year on a wide range of subjects which included the outlook for the property market in the UK and Continental Europe, sustainability and risk. Two Board meetings were held at sites in Continental Europe and the UK, and a number of the Non-Executive Directors, including the Chairman, visited other sites.

The Remuneration Committee

The composition of the Remuneration Committee, its activities during 2008 and the way it applied the principles of the Code are described in the Remuneration Report on pages 66 to 74. Details of Directors' remuneration, pension rights, service contracts and Directors' interests in the shares of the Company are also included in the Remuneration Report.

Corporate Governance Report

Nomination Committee

Throughout the year, the Nomination Committee was chaired by Nigel Rich and it comprised Lord Blackwell, Ian Coull, Stephen Howard, Lesley MacDonagh, Andrew Palmer, Christopher Peacock and Thom Wernink. In January 2009, the membership was changed. The Committee is still chaired by Nigel Rich but now comprises Lord Blackwell, Ian Coull, Christopher Peacock and Thom Wernink.

The Committee has responsibility for making recommendations for new appointments to the Board and for ensuring that the process for all appointments is formal, rigorous and transparent.

The process for the appointment of the UK Managing Director was led by Ian Coull. An external search consultant was engaged and was provided with a specification of the skills and experience required to assist with identifying potential candidates. Both Ian Sutcliffe and Inès Reinmann met with members of the Board prior to their appointment being approved by the Board.

During the year, the Committee reviewed the composition of the Board, succession planning and talent management for the senior executives. It concluded that the Board comprises the appropriate mix of skills and experience for running the Group.

Audit Committee

The Audit Committee comprised Andrew Palmer, who is the Chairman, Lord Blackwell, Stephen Howard and Thom Wernink. Andrew Palmer, as the Finance Director of a FTSE 100 company, has recent and relevant financial experience.

At the invitation of the Committee Chairman, there are a number of regular attendees at each meeting including the Chairman of the Company, the Chief Executive, the Finance Director, the Group Financial Controller and representatives of the internal auditors and external auditors. The Audit Committee also periodically meets with the external auditors without management being present.

Deloitte LLP were appointed external auditors of the Group in 2007 following a competitive tender process. During the year, this Committee considered the appointment, compensation, independence and performance of the external auditors. It has a policy for the use of the external auditors for non-audit services to ensure that the provision of such services does not impair their independence or objectivity. Deloitte LLP have provided written confirmation of their independence to the Audit Committee. The Committee has recommended that the reappointment of Deloitte LLP be proposed to shareholders at the 2009 AGM.

Prior to their appointment as auditors of the Company, Deloitte had been engaged to provide assistance with an internal systems project. Deloitte also provide tax advice to the Company. Further details about non audit work undertaken by Deloitte is set out on page 85.

The Audit Committee reviews the clarity and completeness of the disclosures made in the financial statements of the Company and considers significant accounting policies, any changes to them and any significant judgements and estimates.

Throughout the year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the systems of internal control and risk management. These reviews cover all material areas of the business including financial, operational and compliance controls and risk management. The Committee monitors and reviews the effectiveness of the internal auditors' activities. The internal audit function is performed by KPMG LLP.

During the year, the Audit Committee reviewed the arrangements put in place whereby employees may raise, in confidence, any concerns which they may have in respect of financial reporting or other matters and the arrangements for the independent investigation of those matters.

Risk Management

The Group Risk Management Committee is responsible for the Risk Management Programme. This Committee is chaired by Ian Coull and attended by the Executive Directors and senior managers who have functional responsibility for managing risk throughout the business. The Committee meets quarterly and is responsible for overseeing the management of the most significant risks to the business. It reports on its findings to the Audit Committee and, since January 2009, the minutes have been circulated to the Board. Other Committees are established to address the management of specific risks, including a Treasury Risk Committee, a Health and Safety Committee and a Capital Approvals Committee.

Risks and opportunities associated with the country, region and overall Group business objectives are systematically reviewed twice a year. This review begins with an assessment of over 50 risk factors typically associated with property and other corporate businesses. Within each area of the business, senior managers consider the risks in terms of impact and likelihood, considering the unmitigated risk, (assuming controls fail) and residual risk (with controls operating normally). Identifying these two different risk measures allows the Committee to monitor the most important controls and prioritise risk management activities.

The most significant risks are detailed in a Risk Register with owners assigned to develop action plans intended to manage or mitigate individual risks to an agreed position.

Between the six-monthly reviews, new and emerging risks are considered at the Committee meetings. In addition, the Executive Committee regularly reviews emerging risks and considers actions to mitigate risks and to take advantage of opportunities as they arise.

The principal risks and uncertainties facing the Group are set out in the Risk Management Report on pages 25 to 27.

Corporate Governance Report

Internal Control and Internal Audit

The Audit Committee, on behalf of the Board, is responsible for monitoring and maintaining a robust and effective internal controls framework across the Group and for identifying, evaluating and managing the Group's significant risks, in compliance with the Code. The framework and internal controls system are designed to manage but not to eliminate the risk of failure of the Group to meet its business objectives and, as such, only provide reasonable but not absolute assurance against material misstatement or loss.

In order to monitor the effectiveness of the framework, at each meeting the Audit Committee receives written and verbal reports from the Group Finance Director and representatives of the internal auditors and the external auditors on progress with internal control activities.

These reports include:

- reviews of business processes and activities, including action plans to address any identified control weaknesses or recommendations for improvements in controls or processes;
- management's own assessments of the strengths and weaknesses of the overall control environment in their area of responsibility and the action plans to address the weaknesses;
- the results of the internal audits;
- internal control recommendations made by the external auditors; and
- follow-up actions of previous internal control recommendations.

The Committee also receives reports from senior managers on specific business activities. During 2008, these included presentations from the Head of Business Information Systems and the Continental European Finance Director.

The Board and the Audit Committee monitor management's action plans designed to implement improvements in internal controls which have been identified as a result of the above procedures. The Board confirms that it has not been advised of any failings or weaknesses which it regards to be significant.

Relations with Shareholders

The Board is accountable to shareholders for the Company's continued success and takes a proactive approach to communicating with shareholders. The Chief Executive and Group Finance Director are the Group's principal spokesmen with investors, fund managers, the press and other interested parties. The Board regularly receives reports on the Group's investor relations activities including periodic reports from the Company's brokers and copies of analysts' reports.

The regular announcements of significant events affecting the Group, and frequent updates on current trading, emphasise the Board's commitment to keeping the Company's investors informed of developments affecting the Group. Periodically, the Company arranges site visits for investors. In May 2008, the Company arranged a shareholders' and analysts' tour around sites in Continental Europe.

The Chairman and Senior Independent Non-Executive Director are available to shareholders, should they have concerns which contact through the usual channels has failed to resolve or is otherwise inappropriate. The Chairman or the Senior Independent Non-Executive Director attend the financial results presentations. The Board is kept informed as to the detail of any such discussions with shareholders.

Constructive Use of the AGM

The Notice of General Meeting is dispatched to shareholders at least 20 working days before the meeting. The Company proposes separate resolutions on each substantially separate issue. A presentation is made on the progress and performance of the business prior to the formal business of the meeting.

All Directors are encouraged to attend the AGM and be available to answer shareholders' questions either during or after the meeting. All of the Directors attended the 2008 AGM.

For each resolution, the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against a resolution or to withhold their vote. All valid proxy appointments are properly recorded and counted. Details of the proxy votes are made available on the Company's web site.

Other Statutory Information

Share Capital

Authority was granted at the 2008 AGM for the Company to purchase its own shares up to 10 per cent of the issued nominal capital. No shares were repurchased in the year. A resolution to renew this authority will be proposed at the 2009 AGM. Under the proposed authority, shares repurchased may be either cancelled or held in Treasury. The authorised and issued share capital for the year is set out on page 105.

There is one class of share in issue and there are no restrictions on the voting rights attached to these shares or the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. Each share (other than shares awarded under the Executive Share Plans) carries the right to one vote at general meetings of the Company and does not carry the right to a fixed income. Further details on the rights and restrictions attaching to the share capital are contained in the Articles of Association. The Directors are not aware of any agreements which limit the transfer of shares or curtail the voting rights attached to those shares.

The Trustees of the Share Incentive Plan do not normally exercise their vote on shares held in trust for the purposes of the plan only upon the instruction of the participants in the plan. The Trustees of the Executive Share Plans do not exercise their vote on the shares held in trust. As at the date of this report, 81 per cent of the authorised capital was issued.

The Directors require authority from shareholders to allot unissued share capital of the Company and to dis-apply shareholders' statutory pre-emption rights. Such authorities were granted at the 2008 AGM and resolutions to renew these authorities will be proposed at the 2009 AGM.

Directors' Interests in Shares

The Directors who were in office at 31 December 2008 and the beneficial and non-beneficial interests of these Directors and their families in the company's shares, are shown in the Remuneration Report on pages 66 to 74.

Save as disclosed in the Remuneration Report, no Director had any holding or interest in the Company's shares or in any of the Company's debenture or unsecured loan stocks, or unsecured bonds and no Director had a material interest in any contract, transaction or arrangement with the Company, or any of its subsidiaries at, or during the year ended 31 December 2008.

Provisions on Change of Control

There are a number of agreements which take effect, alter or terminate upon a change of control, none of which are considered significant in relation to the Company. The Company's share schemes contain provisions which take effect in the event of a change of control. The provisions in relation to share schemes do not entitle participants to a greater interest in the shares of the Company than that created by the initial grant or award under the relevant scheme.

Directors' Indemnities

Directors are entitled to be indemnified by the Company against any liability, loss or expenditure incurred in connection with their duties, powers or office, to the extent permitted by statute.

The contracts of employment or letters of appointments of the Directors and employees of the Company do not provide for compensation for the loss of office that occurs because of takeover.

Substantial Interests in the Share Capital of the Company

At 2 March 2009, the following major interests (3 per cent or more) in the ordinary share capital had been notified to the Company:

Shareholder	Direct voting rights	Indirect voting rights	Aggregate voting rights	Percentage
Barclays Group*	–	17,098,452	17,098,452	3.92%
The AXA Group and its subsidiaries	16,537,376	2,812,633	19,350,009	4.43%
Legal & General Group plc	17,048,580	–	17,048,580	3.90%
Stichting Pensioenfonds ABP	21,401,751	–	21,401,751	4.90%
Issued capital at 2 March 2009				**436,720,892**

* Following the implementation of the Transparency Directive, Barclays Group currently discloses shares held within the group between Barclays Global Investors and Barclays plc. The overall total being shown above.

Barclays Global Investors holds 9,214,837 disclosable shares and indirect voting rights; totalling 2.11%. Barclays plc holds 7,883,615 disclosable shares and indirect voting rights; totalling 1.81%.

Other Statutory Information

Payment of Suppliers

It is the Group's payment policy, in respect of all suppliers, to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders and suppliers are made aware of these payment conditions. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with relevant contractual conditions. The Group's trade creditors as a proportion of amounts invoiced by suppliers represented 23 days at 31 December 2008 (2007: 12 days). The Directors do not consider that there is any one supplier (or person) with whom the Company has a contractual arrangement which is essential to the business.

Auditors to the Company

A resolution to reappoint Deloitte LLP as auditors of the Company is to be proposed at the forthcoming AGM.

Disclosure of Information to the Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Elizabeth Blease
General Counsel and Group Company Secretary
4 March 2009

Remuneration Report

Unaudited Information

Dear Shareholder

I am pleased to present the Remuneration Report of SEGRO plc. It is the responsibility of the Remuneration Committee (the Committee) to set a remuneration policy which attracts, motivates and retains high-calibre senior executives and which aligns their reward with the creation of long-term shareholder value through the delivery of the Group strategy as described in the Group Overview section.

Given the existing economic climate, the current Executive Directors felt it would be inappropriate to accept bonus payments. They have therefore waived the bonuses which were payable to them in respect of 2008, except in one case where the bonus payment was a contractual entitlement.

It remains important that the remuneration policy continues to drive the creation of long-term shareholder value and the Committee has therefore refocused its agenda for 2009 and a number of amendments have been made in respect of the 2009 Bonus Scheme. The Committee believes that new targets are no less stretching than those set in respect of 2008, but will better support the Committee's objectives in the current economic climate. Further details in respect of the 2009 Bonus Scheme are given on page 67. The Committee does not intend to adjust the performance conditions in respect of any existing share allocations.

In 2007, the Committee undertook a review of the Group's long-term incentive arrangements and, in 2008, the first allocation under the new Long Term Incentive Plan (the 'LTIP') was made. Details of the operation and performance conditions of the LTIP can be found on page 67 and 68 of this Report.

Throughout 2009, we will continue to ensure that the interests of the Executive Directors and other Senior Executives remain aligned with those of the shareholders.

Stephen Howard
Chairman of the Remuneration Committee

Governance and Activities in 2008

The Committee comprises only Independent Non-Executive Directors and is chaired by Stephen Howard. The members of the Committee are Lord Blackwell, Christopher Peacock and Lesley MacDonagh. The Chairman, Chief Executive and Group Director of Human Resources may be invited to attend meetings except where their own remuneration is discussed. The Terms of Reference for the Committee were reviewed during the year and are available on the Company's website. During 2008, the Committee considered amongst other matters:

- the implementation of the LTIP;
- the achievement of performance targets in respect of the Bonus Scheme and the vesting for allocations made under the Long Term Incentive Scheme (LTIS);
- whether the targets for the Bonus Scheme remained appropriate;
- the base salaries of the Executive Directors; and
- the proposed terms of appointment for Inès Reinmann and Ian Sutcliffe.

Advice

Watson Wyatt LLP, independent remuneration consultants, provided advice to the Committee throughout the year. To ensure a consistent approach to remuneration across the Group, Watson Wyatt also provided advice to the Company in respect of matters relating to the remuneration of all employees. The Committee has access to the advice and services of the Group Director of Human Resources and the General Counsel and Group Company Secretary. Lovells LLP provided advice to the Committee and the Company on all-employee share schemes, the LTIP, Executive Director service contracts and a range of other legal matters during the year. Hewitt Associates Limited provided information to the Committee and the Company in respect of pension related matters.

Remuneration Policy and Framework

In order to align the interests of the Executive Directors and other senior executives with those of shareholders, the Committee sets remuneration policy such that a large proportion of remuneration is performance related (Chart 1) and the performance related elements of remuneration are dependent on the achievement of stretching performance targets. In setting the remuneration policy, the Committee takes into consideration levels of remuneration across the Group and the maximum amount of remuneration the Executive Directors could receive should all targets be met. The Committee retains the discretion to withhold bonus payments or share awards should such payments be deemed inappropriate.

With the assistance of Watson Wyatt, the Committee undertakes an annual review of the remuneration of the Executive Directors. The remuneration package of each Executive Director is benchmarked against the median of a weighted combination of Executive Director pay in peer group UK listed property companies, Watson Wyatt's Executive Reward Survey and the UK listed twenty companies (excluding investment trusts) above and below the Company by market capitalisation. In setting remuneration policy, the Committee takes into account investor guidelines.

The Executive Directors are encouraged to build a shareholding in the Company to one times the value of their annual salary within a five-year period of joining the Group. The Chief Executive is encouraged to hold shares to the value of one and a half times his annual salary.

Components of Executive Remuneration

An appropriate balance is maintained between fixed- and performance-related remuneration and between elements linked to short-term financial performance and those linked to long-term shareholder value creation. Base salary is the only component of remuneration that is pensionable. The table opposite shows the relative proportions of remuneration for each of the Executive Directors.

Remuneration Report

Chart 1 Relative Proportions of Remuneration

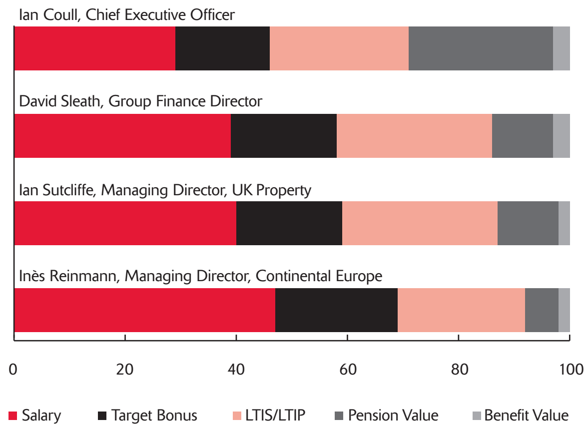


Chart 1 above indicates the relative proportions of remuneration utilising target levels of LTIS, LTIP and bonus.

Base Salary and Benefits

The salaries of the Executive Directors may be adjusted above or below the benchmark to reflect their responsibilities, experience and performance. Along with senior management, the Executive Directors receive a company car, or car allowance, life assurance and private medical insurance. Details of the Directors' base salary and benefits are given on page 70.

Bonus Scheme

The Bonus Scheme extends to all employees including the Executive Directors. Details of the performance criteria for 2008 are provided in Chart 2. In addition to financial targets, the Bonus Scheme contains an element of reward for the achievement of individual objectives and for the attainment of environmental, social and governance objectives. The Bonus Scheme is structured so as not to encourage inappropriate risk taking. There were no changes to the structure of the Bonus Scheme during 2008.

For 2009, a number of amendments to the Bonus Scheme will be implemented. The Committee believes these amendments provide targets which are as stretching those set in respect of the 2008 Bonus Scheme and that these amended targets are in keeping with the changing economic conditions and are in the interests of shareholders. The amendments to the Bonus Scheme will include the measurement of Group profit, cash delivered and new rental income secured in addition to other measures. The maximum bonus opportunity for Executive Directors remains the same as in 2008.

LTIP and LTIS (the Schemes)

As a result of the growth and development of the business and the conversion to REIT status, a review of the LTIS arrangements was undertaken by the Committee. Following this review, a new LTIP was approved by shareholders at the 2008 AGM and the first allocation under the LTIP was made in May 2008. There is no current intention to make further awards under the LTIS.

Awards are made annually and are determined by an assessment of both corporate and individual performance. Details of awards granted to the Executive Directors under the LTIP in 2008 and of existing awards under the LTIS are set out in the table on page 72. Awards under the Schemes vest after three years, subject to the achievement of performance targets and the approval of the Committee.

The performance conditions of the Schemes are detailed in the table overleaf and, in respect of the LTIP, are also illustrated in Chart 3. Total Property Return (TPR) measured in relation to the Investment Property Databank (IPD) and adjusted diluted earnings per share (EPS) were selected as suitable measures by the Committee for the 2008 allocation under the LTIP. TPR was selected for its close alignment to shareholder value and the IPD was selected as it is independent and provides for a measure of SEGRO's property portfolio performance relative to other UK property investments. Earnings per share was chosen as a performance condition as it underpins the delivery of earnings to shareholders. EPS is calculated according to the EPRA guidelines excluding valuation gains/losses and exceptional items. Adjusted diluted net asset value (NAV) is only utilised in existing LTIS awards and reflects the growth in the value of SEGRO's property assets.

Actual performance for NAV and EPS is calculated from the figures for NAV and EPS used in the Report and Accounts. These calculations are checked by the Auditors and are submitted to the Committee. In the event of a change of control of the Company, the Committee has the discretion to determine whether awards under the Schemes vest and, if so, over how many shares. In exercising this discretion, the Committee would refer to prevailing institutional investor guidelines, the financial performance of the Company and the portion of the performance period elapsed.

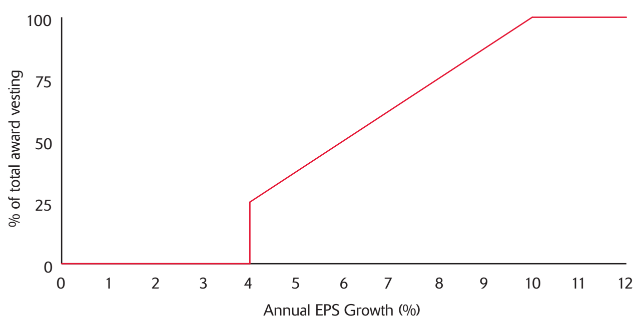
Remuneration Report

Chart 2 Conditions for Performance Related Pay

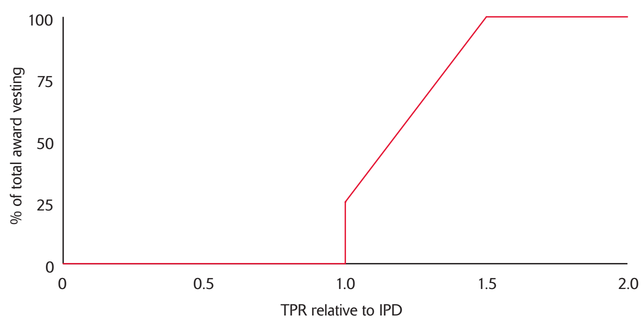
Scheme	Year of allocation	Allocation	Performance Conditions	Performance Period and weighting of performance conditions
LTIS	2005, 2006 and 2007	Up to 175 per cent of salary for CEO and up to 140 per cent of salary for other executives.	EPS – Shares under this part of the allocation vest on a straight line basis between 20 per cent and 100 per cent of the allocation, based on a minimum adjusted diluted EPS growth per annum of 4 per cent, with 100 per cent of the allocation vesting on achievement of adjusted diluted EPS growth of 11 per cent per annum and NAV – Shares under this part of the allocation vest on a straight line basis between 20 per cent and 100 per cent of the allocation, based on a minimum adjusted NAV of 4 per cent, with 100 per cent of the allocation vesting on achievement of adjusted diluted NAV growth of 8 per cent per annum.	EPS 60 per cent NAV 40 per cent, measured over a three-year period.
LTIP	2008	Up to 175 per cent of salary for CEO and up to 140 per cent of salary for other executives.	EPS – Shares under this part of the allocation vest on a straight line basis between 25 per cent and 100 per cent of the allocation, based on a minimum adjusted diluted EPS growth per annum of 4 per cent, with 100 per cent of the allocation vesting on achievement of adjusted diluted EPS growth of 10 per cent per annum and TPR – Shares under this part of the allocation vest on a straight line basis between 25 per cent and 100 per cent of the allocation. 25 per cent of the allocation vesting where TPR is equal to the IPD Index and 100 per cent of the allocation vesting where TPR is 1.5 per cent per annum above the IPD.	EPS 60 per cent TPR 40 per cent, measured over a three-year period.
Bonus Scheme	2008	CEO up to 100 per cent of base salary and up to 80 per cent of base salary for other executives.	Chief Executive – Group profit adjusted for one-off and certain other items (80 per cent) and individual performance (20 per cent). Other executives – Group profit adjusted for one-off and certain other items (40 per cent), divisional performance (24 per cent) and individual performance (16 per cent).	Based on performance for the financial year, bonus payment, if applicable normally made in the April following the year end.

Chart 3

LTIP EPS Performance Thresholds



LTIP TPR Relative Performance Thresholds



Remuneration Report

Summary of Employee Share Plans

Save As You Earn (SAYE)

For UK employees, the Company operates a HM Revenue & Customs (HMRC) approved SAYE Scheme. Each participant may save up to £250 a month to buy shares under option at the end of the option period. The option price for the 2008 grant was set at a 20 per cent discount to the market value of the shares. The Board intends to operate the SAYE Scheme on similar terms in 2009.

Share Incentive Plan (the SIP) and the Global Share Incentive Plan (GSIP)

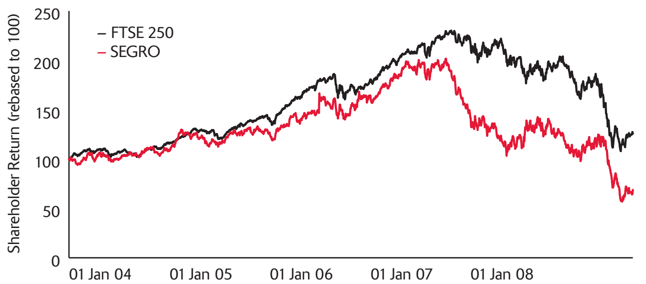
UK employees may participate in the SIP, which is a HMRC approved all-employee share plan. During 2008, the Board approved amendments to the operation of the SIP such that participating employees are awarded shares not only in relation to their salary, but also by reference to the Company's prior year performance, which is currently measured through Group profit before tax. Participating employees may be awarded shares annually up to a maximum of 7 per cent of gross annual salary or £3,000, whichever is the lower.

The GSIP is designed on a similar basis to the SIP, but is not HMRC approved and is operated for non-UK employees only. The Executive Directors' holdings under the SIP and GSIP are included in the table showing Directors' interests in shares on page 71.

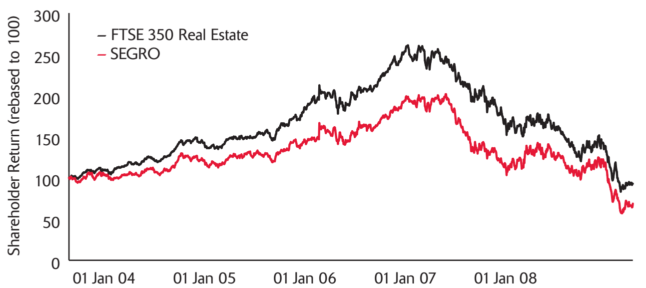
Total Shareholder Return

Below are charts showing total shareholder returns for the Company for each of the last five financial years compared to the FTSE 250 Index and the FTSE 350 Real Estate Index. The Company is a constituent of both the FTSE 250 Index and the FTSE 350 Real Estate Index and considers that both these indices provide an appropriate illustration of the Company's relative performance.

Total Shareholder Return – value of hypothetical £100 holding of shares



Total Shareholder Return – value of hypothetical £100 holding of shares



External Appointments

The Company welcomes Executive Directors taking appointments outside the Group as these roles can broaden the experience brought to the Board. Such appointments require the approval of the Board and are subject to consideration of the time commitment the appointment may require. Executive Directors may retain fees for external appointments. During the year Ian Coull was a Non-Executive Director of the London Regional Board of Royal SunAlliance plc and David Sleath was a Non-Executive Director of Bunzl plc. Details of the fees paid in respect of these appointments are disclosed on page 70 of this report.

Policy on Service Contracts

Executive Directors

Service agreements for each of the UK Executive Directors are on a twelve month rolling basis. The Executive Directors are required to give six months' notice to the Company except for Inès Reinmann, who is required to give three months' notice to the Company, the maximum permissible under the collective bargaining agreements in place in respect of employees contracted under French law. Should the Company terminate Inès Reinmann's contact, it will be required to pay one year's salary and any other payments applicable under French law. This arrangement will cease on 28 October 2009, this date being two years from the start of her employment with the Group.

The appointment and contract commencement dates for the Executive Directors are as follows:

Name	Date of Appointment	Date of Contract
Ian Coull	1 January 2003	1 January 2003
John Heawood	4 November 1996	17 October 2007
Walter Hens	1 January 2007	5 March 2008
Inès Reinmann	1 November 2008	1 September 2007
David Sleath	1 January 2006	16 May 2008
Ian Sutcliffe	1 July 2008	9 June 2008

Executive Directors may opt to continue in employment until age 65. Any proposals for the early termination of the service contracts of Executive Directors and senior executives are considered by the Committee taking into account contractual terms and the principles of mitigation. Payments made to John Heawood and Walter Hens on leaving the Group were made in accordance with the terms of their contracts and having considered appropriate mitigation. All such payments are disclosed in the tables on page 70.

Remuneration Report

Policy on Service Contracts (continued)

Non-Executive Directors

The fees payable to Non-Executive Directors are set by reference to those paid by comparable organisations for similar appointments and are reviewed annually by the Executive Directors with the support of the Group Director of Human Resources. Watson Wyatt provided advice in respect of the 2008 Non-Executive Director fee review.

The Non-Executive Directors do not participate in any of the Company's employee share plans nor do they receive any other benefits or rights under the pension schemes. While the Non-Executive Directors do not have service contracts, they have letters of engagement that inter alia prescribe their duties and obligations.

The appointment dates and service commencement/renewal dates of the Chairman and the Non-Executive Directors are as follows:

Name	Date of Appointment	Date of Service Agreement
Nigel Rich	1 July 2006	1 July 2006
Stephen Howard	16 May 2001	29 January 2004
Lord Blackwell	1 April 2001	29 January 2004
Lesley MacDonagh	1 January 2007	1 January 2007
Andrew Palmer	28 January 2004	28 January 2004
Christopher Peacock	28 January 2004	28 January 2004
Thom Wernink	23 May 2005	27 May 2005

Audited Information
Directors' Emoluments

	Salaries and fees £000	Additional Payments	Benefits £000	Bonus Scheme £000	Total 2008 £000	Total 2007 £000
Nigel Rich Chairman	220	–	–	–	220	220
Executive Directors						
Ian Coull Chief Executive	566	–	50	–	616	1,117
John Heawood[1]	162	460	64	70	756	583
Inès Reinmann[2]	53	–	2	–	55	–
David Sleath	373	–	32	–	405	718
Ian Sutcliffe[3]	240	63	13	384	700	–
Walter Hens[4]	360	132	60	60	612	645
Non-Executive Directors – Fees						
Lord Blackwell Senior Independent Director	52	–	–	–	52	44
Stephen Howard Chairman of the Remuneration Committee	49	–	–	–	49	44
Andrew Palmer Chairman of the Audit Committee	49	–	–	–	49	44
Christopher Peacock	43	–	–	–	43	38
Thom Wernink	43	–	–	–	43	38
Lesley MacDonagh	43	–	–	–	43	38
Total	**2,253**	**655**	**221**	**514**	**3,643**	**3,529**

1 John Heawood resigned from the Board with effect from 4 July 2008. In accordance with his contract, on leaving the Company, he received £467,337 which includes a payment in respect of severance and a monetary value assigned to benefits which will cease on 4 July 2009.
2 Inès Reinmann was appointed to the Board with effect from 1 November 2008.
3 Ian Sutcliffe was appointed to the Board with effect from 1 July 2008. His bonus payment for 2008 was fixed as part of the contractual terms agreed in respect of his appointment. He receives a cash supplement equivalent to 26% of his base salary with which he may supplement his pension.
4 Walter Hens retired from the Board with effect from 31 December 2008. In accordance with the terms of his contract, on leaving the Company, he was paid £131,670 and will receive a performance bonus of £60,303. He will also retain the use of his company car until 31 April 2009.

Ian Coull was paid a fee of £1,300 in respect of his services as a Non-Executive Director of the London Regional Board of Royal & SunAlliance plc and David Sleath was paid a fee of £64,667 as a Non-Executive Director of Bunzl plc.

Remuneration Report

Directors' Interests in Shares

The interests of the Directors and their immediate families in the ordinary shares of the Company at 1 January 2008 and 31 December 2008 were:

Number of ordinary shares	Beneficial interests 31.12.08 Ordinary $27^{1}/_{12}$p shares	01.01.08 Ordinary $27^{1}/_{12}$p shares
Nigel Rich	45,271	27,001
Lord Blackwell	5,807	5,807
Ian Coull	211,829	128,763
John Heawood*	68,131	67,385
Walter Hens	23,822	23,822
Stephen Howard	6,923	6,923
Lesley MacDonagh	5,000	5,000
Andrew Palmer	3,692	3,692
Christopher Peacock	7,972	7,972
Inès Reinmann	–	–
David Sleath	46,002	17,708
Ian Sutcliffe	–	–
Thom Wernink	9,230	9,230

* John Heawood's beneficial interests as at 4 July 2008.

Beneficial interests in the table above represent shares beneficially held by each Director; this includes any ordinary shares held on behalf of the Executive Directors by the Trustees of the SIP, the GSIP and shares beneficially owned by spouses and children under 18 of the Directors. Between 31 December 2008 and 4 March 2009 there were no changes in respect of the Directors' shareholdings. Nigel Rich has a technical interest, not disclosed in the table above, in 5,722 shares as a result of a trusteeship he holds; he has no voting rights over these shares.

As at 31 December 2008, 1,829,028 shares (2007: 2,344,136 shares) were held by the Trustees of the 1994 SEGRO plc Employees' Benefit Trust. The Trustees of the SIP held non-beneficial interest in 285,340 and 511,464 shares as at 31 December 2008 and 1 January 2008 respectively. There have been no changes to these holding since year end. As with other employees, the Directors are deemed to have a potential interest in these shares, being beneficiaries under the trusts.

Remuneration Report

LTIS and LTIP

	No of shares under award 01.01.08	No of shares lapsed/ not released	No of shares over which awards granted	Market value of shares on grant (pence)	No of shares released	Market value on date of release (pence)	No of shares under award 31.12.08	End of performance period over which performance conditions have to be met
Ian Coull								
04.05.05 LTIS	123,421	10,984		480	112,437	474.5		
25.05.06 LTIS	108,112			601			108,112	31.12.08
29.06.07 LTIS	136,223			625			136,223	31.12.09
30.05.08 LTIP			240,152	416.5			240,152	31.12.10
Total	**367,756**						**484,487**	
John Heawood								
04.05.05 LTIS	53,305	4,744		480	48,561	474.5		
25.05.06 LTIS	45,824			601			45,824	31.12.08
29.06.07 LTIS	46,390			625			46,390	31.12.09
Total	**145,519**						**92,214**	
Inès Reinmann*								
26.11.07 LTIS	42,251			417			42,251	31.12.09
30.05.08 LTIP			72,196	416.5			72,196	31.12.10
Total	**42,251**						**114,447**	
David Sleath								
04.05.05 LTIS	51,254	4,562		480	46,692	474.5		
25.05.06 LTIS	50,916			601			50,916	31.12.08
29.06.07 LTIS	66,047			625			66,047	31.12.09
30.05.08 LTIP			124,524	416.5			124,524	31.12.10
Total	**168,217**						**241,487**	
Ian Sutcliffe**								
30.05.08 LTIP			243,964	416.5			243,964	31.12.10
Total	**Nil**						**243,964**	
Walter Hens								
25.05.06 LTIS	34,385			601			34,385	31.12.08
29.06.07 LTIS	60,707			625			60,707	31.12.09
30.05.08 LTIP			106,734	416.5			106,734	31.12.10
Total	**95,092**						**201,826**	

* Inès Reinmann's award under the LTIS was granted following the commencement of her employment in November 2007 and will be considered for release at the same time as awards made under the LTIS to other Senior Executives in June 2007.

** As part of the terms agreed in respect of the appointment of Ian Sutcliffe, he was awarded shares under the LTIP equivalent in value to 200% of his base salary. 170,775 of these shares are subject to the performance conditions for LTIP described above. The remaining 73,189 shares are not subject to any performance conditions. It is the current intention of the Committee that any future awards made to Ian Sutcliffe under the LTIP, will be made in accordance with policies applying to the other Executive Directors.

Remuneration Report

SAYE Options

	No of shares under option at 01.01.08	Option price (pence)	No of shares under option at 31.12.08	Period in which options can be exercised
Ian Coull	4,726	372.4	4,726	01.05.11-31.10.11
John Heawood*	2,298	411.2	2,298	01.10.10-31.03.11
Walter Hens	Nil			
David Sleath	3,982	411.2	3,982	01.10.12-31.03.13
Inès Reinmann	Nil			
Ian Sutcliffe	Nil			

* John Heawood resigned from the Board with effect from 4 July 2008.

Between 31 December 2008 and 4 March 2009 there were no changes to the above option figures. No Directors held options under any of the Company's legacy Executive Option Schemes during 2008. There were no aggregate gains made on the exercise of options during the year.

The market price of the shares as at 31 December 2008 was 247 pence. The highest and lowest market prices of ordinary shares during the financial year were 538 pence and 204.75 pence.

Pension and Retirement Benefits

Pension policy for Executive Directors has not been changed during 2008. The SEGRO Pension Scheme is contracted-out of the State Second Pension, it is HMRC registered and has been registered with the Pensions Regulator.

Ian Coull will be entitled at age 62 to a total pension of two-thirds of his final pensionable salary less any retained benefits from prior employment. The pension provided for Ian Coull comes from two sources. In respect of his salary up to the HMRC Notional Earnings Cap (currently £117,600) Ian Coull accrues pension in the SEGRO Pension Scheme. The remaining pension is accrued via the Unfunded Unapproved Retirement Benefits Scheme (UURBS) Arrangement, for which provision is being made in the accounts. The UURBS will be the balance of the total pension over and above the SEGRO Pension Scheme.

Final pensionable salary and retained benefits will be as defined in the rules (as modified by the UURBS) of the SEGRO Scheme, of which he is a member.

The Company will provide the Company pension by means of the UURBs. The Company may provide this as either as a regular monthly income in retirement, or a cash lump sum in lieu of the pension which would otherwise have been payable.

The pension for David Sleath is provided through the SEGRO Pension Scheme and his pension benefits were agreed to broadly target a pension at age 62 of two-thirds of final pensionable salary less any retained benefits from previous employment. Upon reaching the target, David Sleath may then accrue a pension of 1/60th of final pensionable salary for every completed year of subsequent service, which is in line with ordinary members of the SEGRO Pension Scheme who continue in employment with SEGRO beyond their normal retirement age. John Heawood participated in the SEGRO pension scheme on a similar basis to David Sleath and resigned from the Board on 4 July 2008.

Ian Sutcliffe participates in the defined contribution section of the SEGRO Pension Scheme on the same basis as other UK employees. He contributes 6 per cent of his pensionable salary and the Company makes a contribution of 12 per cent of his pensionable salary. Pensionable salary is defined as his base salary up to the HMRC Notional Earnings Cap.

Inès Reinmann is based in France and participates in the French social security and mandatory supplementary pension arrangements. The Company provides an additional pension contribution of 5.75 per cent of salary up to 8 times the social security ceiling under a voluntary collective retirement plan for senior executives in France. Inès Reinmann does not contribute to the voluntary collective retirement plan. Her pension arrangements were not altered on appointment to the Board on 1 November 2008. Under the applicable Collective Agreement, Inès Reinmann will be eligible to receive a retirement indemnity of 1.5 times her monthly final contractual salary.

Prior to his appointment to the Board on 1 January 2007, Walter Hens participated in the defined contribution retirement plan which was established for SEGRO employees in Belgium. With effect from 1 January 2008, the Company established an individual defined contribution retirement plan for Walter Hens with an insurance company and he ceased to participate as an active member of the SEGRO employee retirement plan in Belgium. The Company made a contribution on behalf of Walter Hens of 9.725 per cent of salary and Walter Hens contributed 4.8 per cent of salary.

In addition to participating in a defined contribution arrangement there is a deferred compensation arrangement, held in Belgium, in respect of Walter Hens which he will be the beneficiary of in 2013 or earlier if he should choose to take his Belgian State Pension sooner than 2013. The contributions to this arrangement were in respect of bonus payments which Walter Hens has been awarded in previous years of service. No contributions to this arrangement have been made since 2004 and no further contributions will be made.

Remuneration Report

Pension and Retirement Benefits (continued)

Set out below are details of the pension benefits to which each of the Executive Directors is entitled in respect of the disclosure required by Schedule 8, Paragraph 13 of the large and medium-sized Companies and Groups (Accounts and Reports) Regulations. The values given below include the effect of inflation.

Director	Additional accrued pension earned in the year £ p.a.	Accrued pension at 31.12.08 £ p.a.	Transfer value at 31.12.07 £*	Transfer value at 31.12.08 £*	Increase in transfer value less Directors' contributions £
Ian Coull	37,487	153,868	1,776,736	2,588,525	777,814
John Heawood‡	1,468	47,270	638,173	1,164,686	497,872
David Sleath	13,099	31,856	164,747	327,085	139,988

* Transfer values have been calculated in accordance with Actuarial Guidance note GN11. They do not represent sums payable to individual Directors.
‡ Mr Heawood resigned from the Company on 4 July 2008. His accrued interest is shown at the end of the year as being the pension in payment at that time and the transfer value has been calculated using that amount.

The accrued pension entitlement is the amount of retained benefit to which the Executive Directors would be entitled if they left service at the year end. Retained benefits are payable from normal retirement age.

Set out below are details of the pension benefits for each of the Executive Directors for the disclosure required under Rule 9.8.8 (12) of the Listing Rules which are not shown above. The values given below exclude the effect of inflation from their calculation.

Defined Benefit Schemes

Director	Additional accrued pension in the year excluding inflation £ p.a.	Transfer value of increase in accrued pension less Directors contributions £
Ian Coull	32,948	505,769
John Heawood*	-319	-35,642
David Sleath	12,368	104,344

* John Heawood left the Company and, therefore, left the SEGRO Pension Scheme early and his pension was reduced accordingly.

Defined Contribution Schemes

Director	Company contributions less Director contributions
Walter Hens	€35,010
Inès Reinmann	€7,692
Ian Sutcliffe	£7,056

Pension Entitlement in the Event of Severance

On leaving service before retirement age, the Executive Directors are ordinarily entitled to retirement benefits in line with the rules of the relevant pension scheme.

Former Directors

Ex-gratia payments to former Directors and their dependants £65,230 (2007: £64,148).

Lord MacGregor, a former Director, was appointed as a Company nominated Trustee of the SEGRO Scheme on 1 June 2006. He received fees from the Company of £31,000 (2007: £30,000). Richard Kingston, a former Director, was appointed as a Company nominated Trustee of the SEGRO Scheme on 1 January 2007. He received fees from the Company of £15,000.

Walter Hens has been engaged to perform services for the Company in the capacity as a consultant. At the date of this Report he had not performed in this capacity.

Approval

At the AGM of the Company to be held on 30 April 2009 an ordinary resolution approving this report will be proposed. This report was approved by the Board of Directors on 4 March 2009 and signed on its behalf by order of the Board.

Stephen Howard
Chairman of the Committee
4 March 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

ID Coull
Chief Executive Officer
4 March 2009

DJR Sleath
Group Finance Director
4 March 2009

Independent Auditors' Report to the members of SEGRO plc

We have audited the Group and Parent Company financial statements (the ''financial statements'') of SEGRO plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense, the Group and Parent Company Reconciliation of Movements in Equity and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
4 March 2009

Group income statement

For the year ended 31 December 2008

Continuing operations	Notes	2008 Adjusted income & expense[1] £m	2008 Adjustments[2] £m	2008 Total income & expense £m	2007 Adjusted income & expense[1] £m	2007 Adjustments[2] £m	2007 Total income & expense £m
Revenue	3	**414.7**	**–**	**414.7**	342.8	–	342.8
Gross property rental income	3	**321.4**	**–**	**321.4**	258.8	–	258.8
Property operating expenses		**(76.5)**	**–**	**(76.5)**	(54.9)	0.9	(54.0)
Net property rental income		**244.9**	**–**	**244.9**	203.9	0.9	204.8
Profit on sale of trading properties less provisions	2	**23.9**	**–**	**23.9**	22.0	–	22.0
Share of profits/(losses) from property joint ventures after tax	7	**9.9**	**(17.3)**	**(7.4)**	4.0	1.6	5.6
Other investment income	4	**1.7**	**–**	**1.7**	18.4	–	18.4
Administration expenses	5	**(40.0)**	**(2.6)**	**(42.6)**	(34.5)	–	(34.5)
Property losses	6	**–**	**(1,010.4)**	**(1,010.4)**	–	(382.2)	(382.2)
Operating profit/(loss)		**240.4**	**(1,030.3)**	**(789.9)**	213.8	(379.7)	(165.9)
Finance income	8	**11.3**	**3.8**	**15.1**	17.6	3.5	21.1
Finance costs	9	**(127.8)**	**(36.6)**	**(164.4)**	(100.1)	(1.6)	(101.7)
Profit/(loss) before tax		**123.9**	**(1,063.1)**	**(939.2)**	131.3	(377.8)	(246.5)
Tax (charge)/credit – current		**(3.5)**	**(1.2)**	**(4.7)**	(2.4)	(13.9)	(16.3)
– deferred		**0.7**	**5.1**	**5.8**	0.5	17.9	18.4
Total tax	10	**(2.8)**	**3.9**	**1.1**	(1.9)	4.0	2.1
Profit/(loss) from continuing operations		**121.1**	**(1,059.2)**	**(938.1)**	129.4	(373.8)	(244.4)
Discontinued operations							
Profit after tax from discontinued operations	33	**–**	**–**	**–**	18.7	151.9	170.6
Profit/(loss) for the year		**121.1**	**(1,059.2)**	**(938.1)**	148.1	(221.9)	(73.8)
Attributable to equity shareholders		**121.5**	**(1,059.6)**	**(938.1)**	147.6	(222.5)	(74.9)
Attributable to minority interests		**(0.4)**	**0.4**	**–**	0.5	0.6	1.1
		121.1	**(1,059.2)**	**(938.1)**	148.1	(221.9)	(73.8)
Earnings per share							
From continuing and discontinued operations							
Basic loss per share				**(215.9p)**			(16.4p)
Diluted loss per share				**(215.9p)**			(16.4p)
From continuing operations							
Basic loss per share	12			**(215.9p)**			(53.6p)
Diluted loss per share	12			**(215.9p)**			(53.6p)

Notes

1. 'Adjusted income & expense' relates to the Group's income and expense after EPRA adjustments and excluding exceptional items.
2. EPRA adjustments arise from adopting the recommendations of the Best Practices Committee of the European Public Real Estate Association (EPRA) as appropriate. Exceptional items are disclosed separately due to their size or incidence to enable a better understanding of performance. Both these types of adjustments are detailed in note 12.

Accounts

Statements of recognised income and expense (SORIE)

For the year ended 31 December 2008

		Group		Company	
Continuing and discontinued operations	Notes	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Exchange movement arising on translation of international operations		**64.8**	14.3	**–**	–
Revaluation gains on properties in the course of development	6	**15.9**	3.3	**–**	–
Actuarial (losses)/gains on defined benefit pension schemes	22	**(17.2)**	6.8	**(17.2)**	6.6
(Decrease)/increase in value of available-for-sale investments	15	**(3.8)**	8.1	**–**	–
Tax on items taken directly to equity		**(0.5)**	0.1	**–**	–
Net gain/(loss) recognised directly in equity		**59.2**	32.6	**(17.2)**	6.6
Transfer to income statement on sale of available-for-sale investments		**(1.4)**	(4.3)	**–**	–
Transfer to income statement exchange realised on sale of US property business		**–**	3.5	**–**	–
(Loss)/profit for the year from continuing operations		**(938.1)**	(244.4)	**(241.9)**	686.0
Profit for the year from discontinued operations	33	**–**	170.6	**–**	–
Total recognised income and expense for the year		**(880.3)**	(42.0)	**(259.1)**	692.6
Attributable to equity shareholders		**(881.6)**	(43.1)	**(259.1)**	692.6
Attributable to minority interests		**1.3**	1.1	**–**	–
		(880.3)	(42.0)	**(259.1)**	692.6

Reconciliation of movements in equity

As at 31 December 2008

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Balance at 1 January	**2,989.7**	3,382.4	**2,018.1**	1,669.9
Exchange movements	**64.8**	14.3	**–**	–
Retained (loss)/profit	**(938.1)**	(74.9)	**(241.9)**	686.0
Other items in SORIE	**(5.6)**	18.3	**(17.2)**	6.6
Shares issued	**1.9**	1.7	**1.9**	1.7
Dividends paid	**(100.0)**	(341.9)	**(100.0)**	(341.9)
Other	**(4.5)**	(1.2)	**1.7**	(4.2)
Minority interests	**1.0**	(9.0)	**–**	–
Balance at 31 December	**2,009.2**	2,989.7	**1,662.6**	2,018.1

Balance sheets

As at 31 December 2008

		Group		Company	
	Notes	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Assets					
Non-current assets					
Goodwill		**1.0**	0.8	**–**	–
Investment and development properties	13	**4,311.1**	4,761.9	**–**	–
Owner occupied properties	13	**11.1**	13.1	**–**	–
Plant and equipment		**9.1**	5.8	**–**	–
Investments in subsidiaries	7	**–**	–	**3,840.4**	3,800.8
Investments in joint ventures	7	**67.5**	73.4	**5.5**	5.5
Finance lease receivables	14	**10.2**	10.4	**–**	–
Available-for-sale investments	15	**41.9**	39.5	**–**	–
Deferred tax asset		**–**	–	**4.3**	4.3
		4,451.9	4,904.9	**3,850.2**	3,810.6
Current assets					
Trading properties	13	**357.8**	236.0	**–**	–
Trade and other receivables	16	**136.2**	134.5	**22.1**	18.8
Cash and cash equivalents	17	**165.8**	348.3	**1.3**	72.8
Tax recoverable		**1.2**	0.7	**–**	–
Finance lease receivables	14	**0.2**	0.1	**–**	–
		661.2	719.6	**23.4**	91.6
Total assets		**5,113.1**	5,624.5	**3,873.6**	3,902.2
Liabilities					
Non-current liabilities					
Borrowings	18	**2,575.3**	1,997.3	**1,724.9**	1,365.9
Deferred tax provision	20	**78.2**	65.4	**–**	–
Provisions for liabilities and charges		**7.1**	4.4	**6.6**	3.7
Trade and other payables	21	**17.5**	18.7	**352.3**	235.2
		2,678.1	2,085.8	**2,083.8**	1,604.8
Current liabilities					
Borrowings	18	**86.3**	41.8	**–**	7.5
Tax liabilities		**25.6**	283.3	**10.2**	225.6
Trade and other payables	21	**313.9**	223.9	**117.0**	46.2
		425.8	549.0	**127.2**	279.3
Total liabilities		**3,103.9**	2,634.8	**2,211.0**	1,884.1
Net assets		**2,009.2**	2,989.7	**1,662.6**	2,018.1
Equity					
Share capital	23	**118.3**	118.1	**118.3**	118.1
Share premium	24	**370.6**	368.9	**370.6**	368.9
Own shares held	25	**(13.4)**	(16.8)	**(13.4)**	(16.8)
Revaluation reserve	26	**438.4**	1,535.7	**–**	–
Other reserves	26	**36.6**	66.0	**48.6**	50.6
Retained earnings	26	**1,057.0**	917.1	**1,138.5**	1,497.3
Total shareholders' equity		**2,007.5**	2,989.0	**1,662.6**	2,018.1
Minority interests		**1.7**	0.7	**–**	–
Total equity		**2,009.2**	2,989.7	**1,662.6**	2,018.1
Net assets per ordinary share					
Basic	12	**462p**	690p		
Diluted	12	**462p**	689p		

The financial statements on pages 77 to 115 were approved by the Board of Directors and authorised for issue on 4 March 2009 and signed on its behalf by:

ID Coull
DJR Sleath
Directors

Cash flow statements

For the year ended 31 December 2008

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash flows from operating activities	31(i)	**226.0**	181.9	**(52.7)**	(17.4)
Interest received on deposits and loans		**14.2**	22.9	**99.9**	132.0
Dividends received		**6.5**	3.8	**86.1**	635.2
Interest paid		**(174.3)**	(147.5)	**(143.0)**	(87.8)
Minority dividends paid		**–**	(1.3)	**–**	–
Tax (paid)/recovered		**(59.1)**	(40.4)	**(0.3)**	5.3
Net cash received from/(used in) operating activities		**13.3**	19.4	**(10.0)**	667.3
Cash flows from investing activities					
Purchase of subsidiary undertakings (net of cash acquired)		**–**	(95.8)	**–**	–
Sale of US property business (net of cash disposed of)		**(7.3)**	1,451.9	**–**	–
Tax paid on sale of US property business		**(217.0)**	(87.2)	**(217.0)**	–
Sale of Slough Heat & Power		**(6.2)**	47.8	**(3.9)**	–
Purchase and development of investment properties		**(283.2)**	(390.7)	**–**	–
Sale of investment properties		**199.9**	193.4	**–**	–
Purchase and development of property, plant and equipment		**(120.6)**	(249.7)	**–**	–
Sale of property, plant and equipment		**1.2**	13.9	**–**	–
Purchase of available-for-sale investments		**(3.8)**	(4.7)	**–**	–
Proceeds from disposal of available-for-sale investments		**8.6**	27.6	**–**	–
Additional net investment in subsidiary undertakings		**–**	–	**(203.2)**	(123.6)
Loan repayments by/(advances to) subsidiary undertakings		**–**	–	**188.4**	(33.7)
Investments and loans to joint ventures		**(0.7)**	(21.0)	**–**	–
Loan repayments by/(advances to) joint ventures		**0.5**	5.2	**2.4**	(9.4)
Acquisition of minority interests		**–**	(20.7)	**–**	–
Transfer from/(to) restricted deposits		**4.1**	(0.2)	**–**	–
Net cash (used in)/received from investing activities		**(424.5)**	869.8	**(233.3)**	(166.7)
Cash flows from financing activities					
Dividends paid to ordinary shareholders		**(100.6)**	(335.9)	**(100.6)**	(335.9)
Proceeds from loans		**615.3**	62.4	**319.0**	43.8
Repayment of loans		**(223.3)**	(244.7)	**(47.4)**	(151.8)
Net decrease in other borrowings		**(109.6)**	(179.6)	**–**	–
Proceeds from the issue of ordinary shares		**1.9**	1.7	**1.9**	1.7
Purchase of own shares		**(0.4)**	(7.4)	**(0.4)**	(7.4)
Net cash received from/(used in) financing activities		**183.3**	(703.5)	**172.5**	(449.6)
Net (decrease)/increase in cash and cash equivalents		**(227.9)**	185.7	**(70.8)**	51.0
Cash and cash equivalents at the beginning of the year		**340.2**	151.0	**72.5**	20.8
Effect of foreign exchange rate changes		**50.2**	3.5	**(0.7)**	0.7
Cash and cash equivalents at the end of the year		**162.5**	340.2	**1.0**	72.5
Cash and cash equivalents per balance sheet	17	**165.8**	348.3	**1.3**	72.8
Less restricted deposits	31(ii)	**–**	(4.1)	**–**	–
Bank overdrafts		**(3.3)**	(4.0)	**(0.3)**	(0.3)
Cash and cash equivalents per cash flow		**162.5**	340.2	**1.0**	72.5

Notes to the financial statements

1. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC Interpretations, and the Companies Act 1985 applicable to companies reporting under IFRS. In addition, the Group has also followed best practice recommendations issued by the European Public Real Estate Association (EPRA) as appropriate.

The financial statements have been prepared on a going concern basis. This is discussed in the Financial Review.

The Directors have taken advantage of the exemption offered by Section 230 of the Companies Act 1985 not to present a separate income statement for the Parent Company. The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties, available-for-sale investments and financial assets and liabilities held for trading. These financial statements are presented in sterling since that is the currency in which the majority of the Group's transactions are denominated.

Management believes that the judgements, estimates and associated assumptions used in the preparation of the financial statements are reasonable, however actual results may differ from these estimates. Critical judgements, where made, are disclosed within the relevant section of the financial statements to which such judgements have been applied. The key estimates and assumptions relate to the property valuations applied by the Group's property valuers, the actuarial assumptions used in calculating the Group's retirement benefit obligations, valuation of share options granted under share-based payment schemes and in the determination of the valuation of available-for-sale investments, and are described in more detail in the accounting policy notes below, or the applicable note to the financial statements.

During 2008, the following accounting standards and guidance became effective and were adopted by the Group:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions; and
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The following published standards and interpretations to existing standards that are not yet effective (and in some cases have not been adopted by the EU) have not been adopted early by the Group:

- IAS 39 (amended)/IFRS 7 (amended), Reclassification of Financial Instruments/Reclassification of Financial Assets: Effective Date and Transition;
- IFRS 1 (amended)/IAS 27 (amended), Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- IFRS 2 (amended), Share-based Payments – Vesting Conditions and Cancellations;
- IFRS 3 (revised 2008), Business Combinations;
- IFRS 8, Operating Segments;
- IAS 1 (revised 2007), Presentation of Financial Statements;
- IAS 23 (revised 2007), Borrowing Costs;
- IAS 27 (revised 2008), Consolidated and Separate Financial Statements;
- IAS 39 (amended), Financial Instruments: Recognition and Measurement: Eligible Hedged Items;
- IFRIC 15, Agreements for the Construction of Real Estate;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation;
- IFRIC 17, Distributions of Non-cash Assets to Owners;
- IFRIC 18, Transfer of Assets from Customers; and
- Improvements to IFRSs (May 2008).

It is not expected that these will have any significant future impact on the Group's accounts, except for:

- potential changes to segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009; and
- an amendment to IAS 40 Investment Property (Improvements to IFRSs (May 2008)). All investment property in the course of construction will be recognised in investment property and measured at fair value through the income statement. Currently, properties acquired to be developed for future use as investment properties are treated as development property. Any fair value movements for such properties are recorded directly in the revaluation reserve, rather than through the income statement. It is not possible to estimate the impact that this is expected to have on the Group's financial statements when the amendment is adopted.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the Group, plus the Group's share of the results and net assets of the joint ventures. The Company holds investments in subsidiaries and joint ventures at cost. A joint venture is a contract under which the Group and other parties undertake an activity or invest in an entity, under joint control. The Group uses equity accounting for such entities, carrying its investment at cost plus the movement in the Group's share of net assets after acquisition, less impairment.

Presentation of Group income statement

The Group income statement has been presented by analysing the results into three columns; Adjusted income and expense, Adjustments and Total income and expense. In addition, the results of the property joint ventures have been included immediately after net property rental income and profit on sale of trading properties. This differs from the normal position set out in IAS 1 – Presentation of Financial Statements, so as to reflect the property income of the Group together within the Group income statement.

Notes to the financial statements

1. Significant accounting policies (continued)

Foreign currency transactions
Foreign currency transactions are translated into sterling at the exchange rates ruling on the transaction date. Foreign exchange gains and losses resulting from settling these, or from retranslating monetary assets and liabilities held in foreign currencies, are booked in the Group income statement. The exception is for foreign currency loans that hedge investments in foreign subsidiaries, where exchange differences are booked in equity until the investment is realised.

Consolidation of foreign entities
Assets and liabilities of foreign entities are translated into sterling at exchange rates ruling at the balance sheet date. Their income, expenses and cash flows are translated at the average rate for the period or at spot rate for significant items. Resultant exchange differences are booked in reserves and recognised in the income statement when the operation is sold.

Investment properties
These properties comprise freehold and leasehold properties and are first measured at cost (including transaction costs), then revalued to market value at each reporting date by professional valuers. Leasehold properties are shown gross of the leasehold payables (which are accounted for as finance lease obligations). Valuation gains and losses in a period are taken to the income statement, and then reclassified to revaluation reserves (until realisation on the sale of the property). As the Group uses the fair value model as per IAS 40, no depreciation is provided.

Development properties
These comprise properties acquired to be developed for future use as investment properties, as well as completed properties occupied by Group entities, and are initially measured at cost including capitalised interest where applicable. Development properties are fair valued on the same basis as investment properties with revaluation movements being booked in the revaluation reserve through the statement of recognised income and expense, with deficits below cost taken to the income statement. Subsequent revaluation gains are taken to the income statement, but only to the extent of cumulative net deficits previously charged to the income statement.

Trading properties
These are properties developed and held for sale, and are shown at the lower of cost and net realisable value. Cost includes direct expenditure and capitalised interest.

Property purchases and sales
Property purchases and sales are recognised on the date of unconditional exchange, or, where exchange is conditional, on the date that the conditions have been satisfied.

Leases
Leases where substantially all of the risks and rewards of ownership are transferred to the lessee, are classified as finance leases. All others are deemed operating leases. Under operating leases, properties leased to tenants are accounted for as investment properties. In cases where only the buildings part of a property lease qualifies as a finance lease, the land is shown as an investment property.

Revenue
Revenue includes rent, income from service charges and proceeds from the sale of trading properties.

Rental income
This includes net income from managed operations. Rentals from properties let as operating leases are recognised on a straight-line basis over the lease term. Lease incentives and initial costs to arrange leases are capitalised, then amortised on a straight-line basis over the lease term. For properties let as finance leases, 'minimum lease receipts' are apportioned between finance income and principal repayment, but receipts that were not fixed at lease inception (e.g. rent review rises), are booked as income when earned. Surrender premiums received in the period are included in rental income.

Service charges and other recoveries from tenants
These include income in relation to service charges, directly recoverable expenditure and management fees. Revenue from services is recognised by reference to the state of completion of the relevant services provided at the reporting date.

Financial Instruments
Borrowings
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest rate method.

Gross borrowing costs relating to direct expenditure on properties under development or undergoing major refurbishment are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowing. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Notes to the financial statements

1. Significant accounting policies (continued)

Financial Instruments (continued)

Derivative financial instruments

The Group uses derivatives (especially interest rate swaps) in managing interest rate risk, and does not use them for trading. They are recorded, and subsequently revalued, at fair value, with revaluation gains or losses being immediately taken to the income statement. The exception is for derivatives qualifying as hedges, when the treatment of the gain/loss depends upon the item being hedged. None of the Group's interest rate derivatives qualify as a hedge. However, there are USD and euro forward currency sales that have been designated as effective net investment hedges.

Trade and other receivables and payables

Trade and other receivables are booked at fair value. An impairment provision is created where there is objective evidence that the Group will not be able to collect in full. Trade and other payables are stated at cost, since cost is a reasonable approximation of fair value.

Available-for-sale (AFS) investments

AFS investments are initially measured at cost, and then revalued to market value based on quarterly reports received from the fund manager, or other market evidence where publicly traded. Gains and losses arising from valuation are taken to equity, and then recycled through the income statement on realisation. If there is objective evidence that the asset is impaired, any cumulative loss recognised in equity is removed from equity and recognised in the income statement.

Pensions – Defined benefit schemes

The schemes' assets are measured at fair value, their obligations are calculated at discounted present value, and any net surplus or deficit is recognised in the balance sheet. Operating and financing costs are charged to the income statement, with service costs spread systematically over employees' working lives, and financing costs expensed in the period in which they arise. Actuarial gains and losses are recognised through equity in the statement of recognised income and expense. Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognisable asset is limited to that for which the Group can benefit in the future. Professional actuaries are used in relation to defined benefit schemes and the assumptions made are outlined in note 22.

Share-based payments

The cost of granting share options and other share-based remuneration is recognised in the income statement at their fair value at grant date. They are expensed straight-line over the vesting period, based on estimates of the shares or options that will eventually vest. Charges are reversed if it appears that performance will not be met. Options are valued using the Black-Scholes model.

2. Segmental analysis

2(i) – Geographical segments

	United Kingdom		Continental Europe		Group	
Adjusted profit	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Segment revenue	**218.8**	254.9	**195.9**	87.9	**414.7**	342.8
Net property rental income – investment properties	**156.0**	160.1	**76.6**	35.6	**232.6**	195.7
Net property rental income – trading properties	**(0.2)**	–	**12.5**	8.2	**12.3**	8.2
Proceeds on sale of trading properties	**13.3**	48.3	**80.0**	35.7	**93.3**	84.0
Carrying value of trading properties sold	**(8.7)**	(33.4)	**(60.7)**	(28.6)	**(69.4)**	(62.0)
Profit on sale of trading properties	**4.6**	14.9	**19.3**	7.1	**23.9**	22.0
Share of profits/(losses) from property joint ventures after tax						
– investment properties	**2.7**	2.3	**0.2**	0.2	**2.9**	2.5
– trading properties	**(2.2)**	3.2	**9.2**	(1.7)	**7.0**	1.5
Other investment income	**1.7**	18.4	**–**	–	**1.7**	18.4
Administration expenses	**(21.3)**	(23.1)	**(18.7)**	(11.4)	**(40.0)**	(34.5)
Adjusted operating profit	**141.3**	175.8	**99.1**	38.0	**240.4**	213.8
Net finance costs	**(63.1)**	(54.4)	**(53.4)**	(28.1)	**(116.5)**	(82.5)
Adjusted profit before tax	**78.2**	121.4	**45.7**	9.9	**123.9**	131.3
Adjustments	**(997.5)**	(436.8)	**(65.6)**	59.0	**(1,063.1)**	(377.8)
(Loss)/profit before tax	**(919.3)**	(315.4)	**(19.9)**	68.9	**(939.2)**	(246.5)

Notes to the financial statements

2. Segmental analysis (continued)

2(i) – Geographical segments (continued)

Summary balance sheet	United Kingdom 2008 £m	United Kingdom 2007 £m	Continental Europe 2008 £m	Continental Europe 2007 £m	Group 2008 £m	Group 2007 £m
Total property assets	**2,607.7**	3,672.4	**2,072.3**	1,338.6	**4,680.0**	5,011.0
Net borrowings	**(1,220.7)**	(791.4)	**(1,275.1)**	(899.4)	**(2,495.8)**	(1,690.8)
Other net liabilities	**(105.1)**	(274.7)	**(69.9)**	(55.8)	**(175.0)**	(330.5)
Segment net assets	**1,281.9**	2,606.3	**727.3**	383.4	**2,009.2**	2,989.7
Capital expenditure in the year	**105.7**	236.4	**358.4**	532.6	**464.1**	769.0

2(ii) – Business segments

	Investment property 2008 £m	Investment property 2007 £m	Trading property 2008 £m	Trading property 2007 £m	Other activities 2008 £m	Other activities 2007 £m	Group 2008 £m	Group 2007 £m
Segment revenue	**303.4**	248.9	**111.3**	93.9	**–**	–	**414.7**	342.8
Segment net assets/(liabilities)	**4,148.5**	4,652.4	**398.4**	264.5	**(2,537.7)**	(1,927.2)	**2,009.2**	2,989.7
Capital expenditure in the year	**363.3**	680.6	**96.3**	85.7	**4.5**	2.7	**464.1**	769.0

3. Revenue

	2008 £m	2007 £m
Rental income received from investment properties	**264.9**	215.7
Rent averaging	**4.9**	9.0
Surrender premiums	**9.5**	11.6
Interest received on finance lease assets	**0.8**	0.8
Service charge income	**23.3**	11.8
Investment property rental income	**303.4**	248.9
Trading property rental income	**18.0**	9.9
Gross property rental income	**321.4**	258.8
Proceeds from sale of trading properties	**93.3**	84.0
Total revenue	**414.7**	342.8

4. Other investment income

	2008 £m	2007 £m
Net profit on available-for-sale investments	**0.3**	10.2
Transfer of fair value surplus realised on sale of available-for-sale investments	**1.2**	7.9
Dividends from available-for-sale investments	**0.2**	0.3
Total other investment income	**1.7**	18.4

Notes to the financial statements

5. Administration expenses

	2008 £m	2007 £m
Directors' remuneration	**3.7**	3.6
Depreciation	**2.0**	1.3
Other administration expenses	**36.9**	29.6
Total administration expenses	**42.6**	34.5

In addition to the above, Directors' remuneration in 2007 included an additional £1.2 million paid in relation to Directors of discontinued operations. The full 2008 depreciation charge, including amounts charged under other headings, is £3.1 million (2007 £2.0 million), and relates to assets owned by the Group. Other administration expenses include the cost of services of the Group's auditor.

Services provided by the Group's auditor

	2008 £000	2007 £000
Audit services		
Fees payable to the Company's auditor for the audit of Company and consolidated accounts	**379**	309
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**171**	171
Non-audit services		
Fees payable to the Company's auditor and associates for other services:		
– Other services pursuant to legislation	**145**	135
– Tax services	**667**	712
Other services	**713**	1,092
	2,075	2,419

Other services include fees of £622,000 (2007 £573,000) provided by Deloitte that were contracted prior to their appointment as auditor and relate primarily to assistance with internal system projects. In addition, in 2007 there were £59,000 of internal audit fees incurred prior to their appointment as auditor.

Employees' staff costs were:

	2008 £m	2007 £m
Wages and salaries	**26.1**	31.2
Social security costs	**4.3**	3.4
Pension costs	**2.4**	0.8
Share scheme costs	**(1.4)**	7.0
Termination benefits	**2.3**	2.2
National Insurance – unexercised share options	**–**	(0.2)
Total	**33.7**	44.4
Average number of Group employees	**348**	454

Disclosures required by the Companies Act 1985 on Directors' remuneration, including salaries, share options, pension contributions and pension entitlement and those specified by the Financial Services Authority are included on pages 66 to 74 in the Remuneration Report and form part of these financial statements.

The aggregate remuneration of employees of the Company is £3.7 million (2007 £4.8 million). All the Executive Directors are employees of SEGRO plc.

Notes to the financial statements

6. Property (losses)/gains

	2008 £m	2007 £m
Income statement – valuation deficits	**(975.6)**	(385.2)
– (losses)/profits from the sale of investment properties	**(34.8)**	3.0
Total property losses per income statement	**(1,010.4)**	(382.2)
Statement of recognised income and expense – development valuation surpluses	**15.9**	11.2
Share of joint ventures' valuation losses	**(20.5)**	(1.1)
Total property losses	**(1,015.0)**	(372.1)

7. Investments in joint ventures and subsidiaries

7(i) – Share of (losses)/profits from joint ventures after tax

	2008 £m	2007 £m
Adjusted profits before tax – investment properties	**3.6**	2.9
Adjusted profits before tax – trading properties	**11.4**	3.0
	15.0	5.9
Valuation deficits – investment properties	**(20.5)**	(1.1)
	(5.5)	4.8
Current tax – investment properties	**(0.7)**	(0.5)
Current tax – trading properties	**(4.4)**	(1.4)
Deferred tax – investment properties	**3.2**	2.7
Group share of (losses)/profits after tax	**(7.4)**	5.6

Trading properties held by joint ventures were externally valued resulting in an increase in the provision for impairment of £3.3 million (2007 increase of £1.6 million). The Group's share of trading properties held by joint ventures has an unrecognised surplus of £10.7 million (2007 £34.6 million).

7(ii) – Investments by the Group

The Group accounts for joint ventures under the equity method. Note 32 lists the significant joint ventures.

	2008 £m	2007 £m
Cost or valuation at 1 January	**73.4**	84.5
Exchange movement	**7.6**	0.8
Additions	**–**	4.2
Disposals	**(0.5)**	(26.5)
Loan additions	**0.7**	7.8
Dividends received	**(6.3)**	(4.8)
Valuation deficits	**(20.5)**	–
Deferred tax on valuations and capital allowances	**3.2**	2.7
Share of profits net of tax	**9.9**	4.7
Cost or valuation at 31 December	**67.5**	73.4

The amount of loans advanced by the Group to joint ventures is £49.5 million (2007 £43.9 million).

Notes to the financial statements

7. Investments in joint ventures and subsidiaries (continued)

7(ii) – Investments by the Group (continued)

Summarised financial information of Group's share of joint ventures

	2008 £m	2007 £m
Balance sheet (Group's share)		
Investment and development properties	**94.5**	111.0
Total non-current assets	**94.5**	111.0
Trading properties	**47.2**	60.6
Other receivables	**8.7**	22.6
Cash	**29.7**	12.7
Total current assets	**85.6**	95.9
Total assets	**180.1**	206.9
Mortgages and loans	**76.8**	87.5
Deferred tax	**8.6**	12.0
Other liabilities	**0.3**	24.7
Total non-current liabilities	**85.7**	124.2
Mortgages and loans	**4.3**	–
Other liabilities	**22.6**	9.3
Total current liabilities	**26.9**	9.3
Total liabilities	**112.6**	133.5
Group's share of net assets	**67.5**	73.4

7(iii) – Investments by the Company

	Subsidiaries 2008 £m	Joint ventures 2008 £m	Subsidiaries 2007 £m	Joint ventures 2007 £m
Cost or valuation at 1 January	**3,800.8**	**5.5**	3,491.0	5.5
Exchange movement	**123.4**	**–**	20.5	–
Additions	**203.2**	**–**	123.7	–
Net loan movement	**(69.1)**	**–**	187.8	–
Loan write-offs against provisions	**–**	**–**	20.0	–
Increase in provision for investments and loans in the income statement	**(217.9)**	**–**	(42.2)	–
Cost or valuation at 31 December	**3,840.4**	**5.5**	3,800.8	5.5

8. Finance income

	2008 £m	2007 £m
Interest received on bank deposits	**10.2**	16.6
Fair value gains on interest rate swaps and other derivatives	**3.8**	3.5
Return on pension assets less unwinding of discount on pension liabilities	**1.0**	0.7
Exchange differences	**0.1**	0.3
	15.1	21.1

Notes to the financial statements

9. Finance costs

		2008 £m	2007 £m
Interest on overdrafts and loans		**134.2**	106.5
Unwinding of discount on the pension liabilities less return on assets		**0.1**	0.1
Total borrowing costs		**134.3**	106.6
Less amounts capitalised on the development of	– trading properties	**(0.6)**	(0.9)
	– investment and development properties	**(5.9)**	(5.6)
Net borrowing costs		**127.8**	100.1
Fair value losses on interest rate swaps and other derivatives		**36.6**	1.6
Total finance costs		**164.4**	101.7

The interest capitalisation rates for 2008 were: UK 6.25 per cent (2007 6.25 per cent), and in Continental Europe, rates ranging from 3.33 per cent to 6.07 per cent (2007 3.95 per cent to 5.25 per cent). Interest is capitalised gross of tax relief.

10. Tax (credit)/charge

10(i) – Tax on profit

	2008 £m	2007 £m
Current tax		
United Kingdom		
Corporation tax charged at 28.5 per cent*	–	0.8
Adjustments in respect of earlier years	**0.1**	(1.7)
	0.1	(0.9)
International		
Current tax charge	**3.4**	2.7
SIIC conversion charge	**1.2**	13.9
Adjustments in respect of earlier years	–	0.6
	4.6	17.2
Total current tax	**4.7**	16.3
Deferred tax		
Released on conversion to SIIC/REIT in respect of investment properties	**(1.1)**	(30.2)
Origination and reversal of timing differences	**5.4**	2.7
Released in respect of property disposals in the year	**(0.6)**	(0.1)
On valuation movements	**(7.1)**	8.9
Total deferred tax in respect of investment properties	**(3.4)**	(18.7)
Other deferred tax	**(2.4)**	0.3
Total deferred tax	**(5.8)**	(18.4)
Total tax credit on profit on ordinary activities	**(1.1)**	(2.1)

Notes to the financial statements

10. Tax (credit)/charge (continued)

10(ii) – Factors affecting tax charge for the year

The tax charge is lower than the standard rate of UK corporation tax. The differences are:

	2008 £m	2007 £m
Loss on ordinary activities before tax	**(939.2)**	(246.5)
Add back valuation deficit in respect of UK properties not taxable	**925.4**	441.7
	(13.8)	195.2
Multiplied by standard rate of UK corporation tax of 28.5 per cent*	**(3.9)**	58.6
Effects of:		
Release of deferred tax provision on conversion to SIIC/REIT	**(1.1)**	(30.2)
SIIC/REIT conversion charge	**1.2**	13.9
Exempt SIIC & REIT profits and gains	**(0.9)**	(35.3)
Permanent differences	**(0.8)**	(2.7)
Loss/(profit) on joint ventures already taxed	**2.1**	(1.6)
Higher tax rates on international earnings	**(0.6)**	(3.7)
Adjustments in respect of earlier years	**2.9**	(1.1)
Total tax credit on profit on ordinary activities	**(1.1)**	(2.1)

* The UK corporation tax rate changed from 30 per cent to 28 per cent on 1 April 2008, therefore an effective rate of 28.5 per cent has been applied for the 2008 year.

10(iii) – Factors that may affect future tax charges

No deferred tax is recognised on the unremitted earnings of international subsidiaries and joint ventures. In the event of their remittance to the UK, no net UK tax is expected to be payable.

11. Dividends

	2008 £m	2007 £m
Ordinary dividends paid		
Interim dividend for 2008 @ 8.3 pence per share	**36.1**	–
Final dividend for 2007 @ 14.7 pence per share	**63.9**	–
Interim dividend for 2007 @ 8.3 pence per share	**–**	35.0
Special dividend for 2007 @ 53.0 pence per share	**–**	250.0
Final dividend for 2006 @ 12.1 pence per share	**–**	56.9
	100.0	341.9

Notes to the financial statements

12. Earnings and net assets per share

The earnings per share calculations use the weighted average number of shares and the net assets per share calculations use the number of shares in issue at year end. Both the earnings per share and net assets per share calculations exclude 2.1 million shares held by the ESOP Trust (2007 2.9 million).

12(i) – Earnings per share

	2008			2007		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic	**(938.1)**	**434.4**	**(215.9)**	(245.3)	457.1	(53.6)
Dilution adjustments:						
Share options and save as you earn schemes	–	–	–	–	0.7	–
Diluted	**(938.1)**	**434.4**	**(215.9)**	(245.3)	457.8	(53.6)
Adjusted						
EPRA adjustments:						
Negative goodwill credited, net	–		–	(0.9)		(0.2)
Share of joint ventures revaluation deficit/(surplus) after tax	**17.3**		**4.0**	(1.6)		(0.3)
Investment property revaluation deficit	**975.6**		**224.6**	385.2		84.2
Loss/(profit) on sale of investment properties	**34.8**		**8.0**	(3.0)		(0.6)
Adjustments for fair value of derivatives, finance income	**(3.8)**		**(0.9)**	(3.5)		(0.8)
Adjustments for fair value of derivatives, finance costs	**36.6**		**8.4**	1.6		0.3
EPRA adjustments before tax	**1,060.5**		**244.1**	377.8		82.6
Deferred tax on investment and development property which does not crystallise unless sold	**(3.4)**		**(0.8)**	(18.1)		(3.9)
Other deferred tax	**(1.7)**		**(0.4)**	0.2		–
Total EPRA adjustments after tax	**1,055.4**		**242.9**	359.9		78.7
Exceptional items (excluding minority interests)						
Restructuring costs	**2.6**		**0.6**	–		–
France SIIC conversion charge	**1.2**		**0.3**	13.9		3.0
Total exceptional items before tax	**3.8**		**0.9**	13.9		3.0
Tax effect of exceptional items	–		–	–		–
Total exceptional items after tax	**3.8**		**0.9**	13.9		3.0
Minority interest on adjustments	**0.4**		**0.1**	0.6		0.1
Total adjustments	**1,059.6**		**243.9**	374.4		81.8
Adjusted diluted	**121.5**	**434.4**	**28.0**	129.1	457.8	28.2
Adjusted basic	**121.5**	**434.4**	**28.0**	129.1	457.1	28.2

Notes to the financial statements

12. Earnings and net assets per share (continued)

12(ii) – Net assets per share

	2008			2007		
	Equity attributable to ordinary shareholders £m	**Shares million**	**Pence per share**	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic	**2,007.5**	**434.6**	**462**	2,989.0	433.2	690
Dilution adjustments:						
Share options and save as you earn schemes	–	–	–	–	0.7	1
Diluted	**2,007.5**	**434.6**	**462**	2,989.0	433.9	689
Adjusted						
Adjustment for deferred tax on investment properties:						
– capital allowances	**53.6**		**12**	30.8		7
– valuation surpluses	**33.8**		**8**	36.2		8
Adjusted diluted NAV	**2,094.9**	**434.6**	**482**	3,056.0	433.9	704
Adjusted basic NAV	**2,094.9**	**434.6**	**482**	3,056.0	433.2	705
Triple net NAV (NNNAV)						
Fair value adjustment in respect of debt	**409.0**		**94**	64.1		15
Tax effect of fair value adjustment in respect of debt	**(116.6)**		**(27)**	(19.2)		(5)
Deferred tax in respect of capital allowances	**(53.6)**		**(12)**	(30.8)		(7)
Deferred tax in respect of valuation surpluses	**(33.8)**		**(8)**	(36.2)		(8)
Fair value adjustment in respect of trading properties	**50.2**		**12**	74.3		17
Diluted triple net NAV (NNNAV)	**2,350.1**	**434.6**	**541**	3,108.2	433.9	716
Basic triple net NAV (NNNAV)	**2,350.1**	**434.6**	**541**	3,108.2	433.2	717

13. Properties

13(i) – Total property assets, including joint ventures

Properties are included in the balance sheet as follows:

Properties carried at valuation:	UK 2008 £m	Continental Europe 2008 £m	**2008 £m**	2007 £m
Investment properties	2,525.0	1,451.5	**3,976.5**	4,485.5
Development properties	61.4	273.2	**334.6**	276.4
	2,586.4	1,724.7	**4,311.1**	4,761.9
Owner occupied properties, net of depreciation	9.5	1.6	**11.1**	13.1
	2,595.9	1,726.3	**4,322.2**	4,775.0
Group's share of investment properties within joint ventures	88.0	6.5	**94.5**	111.0
Total properties carried at valuation	2,683.9	1,732.8	**4,416.7**	4,886.0
Properties carried at the lower of cost and net realisable value:				
Trading properties	11.8	346.0	**357.8**	236.0
Group's share of trading properties within joint ventures	11.4	35.8	**47.2**	60.6
Total properties carried at the lower of cost and net realisable value	23.2	381.8	**405.0**	296.6
Total properties at 31 December	2,707.1	2,114.6	**4,821.7**	5,182.6

Notes to the financial statements

13. Properties (continued)

13(i) – Total property assets, including joint ventures (continued)

Investment, development and owner occupied properties were externally valued as at 31 December 2008 by CB Richard Ellis, DTZ Debenham Tie Leung, Colliers CRE or King Sturge. The valuation basis is market value, conforms to international valuation standards and was arrived at by reference to market evidence of the transaction prices paid for similar properties. In relation to the property valuations applied by the Group's independent, professionally qualified property valuers, the current volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets across the world and the lack of liquidity in the capital markets means that it may be very difficult to achieve a sale of property assets in the short-term. Therefore, the property valuers are of the opinion that 'abnormal' market conditions currently prevail and that there is likely to be a greater than usual degree of uncertainty in respect of the property valuation figures now reported. Until the number and consistency of comparable transactions increases, this situation is likely to remain. The value of the Group's portfolio is affected by the prevailing market and economic conditions and thus the Group's net asset value can increase or decrease due to external factors outside of the Group's control. However, the Group has a diverse portfolio spread across ten countries in Europe and it is anticipated that this should help to mitigate the impact of current market and economic conditions on the Group. All the valuers listed above are qualified independent valuers who hold a recognised and relevant professional qualification and have recent experience in the relevant location and the category of properties being valued. All the valuers have adopted policies for the regular rotation of the responsible valuer.

CB Richard Ellis, DTZ Debenham Tie Leung, Colliers CRE and King Sturge also undertake some professional and letting work on behalf of the Group, although this is limited in relation to the activities of the Group as a whole. All four firms advise us that the total fees paid by the Group represent less than 5 per cent of their total revenue in any year.

13(ii) – Investment and development properties

	Investment £m	Development £m	Total £m
At 1 January 2007	**5,130.0**	**468.7**	**5,598.7**
Exchange movement	37.7	7.7	45.4
Acquisitions	423.6	74.8	498.4
Additions	97.7	178.7	276.4
Disposals	(1,176.4)	(173.1)	(1,349.5)
Transfer between investment and development properties	236.7	(236.7)	–
Transfer from trading properties	1.5	2.3	3.8
Revaluation deficit during the year	(300.3)	(46.0)	(346.3)
At 31 December 2007	**4,450.5**	**276.4**	**4,726.9**
Add tenant lease incentives, letting fees and rental guarantees	35.0	–	35.0
	4,485.5	**276.4**	**4,761.9**
At 1 January 2008	**4,450.5**	**276.4**	**4,726.9**
Exchange movement	314.4	59.1	373.5
Acquisitions	118.6	22.3	140.9
Additions	125.0	97.4	222.4
Disposals	(234.7)	–	(234.7)
Transfers between investment and development properties	78.1	(78.1)	–
Transfers to trading properties	–	(1.9)	(1.9)
Revaluation deficit during the year	(916.9)	(40.6)	(957.5)
At 31 December 2008	**3,935.0**	**334.6**	**4,269.6**
Add tenant lease incentives, letting fees and rental guarantees	41.5	–	41.5
	3,976.5	**334.6**	**4,311.1**

Further information on investment and development properties is contained within the Property Analysis section of the website (www.segro.com/segro/investors/property.htm).

Investment properties include £105.9 million (2007 £173.4 million) in respect of properties held for re-development. The balance comprises completed buildings. Investment and development properties include £345.5 million (2007 £409.6 million) of undeveloped land.

The historical cost of investment properties was £3,273.4 million (2007 £2,865.4 million) and the cumulative valuation surplus at 31 December 2008 amounted to £703.1 million (2007 £1,620.1 million). The historical cost of development properties was £459.5 million (2007 £360.8 million) and the cumulative valuation deficit at 31 December 2008 amounted to £124.9 million (2007 £84.4 million deficit).

Long-term leasehold values within investment properties amount to £11.2 million (2007 £49.1 million). All other properties are freehold.

Net rental income in the period from rented investment properties was £236.6 million (2007 £241.6 million).

Prepaid operating lease incentives at 31 December 2008 were £31.1 million (2007 £29.4 million).

Notes to the financial statements

13. Properties (continued)

13(iii) – Trading properties

	UK £m	Continental Europe £m	Total £m
2007			
Completed properties	5.0	150.1	155.1
Properties under development	3.1	77.8	80.9
At 31 December 2007	8.1	227.9	236.0
2008			
Completed properties	10.9	271.8	282.7
Properties under development	0.9	74.2	75.1
At 31 December 2008	**11.8**	**346.0**	**357.8**

Trading properties were externally valued resulting in an increase in the provision for impairment of £4.0 million (2007 increase of £2.3 million). The remaining portfolio has an unrecognised surplus of £39.5 million (2007 £39.7 million).

14. Finance lease receivables

The Group has leased out a number of investment properties under finance leases. These are presented as finance lease receivables rather than investment properties. A reconciliation between finance lease receivables and the present value of the minimum lease payments receivable at the balance sheet date is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Amounts receivable under finance leases:				
Within one year	**1.0**	0.9	**0.2**	0.1
In the second to fifth years inclusive	**3.6**	3.5	**0.6**	0.5
Later than five years	**25.2**	26.3	**9.6**	9.9
	29.8	30.7	**10.4**	10.5
Less unearned finance income	**(19.4)**	(20.2)	**n/a**	n/a
Present value of minimum lease payments receivable	**10.4**	10.5	**10.4**	10.5
Analysed as:				
Non-current finance lease receivables	**28.8**	29.8	**10.2**	10.4
Current finance lease receivables	**1.0**	0.9	**0.2**	0.1
	29.8	30.7	**10.4**	10.5

The interest rate inherent in the lease is fixed at the contract date for all of the lease term. The weighted average interest rate on finance lease receivables at 31 December 2008 is 7.7 per cent (2007 7.7 per cent).

At 31 December 2008, the fair value of the Group's finance lease receivables is £10.4 million (2007 £10.5 million), while the unguaranteed residual values of assets leased under finance leases are estimated at £2.4 million (2007 £2.4 million).

Notes to the financial statements

15. Available-for-sale investments

	2008 £m	2007 £m
Valuation at 1 January	**39.5**	44.1
Exchange movement	**11.0**	1.3
Additions	**3.8**	2.8
Fair value movement	**(3.8)**	8.1
Disposals and return of capital	**(8.6)**	(16.8)
Valuation at 31 December	**41.9**	39.5

Available-for-sale investments comprise holdings in private equity funds investing in UK, Continental Europe and USA.

16. Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Current				
Trade receivables	**54.4**	59.0	**0.6**	1.6
Other receivables	**27.9**	25.1	**–**	–
Prepayments and accrued income	**40.4**	26.9	**–**	–
Fair value of interest rate swaps – non hedge	**0.7**	5.0	**–**	1.5
Fair value of forward foreign exchange contracts – non hedge	**0.1**	–	**0.2**	–
Fair value of forward foreign exchange contracts – hedge	**0.1**	–	**–**	–
Amounts due from subsidiaries	**–**	–	**10.4**	2.4
Amounts due from related parties	**12.4**	–	**10.9**	–
	136.0	116.0	**22.1**	5.5
Non-current				
Other receivables	**0.2**	11.8	**–**	–
Amounts due from related parties	**–**	6.7	**–**	13.3
Total trade and other receivables	**136.2**	134.5	**22.1**	18.8

Trade receivables are net of provisions for doubtful debts of £2.7 million (2007 £1.3 million).

17. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits held with banks, and highly liquid short-term investments that are readily convertible to known amounts of cash within three months from acquisition and subject to an insignificant risk of changes in value.

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank balance	**39.4**	97.9	**0.3**	72.8
Call deposits	**126.4**	250.4	**1.0**	–
Cash and cash equivalents	**165.8**	348.3	**1.3**	72.8

Notes to the financial statements

18. Borrowings

18(i) – Borrowings by type

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Secured borrowings:				
European mortgages (repayable within 1 year)	**38.9**	22.1	**–**	–
Euro mortgages 2010 to 2013	**25.9**	22.4	**–**	–
Euro mortgages 2014 to 2027	**44.0**	35.7	**–**	–
Total secured (on land, buildings and other assets)	**108.8**	80.2	**–**	–
Unsecured borrowings:				
Bonds				
7.125% bonds 2010	**124.7**	124.6	**124.7**	124.6
6.25% bonds 2015	**148.5**	148.3	**148.5**	148.3
5.5% bonds 2018	**198.1**	198.0	**198.1**	198.0
5.625% bonds 2020	**247.1**	247.0	**247.1**	247.0
7.0% bonds 2022	**148.9**	148.8	**148.9**	148.8
6.75% bonds 2024	**221.0**	220.8	**221.0**	220.8
5.75% bonds 2035	**198.0**	198.0	**198.0**	198.0
Notes				
6.0% unsecured loan notes 2010	**5.2**	–	**–**	–
6.417% Euro notes 2011	**47.6**	36.8	**–**	–
	1,339.1	1,322.3	**1,286.3**	1,285.5
Bank loans and overdrafts	**1,213.4**	636.3	**438.6**	87.9
Preference shares held by subsidiary	**0.3**	0.3	**–**	–
Total unsecured	**2,552.8**	1,958.9	**1,724.9**	1,373.4
Total borrowings	**2,661.6**	2,039.1	**1,724.9**	1,373.4

The fair value of foward foreign exchange contract liabilities were included in borrowings in prior years within bank loans and overdrafts; however, they have now been presented within trade and other payables at 31 December 2008 and 2007. Please refer to note 21.

The maturity profile of borrowings is as follows:

	Group		Company	
Maturity profile of debt	**2008 £m**	2007 £m	**2008 £m**	2007 £m
In one year or less	**86.3**	41.8	**–**	7.5
In more than one year but less than two	**373.9**	4.6	**145.3**	–
In more than two years but less than five	**995.5**	796.1	**418.0**	205.0
In more than five years but less than ten	**389.4**	182.8	**346.6**	148.3
In more than ten years	**816.5**	1,013.8	**815.0**	1,012.6
Total debt	**2,661.6**	2,039.1	**1,724.9**	1,373.4

	Group		Company	
Maturity profile of undrawn borrowing facilities	**2008 £m**	2007 £m	**2008 £m**	2007 £m
In one year or less	**85.1**	49.3	**14.3**	27.5
In more than one year but less than two	**28.7**	–	**20.0**	–
In more than two years	**497.9**	738.9	**467.0**	604.8
Total available undrawn borrowing facilities	**611.7**	788.2	**501.3**	632.3

There are no early settlement or call options on any of the borrowings. Financial covenants relating to the borrowings include maximum limits to the Group's gearing ratio and minimum limits to permitted interest cover. Financial covenants are discussed in more detail in the Financial Position and Gearing and Financial Covenants sections in the Financial Review on pages 51 and 52.

Notes to the financial statements

18. Borrowings (continued)

18(ii) – Borrowings by interest rates

The interest rate profile of Group and Company debt was as follows:

	31 December 2008					31 December 2007				
Interest rate profile – Group	**Fixed rate %**	**Fixed period Years**	**Fixed debt £m**	**Variable debt £m**	**Total £m**	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m
Borrowings	**Weighted average after swaps**					Weighted average after swaps				
Sterling	**6.19**	**12.3**	**1,291.5**	**0.7**	**1,292.2**	6.19	13.3	1,285.5	–	1,285.5
Euros	**4.56**	**2.7**	**1,074.5**	**284.1**	**1,358.6**	4.56	3.5	730.2	400.6	1,130.8
US dollars	**–**	**–**	**–**	**10.5**	**10.5**	–	–	–	–	–
Subsidiary preference shares	**–**	**–**	**0.3**	**–**	**0.3**	–	–	0.3	–	0.3
Total before currency swaps	**5.45**	**8.0**	**2,366.3**	**295.3**	**2,661.6**	5.59	9.8	2,016.0	400.6	2,416.6
US dollars cash swapped into Euros			**–**	**–**	**–**			–	(43.0)	(43.0)
Sterling cash swapped into Euros			**–**	**–**	**–**			–	(334.5)	(334.5)
Total borrowings			**2,366.3**	**295.3**	**2,661.6**			2,016.0	23.1	2,039.1
Cash and deposits										
Sterling				**(100.6)**	**(100.6)**				(112.3)	(112.3)
US dollars				**(13.6)**	**(13.6)**				(177.4)	(177.4)
Canadian dollars				**(1.7)**	**(1.7)**				(4.4)	(4.4)
Polish Zloty				**(23.3)**	**(23.3)**				–	–
Euros				**(26.6)**	**(26.6)**				(54.2)	(54.2)
Total cash and deposits				**(165.8)**	**(165.8)**				(348.3)	(348.3)
Net borrowings			**2,366.3**	**129.5**	**2,495.8**			2,016.0	(325.2)	1,690.8

	31 December 2008					31 December 2007				
Interest rate profile – Company	**Fixed rate %**	**Fixed period Years**	**Fixed debt £m**	**Variable debt £m**	**Total £m**	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m
Borrowings	**Weighted average after swaps**					Weighted average after swaps				
Sterling	**6.20**	**12.3**	**1,286.3**	**–**	**1,286.3**	6.19	13.3	1,285.5	–	1,285.5
US dollars	**–**	**–**	**–**	**10.5**	**10.5**	–	–	–	–	–
Euros	**4.43**	**2.6**	**425.7**	**2.4**	**428.1**	4.31	3.4	283.1	182.3	465.4
Total before currency swaps	**5.76**	**8.8**	**1,712.0**	**12.9**	**1,724.9**	5.86	10.6	1,568.6	182.3	1,750.9
Sterling cash swapped into Euros			**–**	**–**	**–**			–	(334.5)	(334.5)
US dollars cash swapped into Euros			**–**	**–**	**–**			–	(43.0)	(43.0)
Total borrowings			**1,712.0**	**12.9**	**1,724.9**			1,568.6	(195.2)	1,373.4
Cash and deposits										
Sterling				**(0.1)**	**(0.1)**				(3.0)	(3.0)
US dollars				**–**	**–**				(69.8)	(69.8)
Euros				**(1.2)**	**(1.2)**				–	–
Total cash and deposits				**(1.3)**	**(1.3)**				(72.8)	(72.8)
Net borrowings			**1,712.0**	**11.6**	**1,723.6**			1,568.6	(268.0)	1,300.6

Notes to the financial statements

19. Financial instruments and fair values

Categories of financial instruments

Financial assets in the Group comprise interest rate swaps and forward foreign exchange contracts, some of which are categorised as derivatives designated as fair value through the income statement (non hedge), and other forward foreign exchange contracts which are classified as derivatives designated as hedges. Financial assets also include finance lease receivables, trade and other receivables, available-for-sale investments and cash and cash equivalents, which are all classified as other financial assets.

Financial liabilities in the Group comprise interest rate swaps and forward foreign exchange contracts, some of which are categorised as derivatives designated as fair value through the income statement (non hedge) and other forward foreign exchange contracts which are classified as derivatives designated as hedges. Financial liabilities also include secured bank loans, unsecured bond issues, unsecured loan notes, bank loans and overdrafts and preference shares, all of which are categorised as debt at amortised cost, and trade and other payables, provisions and current tax liabilities, which are classified as other financial liabilities.

The carrying values of these financial assets and liabilities approximate their fair value, with the exception of unsecured bond issues, secured bank loans and unsecured loan notes. At 31 December 2008 the fair value of £1,286.3 million of unsecured bond issues was £875.8 million (2007 £1,285.5 million compared to £1,238.7 million fair value), the fair value of £108.8 million of secured bank loans was £109.2 million (2007 £80.2 million compared to £80.2 million fair value) and the fair value of £52.8 million of unsecured loans was £53.9 million (2007 £36.8 million compared to £38.7 million fair value).

The fair values of financial assets and financial liabilities are determined as follows:

- Forward foreign exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair value of non-derivative financial assets and financial liabilities traded on active liquid markets are determined with reference to the quoted market prices.
- Financial guarantees are issued by the Parent entity to support bank borrowings of 100 per cent owned subsidiary companies domiciled overseas. The face value of these borrowings is already included in the Group balance sheet. As the borrowing entity will have unencumbered directly owned property assets exceeding the value of the guaranteed borrowings the probability of the Parent entity having to recognise any loss in respect to these guarantees is considered to be highly unlikely. Hence no fair value liability has been ascribed to these guarantees in the accounts of the Parent entity.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns and as such it aims to maintain a prudent mix between debt and equity financing. The current capital structure of the Group consists of a mix of equity and debt. Equity comprises issued capital, reserves and retained earnings as disclosed in notes 23 to 26. Debt primarily comprises long-term debt issues and drawings against medium-term committed revolving credit facilities from banks as disclosed in note 18.

The Group is not subject to externally imposed capital requirements.

Foreign currency risk management

The Group does not have any regular transactional foreign currency exposures as it does not have any regular business involving cross border currency flows. However, it does have operations in Europe which transact business denominated mostly in euros. Hence there is currency exposure caused by translating the local trading performance and local net assets into sterling for each financial period and at each balance sheet date.

The Group's approach to managing balance sheet translation exposure is described in the Foreign Currency Translation Exposure section in the Financial Review on page 52.

Notes to the financial statements

19. Financial instruments and fair values (continued)

Foreign currency risk management (continued)

The Group's balance sheet translation exposure is summarised below:

Group	2008 Euros £m	2008 US dollars £m	2008 Total £m	2007 Euros £m	2007 US dollars £m	2007 Total £m
Gross currency assets	2,054.9	35.7	**2,090.6**	1,502.6	225.2	1,727.8
Gross currency liabilities	(1,791.0)	(27.6)	**(1,818.6)**	(1,287.9)	(218.8)	(1,506.7)
Net exposure	**263.9**	**8.1**	**272.0**	214.7	6.4	221.1
Company						
Gross currency assets	433.5	–	**433.5**	328.5	214.0	542.5
Gross currency liabilities	(859.6)	(27.6)	**(887.2)**	(476.2)	(218.8)	(695.0)
Net exposure	**(426.1)**	**(27.6)**	**(453.7)**	(147.7)	(4.8)	(152.5)

2008 gross currency liabilities include EUR455.7 million (£434.0 million) and USD40.3 million (£27.6 million) designated as net investment hedges.

2007 gross currency liabilities include EUR200.0 million (£147.0 million) designated as a net investment hedge.

Foreign currency sensitivity analysis

The Group's main currency exposure is the euro. The blended sensitivity of the net assets of the Group to a 10 per cent change in the value of sterling against the relevant currencies is £30.2 million (2007 £27.1 million), with a sensitivity of £29.3 million against the euro (2007 £25.5 million) and £0.9 million against the US dollar (2007 £1.6 million).

For the Company, the blended sensitivity is £50.4 million (2007 £17.5 million) with a sensitivity of £47.3 million against the euro (2007 £17.0 million) and £3.1 million against the US dollar (2007 £0.5 million).

Forward foreign exchange contracts

In the current year, the Group has entered into various forward sales and currency swap contracts. Some of these are designated as net investment hedges, and hedge accounted. The others are effectively cash flow hedges, using the surplus cash in one currency to temporarily fund paying off debt in another currency. These have not been designated as hedges and as a consequence their change in fair value is taken through the income statement.

The following table details the forward foreign exchange contracts outstanding as at the year end:

	Average exchange rates		Currency contract (local currency)		Contract value		Fair value	
	2008 rate	2007 rate	**2008 m**	2007 m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Group								
Cash flow hedges								
Sell euros (buy sterling)	**1.20**	1.41	**242.7**	267.1	**231.1**	196.4	**(28.0)**	(7.2)
Sell euros (buy US dollars)	**–**	1.42	**–**	60.2	**–**	44.3	**–**	(1.3)
Net investment hedges								
Sell euros (buy sterling)	**1.23**	1.38	**209.7**	200.0	**199.8**	147.1	**(29.1)**	(1.8)
Sell US dollars (buy sterling)	**1.45**	–	**25.0**	–	**17.1**	–	**0.1**	–
							(57.0)	(10.3)
Company								
Cash flow hedges								
Sell euros (buy sterling)	**1.21**	1.41	**452.4**	467.1	**430.9**	343.5	**(57.1)**	(9.0)
Sell euros (buy US dollars)	**–**	1.42	**–**	60.2	**–**	44.3	**–**	(1.3)
Sell US dollars (buy sterling)	**1.45**	–	**25.0**	–	**17.1**	–	**0.1**	–
							(57.0)	(10.3)

Notes to the financial statements

19. Financial instruments and fair values (continued)

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The current Group policy states that around 85 per cent of gross borrowings should be at fixed rate provided by long-term debt issues attracting a fixed coupon or from floating rate bank borrowings converted into fixed rate or hedged via interest rate swaps, forwards, caps, collars or floors or options on these products. Hedging activities require the approval of the Treasury Risk Committee and are evaluated and reported on regularly to ensure that the policy is being adhered to. The Group Board reviews the policy on interest rate exposure annually with a view to establishing that it is still relevant in the prevailing and forecast economic environment.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease/increase by £3.0 million (2007 decrease/increase by £3.1 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings and cash deposits. Fixed rate debt issues are held at amortised cost and are not re-valued in the balance sheet to reflect interest rate movements.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Economic cash flow hedges

Outstanding pay fixed, receive floating contracts are as follows:

	Average contract – fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Group						
In one year or less	**–**	3.2	**–**	6.3	**–**	0.1
In more than one year but less than two	**4.4**	–	**212.4**	–	**(4.7)**	–
In more than two years but less than five	**3.9**	4.0	**761.9**	568.3	**(30.2)**	4.1
Total			**974.3**	574.6	**(34.9)**	4.2
Company						
In one year or less	**4.3**	–	**123.8**	–	**(2.3)**	–
In more than two years but less than five	**4.0**	4.1	**423.8**	423.0	**(19.2)**	1.5
Total			**547.6**	423.0	**(21.5)**	1.5

The above are effective economic hedges although the Group has not elected to adopt hedge accounting for them. Hence their change in fair value is taken direct to the income statement rather than to other equity.

The interest rate swaps settle on either a 3 month or 6 month basis with the floating rate side based on the EURIBOR rate for the relevant period. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Notes to the financial statements

19. Financial instruments and fair values (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Potential customers are evaluated for creditworthiness and where necessary collateral is secured. There is no concentration of credit risk within the lease portfolio to either business sector or individual company as the Group has a well spread diverse customer base with no one customer accounting for more than 5 per cent of rental income. Trade receivables (which include unpaid rent and amounts receivable in respect of property disposals) were approximately 1 per cent of total assets at 31 December 2008 and at 31 December 2007. The Directors are of the opinion that the credit risk associated with unpaid rent is low. In excess of 95 per cent of rent due is generally collected within 21 days of the due date.

Investment in financial instruments is restricted to short-term liquid funds with a good credit rating. Derivative financial instruments are transacted via ISDA agreements with counterparties with a good investment grade credit rating. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by having a policy that requires adequate cash and committed bank facilities remain available to cover and match all debt maturities, development spend, trade related and corporate cash flows forward over a rolling 12 month period. This is achieved by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Liquidity risk management is discussed in more detail in the Liquidity Position and Going Concern sections in the Financial Review on pages 52 and 53.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity profile for its financial instruments. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	2008						2007					
	Weighted average interest rate %	**Under 1 year £m**	**1–2 years £m**	**2–5 years £m**	**Over 5 years £m**	**Total £m**	Weighted average interest rate %	Under 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Group												
Non-derivative financial liabilities:												
Trade payables		**221.1**	**22.7**	**0.1**	**1.8**	**245.7**		213.6	22.6	–	0.5	236.7
Non-interest bearing liabilities		**25.6**	**–**	**–**	**78.2**	**103.8**		283.3	–	–	65.4	348.7
Variable rate debt instruments	**4.3**	**107.6**	**298.4**	**997.7**	**–**	**1,403.7**	5.0	73.6	34.7	679.6	–	787.9
Fixed rate debt instruments	**6.2**	**88.0**	**212.6**	**291.7**	**1,881.9**	**2,474.2**	6.2	86.4	86.3	392.5	1,961.6	2,526.8
Derivative financial instruments:												
Net settled interest rate swaps		**7.8**	**12.8**	**7.6**	**–**	**28.2**		(4.2)	–	(1.3)	(5.2)	(10.7)
Gross settled foreign exchange – Forward contracts												
– Sold		**(390.8)**	**–**	**–**	**–**	**(390.8)**		(376.4)	–	–	–	(376.4)
– Purchased		**447.8**	**–**	**–**	**–**	**447.8**		386.7	–	–	–	386.7
Total		**507.1**	**546.5**	**1,297.1**	**1,961.9**	**4,312.6**		663.0	143.6	1,070.8	2,022.3	3,899.7

Notes to the financial statements

19. Financial instruments and fair values (continued)

Liquidity and interest risk tables (continued)

	2008						2007					
	Weighted average interest rate %	**Under 1 year £m**	**1–2 years £m**	**2–5 years £m**	**Over 5 years £m**	**Total £m**	Weighted average interest rate %	Under 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Company												
Non-derivative financial liabilities:												
Trade payables		**31.1**	**358.9**	**–**	**–**	**390.0**		35.9	238.9	–	–	274.8
Non-interest bearing liabilities		**10.2**	**–**	**–**	**–**	**10.2**		225.6	–	–	–	225.6
Variable rate debt instruments	**4.4**	**18.9**	**18.9**	**446.8**	**–**	**484.6**	5.0	11.9	4.0	88.8	–	104.7
Fixed rate debt instruments	**6.2**	**80.5**	**206.3**	**214.9**	**1,848.9**	**2,350.6**	6.2	80.5	80.5	344.3	1,920.6	2,425.9
Derivative financial instruments:												
Net settled interest rate swaps		**4.1**	**7.7**	**5.0**	**–**	**16.8**		(2.4)	–	(0.4)	(2.7)	(5.5)
Gross settled foreign exchange – Forward contracts												
– Sold		**(390.8)**	**–**	**–**	**–**	**(390.8)**		(376.4)	–	–	–	(376.4)
– Purchased		**447.8**	**–**	**–**	**–**	**447.8**		386.7	–	–	–	386.7
Total		**201.8**	**591.8**	**666.7**	**1,848.9**	**3,309.2**		361.8	323.4	432.7	1,917.9	3,035.8

The Group has access to cash and financing facilities, the total unused amount of which was £777.5 million (2007 £1,136.5 million) at the balance sheet date.

20. Deferred tax provisions

Movement in deferred tax was as follows:

Group – 2008	**Balance 1 January £m**	**Exchange movement £m**	**Recognised in income £m**	**Recognised in equity £m**	**Balance 31 December £m**
Valuation surpluses on properties	31.9	7.7	(7.7)	1.9	**33.8**
Accelerated tax allowances	37.4	11.9	4.3	–	**53.6**
Deferred tax asset	(8.7)	(0.7)	0.6	–	**(8.8)**
Others	4.8	(0.9)	(3.0)	(1.3)	**(0.4)**
Total deferred tax provision	**65.4**	**18.0**	**(5.8)**	**0.6**	**78.2**

At the balance sheet date, the Group has unused revenue tax losses of £31.0 million (2007 £31.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of all of these losses as it is expected that future profits will be available.

Notes to the financial statements

21. Trade and other payables

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Due within one year				
Trade payables	**72.4**	61.5	**–**	–
Non-trade payables and accrued expenses	**148.7**	152.1	**31.1**	35.9
Fair value of interest rate swaps – non hedge	**35.6**	–	**28.7**	–
Fair value of forward foreign exchange contracts – non hedge	**29.1**	8.5	**57.2**	10.3
Fair value of forward foreign exchange contracts – hedge	**28.1**	1.8	**–**	–
Total trade and other payables due within one year	**313.9**	223.9	**117.0**	46.2
Due after one year				
Obligations under finance leases	**0.4**	0.5	**–**	–
Other payables	**17.1**	18.2	**–**	–
Loans from subsidiaries	**–**	–	**352.3**	235.2
Total other payables due after one year	**17.5**	18.7	**352.3**	235.2

In 2007 and prior years, the fair value of forward foreign exchange contract liabilities were included within borrowings; however they have now been reclassified and shown within trade and other payables. Please refer to note 18.

Group obligations under finance leases due after one year are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Payable between second to fifth years	**0.1**	0.2	**–**	–
Payable after five years	**2.2**	2.3	**0.4**	0.4
	2.3	2.5	**0.4**	0.4
Less future finance charges	**(1.9)**	(2.0)	**n/a**	n/a
Present value of lease obligations	**0.4**	0.5	**0.4**	0.4

These are non-current finance lease liabilities on investment properties with a carrying value of £11.2 million (2007 £13.5 million). Lease agreements range between 99-150 years. There are no restrictions, and contingent rents are not payable, but leased assets revert to the lessor in the event of default.

22. Retirement benefit schemes

Background

The Group has two defined benefit schemes in the UK, the Slough Estates (1957) Pension Scheme (the 'Slough scheme') and the Bilton Group Pension Scheme (the 'Bilton scheme'). Their assets are held by Trustees separately from the assets of the employer. The Bilton scheme was closed to new members from 2003, and the Slough scheme from October 2005.

Valuation of the Slough and Bilton schemes has been based on the most recent actuarial valuation at 31 March 2007 for Slough and 5 April 2007 for Bilton and updated by the independent actuaries in order to assess the liabilities of the schemes at 31 December 2008.

The Company has an unfunded unapproved retirement benefit scheme (UURBS) for one employee, the Chief Executive. This arrangement is a defined benefit scheme in nature. The calculation of the value of this unapproved benefit promise uses assumptions which are consistent with those used for the Slough scheme. There are no assets supporting this UURBS.

The Group also has a number of defined contribution schemes in the UK and Continental Europe.

Notes to the financial statements

22. Retirement benefit schemes (continued)

Defined benefit schemes

The most recent full formal actuarial valuations for defined benefit schemes have been updated by qualified actuaries for the financial year ended 31 December 2008 to provide the IAS 19 disclosures below:

The major assumptions used were as follows:	2008 %	2007 %
Discount rate for scheme liabilities	**6.0**	5.9
Rate of inflation	**2.9**	3.3
Rate of increase to pensions in payment in excess of GMP		
Before April 2003 (Slough/Bilton)	**4.2 / 2.8**	4.1 / 3.3
From April 2003 to October 2005	**2.8**	3.3
After October 2005	**2.0**	2.4
Rate of general long-term increase in salaries	**4.9**	5.3

Composition of scheme assets	Expected return 2008 %	Analysis of assets 2008 £m	Expected return 2007 %	Analysis of assets 2007 £m
Equities	**7.9**	**45.0**	7.8	62.1
Bonds	**4.9**	**64.0**	4.9	53.0
Property	**6.9**	**0.9**	6.8	1.3
Other assets	**2.8**	**0.2**	6.0	0.6
Overall – Slough scheme	**6.2**	**89.1**	6.6	93.5
Overall – Bilton scheme	**5.9**	**21.0**	5.9	23.5

The mortality rates used are as follows:

	Mortality table	Life expectancy at age 65 (years) Male	Female
Current pensioners	PNxA00U2007MC with 1% p.a. underpin to future improvements	22.0	24.4
Future pensioners	PNxA00U2007MC with 1% p.a. underpin to future improvements	23.5	25.9

The expected return on plan assets is a blended average of projected long-term returns for the various asset classes. Asset class returns are based on a forward looking building block approach. Equity returns are developed based on the selection of an equity risk premium above the risk free rate which is measured in accordance with the yields on government bonds. Returns on property are assumed to be 1 per cent per annum lower than those on equities. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the schemes' holdings of these instruments.

Charges on the basis of the assumptions were:		2008 £m	2007 £m
(Charge)/credit to Group income statement			
Operating profit:	Current service cost	**2.5**	3.2
	Past service costs	**0.3**	0.1
	Curtailments	**(0.9)**	(3.0)
Net finance costs:	Interest on pension liabilities	**6.9**	6.5
	Expected return on scheme assets	**(7.8)**	(7.0)
Total included within staff costs and finance costs/(income)		**1.0**	(0.2)
Charge/(credit) to Group statement of recognised income and expense		**17.2**	(6.8)

All actuarial gains and losses are recognised immediately and relate to continuing operations. The cumulative recognised actuarial losses are £14.9 million (2007 £2.3 million gain).

Notes to the financial statements

22. Retirement benefit schemes (continued)

Fair value of the assets and liabilities of the schemes

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes is as follows:

	2008 £m	2007 £m
Movement in assets		
1 January	**117.0**	112.3
Expected return on scheme assets	**7.8**	7.0
Actuarial losses	**(24.1)**	(2.9)
Employer cash contributions	**15.5**	3.9
Member cash contributions	**0.6**	0.8
Benefits paid	**(6.6)**	(4.1)
31 December	**110.2**	117.0
Movement in liabilities		
1 January	**118.6**	127.1
Service cost	**2.5**	3.2
Curtailments	**(0.9)**	(3.0)
Past service cost	**0.3**	0.1
Interest cost	**6.9**	6.5
Actuarial gains	**(5.6)**	(9.7)
Benefits paid	**(6.6)**	(4.1)
Other	**0.4**	(1.5)
31 December	**115.6**	118.6
Analysis of net (liabilities)/assets:		
Market value of schemes' assets	**110.2**	117.0
Present value of funded schemes' liabilities	**(112.9)**	(116.4)
Net (liabilities)/assets for funded schemes	**(2.7)**	0.6
Less Bilton surplus which cannot be utilised	**(1.0)**	(2.4)
Present value of UURBS' liabilities	**(2.6)**	(2.2)
Retirement benefit obligation recognised in the balance sheet	**(6.3)**	(4.0)

A further provision of £0.3 million (2007 £0.3 million) is held in the Group in relation to a pension payable to a former Director.

The Group does not recognise the surplus in the Bilton scheme and consequently it has been reversed and the movement taken to the SORIE.

The actual return on the scheme assets in the period was a loss of £16.3 million (2007 gain of £4.1 million).

Notes to the financial statements

22. Retirement benefit schemes (continued)

History of experience adjustments

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(116.5)**	(121.0)	(129.5)	(132.7)	(111.4)
Fair value of schemes' assets	**110.2**	117.0	112.3	103.6	71.2
Deficit in schemes	**(6.3)**	(4.0)	(17.2)	(29.1)	(40.2)
Experience adjustments on schemes' assets					
Amounts	**(21.4)**	(2.9)	0.3	10.2	1.1
Percentage of schemes' assets	**(19.4%)**	(2.5%)	0.3%	9.8%	1.5%
Experience adjustments on schemes' liabilities					
Amounts	**(0.7)**	1.7	(1.8)	(0.4)	6.0
Percentage of present value of schemes' liabilities	**0.6%**	(1.4%)	1.4%	0.3%	(5.4%)
Effect of changes in assumptions underlying the present value of the schemes' liabilities	**6.3**	7.9	12.3	(13.2)	(18.0)
Total amount recognised in the statement of recognised income and expense					
Amounts	**(17.2)**	6.8	10.2	(4.0)	(10.5)
Percentage of present value of schemes' liabilities	**14.8%**	(5.6%)	(7.9%)	3.0%	9.4%

The expected employer's contributions to be paid in the year ending 31 December 2009 is £2.0 million.

23. Share capital and share-based payments

23(i) – Share capital

	Authorised		Issued and fully paid	
Group and Company	**Shares m**	**£m**	**Shares m**	**£m**
Ordinary shares of 27 1/12p each at 1 January 2008	541.3	146.6	436.1	118.1
Shares issued during the period to 31 December 2008	–	–	0.6	0.2
Ordinary shares of 27 1/12p at 31 December 2008	**541.3**	**146.6**	**436.7**	**118.3**

All shares issued during the year were issued in connection with the Group's share-based payments schemes, details of which are provided below.

23(ii) – Executive share option plan

The options in the Executive share option plan are exercisable after three years but before ten years, subject to performance criteria. The employee would normally have to remain with the Group for the three year period. If the performance conditions have not been met by the third anniversary of the date of the grant, the options lapse. The performance criteria are based on an increase in adjusted diluted earnings per share by the Retail Price Index (RPI) plus 3 per cent per annum over the three year period. At 2 March 2009, the number of ordinary shares under option in respect of the 1994 approved scheme was 5,415 at an option price of 356.5p. These options expire on 27 March 2011. As at 2 March 2009, the number of ordinary shares under option in respect of the 2002 approved and unapproved schemes were 37,746 and 624,447 respectively with option prices ranging from 290.0p to 476.8p expiring on various dates up to 28 April 2015. The last award under these schemes was made in 2005.

	2008		2007	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At 1 January	**848,028**	**425.8p**	2,209,295	473.4p
Options exercised	**(179,473)**	**307.3p**	(219,699)	323.5p
Options expired/lapsed	**(947)**	**356.5p**	(1,141,568)	467.8p
At 31 December	**667,608**	**457.8p**	848,028	425.8p

Notes to the financial statements

23. Share capital and share-based payments (continued)

23(ii) – Executive share option plan (continued)

The options outstanding at 31 December 2008 were exercisable between 290.0p and 476.8p per share. The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The main assumptions are as follows:

Date of grant	20-Mar-03	29-Apr-05
Exercise price/market price	290.0p	476.8p
Risk-free interest rate	5.1%	4.8%
Dividend yield	4.8%	4.0%
Volatility	21.3%	21.0%
Term of option	4 years	4 years
Fair value per share	42p	73p

23(iii) – Save as you earn (SAYE)

The SAYE options are exercisable after three or five or seven years and are not subject to any performance criteria except the employees must remain with the Group for the term of the option. Options during the year were granted at not less that 80% of the market price of shares on 4 April 2008. At 2 March 2009, the number of ordinary shares under option was 247,520 at option prices ranging from 218.4p to 608.4p expiring on various dates up to 31 October 2015. During 2008, movements in SAYE options for ordinary shares of the Company are as follows:

	2008		2007	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At 1 January	**814,238**	**341.2p**	810,285	325.4p
Options granted	**129,750**	**389.2p**	275,863	446.2p
Options exercised	**(354,662)**	**245.4p**	(135,225)	299.0p
Options expired/lapsed	**(305,466)**	**423.8p**	(136,685)	502.8p
At 31 December	**283,860**	**394.0p**	814,238	341.2p

The consideration received by the Company from options exercised during the year was £0.9 million. The options outstanding at 31 December 2008 were exercisable between 218.4p and 608.4p per share. The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The assumptions are as follows:

	Market price	Exercise price	Risk-free interest rate	Dividend yield	Volatility	Term of option	Fair value per share three years	Fair value per share five years	Fair value per share seven years
19 March 2003	290.0p	218.4p	5.1%	4.8%	21.2%	3-5-7 years	74p	74p	73p
28 August 2003	380.8p	304.6p	5.1%	3.8%	22.4%	3-5-7 years	96p	103p	106p
17 March 2004	465.5p	372.4p	5.1%	4.8%	22.6%	3-5-7 years	123p	135p	142p
26 August 2004	465.0p	372.0p	5.1%	4.1%	22.7%	3-5-7 years	122p	134p	140p
23 March 2005	493.5p	394.8p	4.8%	3.8%	21.0%	3-5-7 years	118p	126p	129p
22 September 2005	540.5p	432.4p	4.8%	3.5%	21.2%	3-5-7 years	134p	144p	150p
13 April 2006	604.0p	483.2p	4.7%	2.9%	22.0%	3-5-7 years	158p	174p	184p
13 September 2006	660.5p	528.4p	4.7%	2.9%	22.0%	3-5-7 years	172p	191p	202p
30 March 2007	760.5p	608.4p	5.2%	2.7%	22.1%	3-5-7 years	209p	234p	250p
26 September 2007	514.0p	411.2p	5.8%	3.7%	23.3%	3-5-7 years	137p	149p	156p
04 April 2008	486.5p	389.2p	4.1%	4.8%	46.5%	3-5-7 years	162p	174p	177p

Notes to the financial statements

23. Share capital and share-based payments (continued)

23(iii) – Save as you earn (SAYE) (continued)

Details of share options exercisable at 31 December 2008

Date of grant	Scheme	Price per share	Number of shares	Exercisable between
28 March 2001	Executive share option plan 1994	356.5p	5,415	2004 and 2011
30 August 2001	Save as you earn	284.8p	1,032	2004 and 2008
29 August 2002	Save as you earn	276.4p	1,669	2004 and 2008
19 March 2003	Save as you earn	218.4p	19,503	2006 and 2010
20 March 2003	Executive share option plan 2002	290.0p	64,309	2006 and 2013
28 August 2003	Save as you earn	304.6p	15,304	2006 and 2010
17 March 2004	Save as you earn	372.4p	7,184	2007 and 2011
26 August 2004	Save as you earn	372.0p	3,866	2007 and 2011
23 March 2005	Save as you earn	394.8p	15,110	2008 and 2012
29 April 2005	Executive share option plan 2002	476.8p	597,884	2008 and 2015
22 September 2005	Save as you earn	432.4p	12,286	2008 and 2012
13 April 2006	Save as you earn	483.2p	15,763	2009 and 2013
13 September 2006	Save as you earn	528.4p	9,152	2009 and 2013
30 March 2007	Save as you earn	608.4p	5,997	2010 and 2014
26 September 2007	Save as you earn	411.2p	81,750	2010 and 2014
04 April 2008	Save as you earn	389.2p	95,244	2011 and 2015
Total			**951,468**	

The weighted average remaining contractual life for share options outstanding at the year end is 2.18 years (2007 1.77 years).

23(iv) – Long term incentive plan (LTIP) and long term incentive scheme (LTIS)

Awards under the LTIS are granted at the discretion of the Trustees of the scheme on the recommendation of the Remuneration Committee. Employees are granted the right to shares which will vest at the end of a three year period subject to meeting certain performance criteria. The Company does not issue shares. The shares are purchased on the open market and placed with the Trustees. Dividends are waived.

	2008		2007	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
At 1 January	**2,439,538**	**585.6p**	1,780,340	536.8p
Shares granted LTIP	**2,177,634**	**635.9p**	–	–
Shares granted LTIS	**–**	**–**	1,056,937	635.1p
Shares vested	**(302,332)**	**491.2p**	(169,456)	522.1p
Shares sold	**(212,777)**	**491.2p**	(103,280)	522.6p
Shares expired/lapsed	**(51,817)**	**494.0p**	(125,003)	454.6p
At 31 December	**4,050,246**	**495.3p**	2,439,538	585.6p

Further information on the LTIP and LTIS Schemes can be found in the Remuneration Report on pages 66 to 74.

The Black-Scholes model has been used to fair value the shares granted since 7 November 2002. The assumptions used are as follows:

Date of grant	25-May-06	29-Jun-07	30-May-08
Exercise price/market price	589.2p	635.1p	416.5p
Risk-free interest rate	4.6%	5.8%	4.0%
Dividend yield	2.9%	3.0%	5.8%
Volatility	22.0%	22.0%	25.5%
Term of option	3 years	3 years	3 years
Fair value per share	540p	580p	349.9p

Notes to the financial statements

23. Share capital and share-based payments (continued)

23(v) – Share incentive plan

The share incentive plan started in May 2003. For 2008, eligible employees were awarded shares based on a percentage of their salary, which is capped. The value of the award was also linked to the Company's prior year performance. In respect of the 2008 award, the shares are held in trust for a three year period. During the year, 108,580 ordinary shares were subscribed in cash at a price of 404.1p per share and were issued to the Trustees of the Share Incentive Plan (SIP) and allocated at that price to eligible employees under the SIP. At 2 March 2009, 285,340 ordinary shares were held under the plan. This interest is shown in the Directors' Interests in Shares section in the Remuneration Report on page 71 which represents all of the shares which those Directors hold in a non-beneficial capacity as Trustees but also included therein are those shares beneficially owned under the plan by the Trustees.

	2008		2007	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
At 1 January	**511,464**	**512.5p**	485,725	467.0p
Shares granted	**116,778**	**404.1p**	118,168	578.7p
Shares paid out to leavers – pre-consolidation	**–**	**–**	(21,983)	456.5p
Shares not paid out to leavers – pre-consolidation	**–**	**–**	(6,901)	531.1p
Share consolidation August 2007	**–**	**–**	(44,359)	490.4p
Shares not paid out to leavers – post consolidation	**(8,198)**	**600.0p**	–	–
Shares paid out to leavers – post consolidation	**(334,704)**	**517.8p**	(19,186)	496.7p
At 31 December	**285,340**	**493.9p**	511,464	512.5p

Of the shares outstanding at 31 December 2008, 282,609 (2007 509,575) were exercisable. The fair values of the share incentive plan were determined by the price of the shares at the date of the grant.

23(vi) – Global share incentive plan

The global share incentive plan was launched in 2008. This plan is designed on a similar basis to the Share Incentive Plan, but is not HMRC approved, and is only operated for non-UK employees. Awards are made on the basis of the Company's performance against budgeted profit before tax for the previous year. Awards are calculated as a percentage of base salary, which is capped. Awards are released by the plan Trustees at the conclusion of a three year holding period at nil cost to the employee.

	2008	
	Number	**Weighted average exercise price**
At 1 January	**–**	**–**
Shares granted	**44,388**	**402.1p**
Shares paid out to leavers	**(1,365)**	**402.1p**
Shares not paid out to leavers	**(3,590)**	**402.1p**
At 31 December	**39,433**	**402.1p**

Of the shares outstanding at 31 December 2008, 39,433 were exercisable. The fair value of the global share incentive plan was determined by the price of the shares at the date of the grant.

Notes to the financial statements

23. Share capital and share-based payments (continued)

23(vii) – Cash settled overseas senior employees' scheme

The plan for overseas senior employees is a cash settlement scheme which mirrors the performance of the Executive share option plan in 23(ii) above. A notional number of shares are granted to the employee equal to 100 per cent of their salary and divided by the share price on the date of the grant. 78,271 shares were granted in 2005, based on the performance and assumptions of the Executive share option plan on 29 April 2005. The Black-Scholes model was used to fair value these shares at prevailing market rates, at a share price of 476.8p per share.

23(viii) – Total share-based payments income statement impact

Due to the release of excess reserves for share-based payments schemes where performance criteria is not expected to be met, income of £1.4 million has been recognised in the income statement for the Group (2007 £6.9 million expense).

24. Share premium account

Group and Company	2008 £m	2007 £m
Balance at 1 January	**368.9**	367.3
Premium arising on the issue of shares	**1.7**	1.6
Balance at 31 December	**370.6**	368.9

25. Own shares held

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 January	**16.8**	10.6	**16.8**	10.6
Shares issued	–	0.6	–	0.6
Shares purchased	**0.4**	6.8	**0.4**	6.8
Disposed of on exercise of options	**(3.8)**	(1.2)	**(3.8)**	(1.2)
Balance at 31 December	**13.4**	16.8	**13.4**	16.8

These represent the cost of shares in SEGRO plc bought in the open market and held by Appleby Trust (Jersey) Limited, to satisfy options under the various Group share option and incentive schemes.

Notes to the financial statements

26. Reserves

Group	Revaluation reserve £m	Other Reserves: Share-based payment reserve £m	Other Reserves: Fair value reserve for AFS investments £m	Other Reserves: Translation and other reserves £m	Retained earnings £m
Balance at 1 January 2007	2,129.3	4.5	7.4	58.5	698.3
Exchange movement	5.2	–	0.4	–	7.9
Loss for the year	–	–	–	–	(74.9)
Dividends paid	–	–	–	–	(341.9)
Actuarial gains on defined benefit pension schemes	–	–	–	–	6.5
Surplus on development properties – SORIE	5.7	–	–	–	–
Valuation deficit on investment properties transferred from retained earnings	(351.2)	–	–	–	351.2
Valuation surplus on joint ventures transferred from retained earnings	2.7	–	–	–	(2.7)
Minority interest on investment property valuation surplus	(0.6)	–	–	–	0.6
Reserve transfer	–	(0.4)	–	15.3	(14.9)
Fair value movement	–	6.9	6.1	–	–
Surplus realised on disposal	(34.8)	–	(4.3)	–	34.8
Exchange arising on translation of international operations	–	–	–	0.9	–
Exchange recycled on the sale of the US property business	–	–	–	(28.1)	31.6
Reserves realised on the sale of the US property business	(220.6)	–	–	–	220.6
Shares vested	–	(1.2)	–	–	–
Balance at 1 January 2008	1,535.7	9.8	9.6	46.6	917.1
Exchange movement	42.6	–	2.3	0.3	41.9
Loss for the year	–	–	–	–	(938.1)
Dividends paid	–	–	–	–	(100.0)
Actuarial gains on defined benefit pension schemes	–	–	–	–	(17.2)
Surplus on development properties – SORIE	14.0	–	–	–	–
Valuation deficit on investment properties transferred from retained earnings	(967.9)	–	–	–	967.9
Valuation surplus on joint ventures transferred from retained earnings	(16.9)	–	–	–	16.9
Minority interest on investment property valuation surplus	(1.3)	–	–	–	–
Reserve transfer	–	(0.7)	–	–	0.7
Fair value movement	–	(1.4)	(2.4)	–	–
Surplus realised on disposal	(167.8)	–	(1.4)	–	167.8
Exchange arising on translation of international operations	–	–	–	(22.3)	–
Shares vested	–	(3.8)	–	–	–
Balance at 31 December 2008	**438.4**	**3.9**	**8.1**	**24.6**	**1,057.0**

Notes to the financial statements

26. Reserves (continued)

Company	Other Reserves: Share-based payment reserve £m	Other Reserves: Translation and other reserves £m	Retained earnings £m
Balance at 1 January 2007	1.5	47.4	1,146.3
Retained profit	–	–	686.0
Dividends paid	–	–	(341.9)
Other items in SORIE	–	–	6.6
Other	1.7	–	0.3
Balance at 1 January 2008	3.2	47.4	1,497.3
Retained profit	–	–	(241.9)
Dividends paid	–	–	(100.0)
Other items in SORIE	–	–	(17.2)
Other	(2.0)	–	0.3
Balance at 31 December 2008	**1.2**	**47.4**	**1,138.5**

27. Commitments

Contractual obligations to purchase, construct, develop, repair, maintain or enhance assets are as follows:

Group	UK 2008 £m	UK 2007 £m	International 2008 £m	International 2007 £m	Total 2008 £m	Total 2007 £m
Properties	**163.3**	97.8	**70.6**	216.0	**233.9**	313.8
Available-for-sale investments	**–**	1.0	**4.6**	4.9	**4.6**	5.9
Total capital commitments	**163.3**	98.8	**75.2**	220.9	**238.5**	319.7
The Group's share of capital commitments of joint ventures is:						
Properties	**–**	3.3	**–**	7.3	**–**	10.6

There are no significant commitments relating to repairs, maintenance or enhancements relating to investment properties at 31 December 2008 and 2007.

28. Contingent liabilities

The Group sold Slough Heat & Power and the US property business in 2007 and has provided certain representations and warranties which are usual for transactions of this nature, including representations and warranties relating to financial, regulatory, tax, employee, intellectual property, environmental, insurance and legal matters. The Group is not aware of any event that has occurred that would result in a provision to be made at 31 December 2008 in relation to the representations and warranties provided.

The Group has given performance guarantees to third parties amounting to £8.7 million (2007 £9.4 million) in respect of development contracts of subsidiary undertakings. It is unlikely that these contingencies will crystallise.

The Company has guaranteed loans and bank overdrafts of subsidiary undertakings aggregating £800.8 million (2007 £569.2 million) and indicated its intention to provide the necessary support required by its subsidiaries.

Notes to the financial statements

29. Operating leases

The Group as lessor

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

	2008 £m	2007 £m
Not later than one year	**260.8**	255.7
Later than one year but not later than five years	**782.1**	848.7
Later than five years	**679.3**	685.3
	1,722.2	1,789.7

The Group as lessee

One of the leased properties, which has been sublet by the Group, has been classified as an onerous lease. The lease and sublease expire in 2017. Sublease payments of £0.2 million are expected to be received during next year. The Group has recognised a provision of £0.1 million in respect of this lease.

Future aggregate minimum lease payments on non-cancellable operating leases are:

	2008 £m	2007 £m
Not later than one year	**0.6**	0.5
Later than one year but not later than five years	**7.2**	6.7
Later than five years	**3.7**	4.7
	11.5	11.9

30. Related party transactions

Group

Transactions during the year between the Group and its joint ventures are disclosed below.

	2008 £m	2007 £m
New loans during the year	**0.3**	9.2
Loans outstanding at the year end	**49.5**	43.9
Dividends received	**6.3**	4.8

Company

Balances outstanding between the Company and external related parties at balance sheet date are £10.9 million (2007 £13.3 million). Transactions between the Company and its subsidiaries eliminate on consolidation and are not disclosed in this note.

None of the above Group or Company balances are secured. All of the above transactions are made on terms equivalent to those that prevail in arms length transactions.

Directors' and executives' remuneration

Full details of remuneration payable to the Directors and other members of key management during the year, as required under the Companies Act 1985, are disclosed in the audited sections of the Remuneration Report on pages 66 to 74. Key management have been determined as the four members of the Executive Committee.

Notes to the financial statements

31. Notes to cash flow statements

31(i) – Reconciliation of cash generated from operations

Continuing operations	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Operating (loss)/profit	**(789.9)**	(165.9)	**(139.4)**	627.6
Adjustments for:				
Depreciation of property, plant and equipment	**3.1**	1.3	**–**	–
Share of losses/(profits) from joint ventures	**7.4**	(5.6)	**–**	–
Losses/(profits) on sale of properties	**34.8**	(3.0)	**–**	–
Net negative goodwill written off	**–**	(0.9)	**–**	–
Revaluation deficit on investment properties	**975.6**	385.2	**–**	–
Other income reallocated	**(1.4)**	(18.9)	**(86.1)**	(635.2)
Other provisions	**(15.5)**	–	**173.6**	(9.1)
	214.1	192.2	**(51.9)**	(16.7)
Changes in working capital:				
Increase in trading properties	**(38.3)**	(19.2)	**–**	–
Decrease/(increase) in debtors	**35.5**	(55.5)	**1.0**	0.2
Increase/(decrease) in creditors	**14.7**	30.3	**(1.8)**	(0.9)
Net cash inflow/(outflow) generated from continuing operations	**226.0**	147.8	**(52.7)**	(17.4)
Net cash inflow generated from discontinued operations	**–**	34.1	**–**	–
Net cash inflow/(outflow) generated from operations	**226.0**	181.9	**(52.7)**	(17.4)

31(ii) – Deposits

Term deposits for a period of three months or less are included within cash and cash equivalents. The restricted deposit in 2007 related to cash held within an account against which a Letter of Credit has been issued.

31(iii) – Analysis of net debt

	Notes	At 1 January 2008 £m	Exchange movement £m	Cash flow £m	Non-cash adjustment* £m	On purchase of subsidiaries £m	On disposal of subsidiaries £m	At 31 December 2008 £m
Group								
Bank loans and loan capital		2,035.1	334.7	282.4	6.1	–	–	**2,658.3**
Bank overdrafts		4.0	–	(0.7)	–	–	–	**3.3**
Total borrowings	18	**2,039.1**	**334.7**	**281.7**	**6.1**	**–**	**–**	**2,661.6**
Cash in hand and at bank	17	344.2	50.2	(228.6)	–	–	–	**165.8**
Restricted deposits		4.1	–	(4.1)	–	–	–	**–**
Net debt		**1,690.8**	**284.5**	**514.4**	**6.1**	**–**	**–**	**2,495.8**
Company								
Bank loans and loan capital		1,373.1	78.9	271.6	1.0	–	–	**1,724.6**
Bank overdrafts		0.3	–	–	–	–	–	**0.3**
Total borrowings	18	**1,373.4**	**78.9**	**271.6**	**1.0**	**–**	**–**	**1,724.9**
Cash in hand and at bank	17	72.8	(0.7)	(70.8)	–	–	–	**1.3**
Net debt		**1,300.6**	**79.6**	**342.4**	**1.0**	**–**	**–**	**1,723.6**

* The non-cash adjustment relates to the issue of a £5.2 million loan note in settlement of a trading property purchase and the amortisation of issue costs offset against borrowings.

Notes to the financial statements

32. Group entities

The principal entities at 31 December 2008 are listed below (all equity holdings unless otherwise stated).

	Country of incorporation/ operation	Subsidiaries % holding	Joint ventures % holding
Property			
* Allnatt London Properties plc	Great Britain	100	
* Bilton plc	Great Britain	100	
Farnborough Business Park Limited	Great Britain	100	
HelioSlough Limited	Great Britain		50
Le Blanc Mesnil	France	100	
SEGRO Belgium NV	Belgium	100	
SEGRO BV (operating in Netherlands, Italy and Central Europe)	Netherlands	100	
* Shopping Centres Limited	Great Britain		50
SEGRO Germany GmbH	Germany	100	
SEGRO France SA	France	100	
SEGRO Industrial Estates Limited	Great Britain	100	
SEGRO (KNBC) Limited	Great Britain	100	
SEGRO Management NV	Belgium	100	
SEGRO Marly le Ville	France	100	
* SEGRO Properties Limited	Great Britain	100	
SEGRO (Winnersh) Limited	Great Britain	100	
SEGRO 12	Germany	100	
SEGRO 23	Germany	100	
* Slough Trading Estate Limited	Great Britain	100	
Quendis Polska	Poland	100	
The Heywood Unit Trust	Great Britain	100	
The Woodside Unit Trust	Great Britain	100	
Service			
* SEGRO Administration Limited	Great Britain	100	
* SEGRO Finance plc	Great Britain	100	
Other			
* SEGRO Overseas Holdings Limited	Great Britain	100	
* SEGRO Holdings France SAS	France	100	

* Held directly by SEGRO plc

Notes to the financial statements

33. Disclosures of discontinued operations

Discontinued operations comprised the Group's US property business and Slough Heat & Power Limited (a company which provided electricity, water and steam). The agreement to dispose of the US property business was signed on 4 June 2007 and the disposal completed on 1 August 2007. The agreement to dispose of Slough Heat & Power Limited was signed on 14 November 2007 and the disposal was completed on 31 December 2007.

For the year ended 31 December 2007, profit after tax from discontinued operations was £170.6 million.

	Year to 31 December 2007		
Summarised income statement of discontinued operations	**US property business £m**	**Slough Heat & Power £m**	**Total £m**
Revenue	54.4	44.7	**99.1**
Expenses	(48.5)	(42.3)	**(90.8)**
Valuation gains	36.1	–	**36.1**
Profit before tax	**42.0**	**2.4**	**44.4**
Tax credit/(charge) – current	2.2	–	**2.2**
– deferred	(18.6)	–	**(18.6)**
Profit after tax from operations	**25.6**	**2.4**	**28.0**
Profit from sale after tax	**134.9**	**7.7**	**142.6**
Total profit after tax	**160.5**	**10.1**	**170.6**

34. Post balance sheet events

On 4 March 2009 the Company announced a fully underwritten Rights Issue to raise approximately £524 million. The net proceeds are expected to be £500 million, after expenses of approximately £24 million in connection with the Rights Issue.

Five year financial results

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Group income statement					
Net property rental income	**244.9**	246.3	247.2	223.9	228.1
Profit on sale of trading properties	**23.9**	22.0	6.1	7.0	3.7
Share of pre-tax operating profit from investment property joint ventures and associates less valuation gains	**2.9**	3.1	3.2	4.7	13.5
Share of operating profits/(losses) from trading property joint ventures	**7.0**	1.6	3.8	0.6	(0.8)
Net income/(loss) from utilities	**–**	2.4	2.1	1.2	(4.1)
Net loss from gas	**–**	–	–	(2.1)	(3.3)
Other investment income	**1.7**	18.4	8.5	5.5	6.1
Administration expenses	**(40.0)**	(39.7)	(28.9)	(20.7)	(14.7)
Net finance costs including notional preference share interest less debt repayment and close out costs	**(116.5)**	(100.4)	(99.3)	(100.6)	(108.4)
Adjusted profit before tax and exceptional items	**123.9**	**153.7**	**142.7**	**119.5**	**120.1**
Exceptional lease surrender premium	**–**	–	–	36.4	7.5
Goodwill	**–**	0.9	–	–	–
Profits from the sale of Slough Heat & Power and US property business	**–**	445.0	–	–	–
Profits from the sale of Quail West, Tipperary & joint ventures	**–**	–	–	121.7	12.7
Property (losses)/gains	**(34.8)**	3.0	4.8	14.4	56.4
Net valuation gains and losses including joint ventures and associates	**(996.1)**	(349.1)	541.5	419.6	182.1
Notional interest on preference shares	**–**	–	–	–	13.2
Net (losses)/gains on derivatives	**(32.8)**	3.1	4.1	(1.0)	–
Exceptional cost of debt repayment	**–**	(16.4)	–	(126.0)	–
Joint ventures' tax	**3.2**	2.7	(3.0)	(2.3)	(4.0)
Exceptional restructure costs	**(2.6)**	–	–	–	–
(Loss)/profit before tax	**(939.2)**	**242.9**	**690.1**	**582.3**	**388.0**
Group balance sheet					
Investment, development and owner occupied properties	**4,322.2**	4,775.0	5,683.0	4,876.4	3,729.5
Trading properties	**357.8**	236.0	232.3	123.6	125.3
Total properties	**4,680.0**	**5,011.0**	**5,915.3**	**5,000.0**	**3,854.8**
Plant and equipment	**9.1**	5.8	48.1	45.0	118.0
Joint ventures and associates	**67.5**	73.4	84.5	100.1	84.1
Other assets	**190.7**	186.0	180.7	238.9	166.5
Cash and deposits	**165.8**	348.3	161.4	172.6	397.4
Total assets	**5,113.1**	**5,624.5**	**6,390.0**	**5,556.6**	**4,620.8**
Borrowings	**(2,661.6)**	(2,039.1)	(2,384.8)	(2,264.9)	(1,722.7)
Deferred tax provision	**(78.2)**	(65.4)	(298.5)	(635.9)	(448.4)
Other liabilities and minority interests	**(365.8)**	(531.0)	(334.0)	(215.4)	(284.6)
Shareholders' funds	**2,007.5**	**2,989.0**	**3,372.7**	**2,440.4**	**2,165.1**
Total return					
(Loss)/profit attributable to ordinary shareholders	**(938.1)**	(74.9)	916.5	385.1	285.8
Items taken directly to equity	**(43.4)**	(308.8)	15.8	(6.2)	(63.1)
	(981.5)	**(383.7)**	**932.3**	**378.9**	**222.7**
Data per ordinary share:					
Earnings per share:					
Basic (loss)/earnings per share	**(215.9p)**	(16.4p)	201.8p	91.7p	68.5p
Adjusted diluted earnings per share	**28.0p**	32.2p	25.1p	24.3p	24.4p
Net assets per share basic:					
Basic net assets per share	**462p**	690p	718p	579p	486p
Adjusted basic net assets per share	**482p**	705p	777p	733p	595p
Net assets per share diluted:					
Basic diluted net assets per share	**462p**	689p	716p	542p	461p
Adjusted diluted net assets per share	**482p**	704p	775p	680p	558p

Shareholder Information

February 2009

Payment:	$7^{1}/_{8}$ per cent bonds 2010 interest	17 February
	$6^{3}/_{4}$ per cent bonds 2024 interest	23 February

March 2009

Announcement of year end results		4 March
Payment:	7 per cent bonds 2022 interest	16 March

April 2009

Ex-dividend date for final dividend	Property Income Distribution & Dividend	1 April
Record date	Property Income Distribution & Dividend	3 April
Annual General Meeting		30 April

May 2009

Payment:	Property Income Distribution & Dividend	6 May

June 2009

Payment:	$5^{1}/_{2}$ per cent bonds 2018 interest	22 June
	$5^{3}/_{4}$ per cent bonds 2035 interest	22 June

August 2009

Payment:	$7^{1}/_{8}$ per cent bonds 2010 interest	17 August
	$6^{3}/_{4}$ per cent bonds 2024 interest	24 August
Announcement of half year results		August

September 2009

Payment:	7 per cent bonds 2022 interest	14 September
	$6^{1}/_{4}$ per cent bonds 2015 interest	30 September
Record date for interim dividend	Property Income Distribution & Dividend	September

October 2009

Payment:	Property Income Distribution & Dividend	October

December 2009

Payment:	$5^{5}/_{8}$ per cent bonds 2020 interest	7 December

Analysis of shareholders – 31 December 2008

Shareholder Analysis

Range	Holdings	% of Holdings	Shares	% of Shares
1 – 100	332	3.09	16,248	0.00
101 – 500	1,880	17.49	598,168	0.14
501 – 1,000	2,385	22.18	1,811,745	0.41
1,001 – 5,000	4,577	42.57	9,757,214	2.23
5,001 – 10,000	650	6.05	4,551,256	1.04
10,001 – 25,000	337	3.13	5,162,975	1.18
25,001 – 50,000	153	1.42	5,678,602	1.30
50,000+	438	4.07	409,144,684	93.69
Totals	**10,752**	**100.00**	**436,720,892**	**100.00**

Category Analysis

Category	Holdings	% of Holdings	Shares	% of Shares
Bank/Nominee	3,295	30.65	407,856,114	93.39
Other Corporate Bodies	16	0.15	247,319	0.06
Other Companies	213	1.98	6,320,578	1.45
Individuals	7,170	66.69	21,924,281	5.02
Insurance Companies	29	0.27	137,422	0.03
Pension Trust	4	0.04	15,707	0.00
Investment Trusts	25	0.23	219,471	0.05
Totals	**10,752**	**100**	**436,720,892**	**100**

Shareholder Information

Shareholder enquiries

If you have any questions about your shareholding or if you require further guidance (e.g. to notify a change of address) please contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Telephone 0870 707 1296. Alternatively you can email your query to web.queries@computershare.co.uk. You can also check your shareholding by registering at www-uk.computershare.com/investor.

Shareholders can also take advantage of a telephone share dealing service offered by our Registrars, Computershare, which provides shareholders with a low-cost way of selling shares.

Electronic Communications via eTree UK

Shareholders now have the opportunity to elect to receive shareholder communications electronically e.g. Annual Reports, Interim Reports, Sustainability Reports, Notice of the Annual General Meeting and Proxy Forms. For every shareholder that signs up to electronic communications eTree will donate a sapling to the Woodland Trust's Tree for All campaign.

When you register, there will be a quick verification process and you will need to provide your SRN number (which appears on your share certificate) and once registered, eTree will send you an email confirming your registration. To register, or find out more, please visit www.etreeuk.com/segro.

ISA and low cost share dealing service

The Company has selected Halifax Share Dealing Limited as its preferred Self-Select Stocks and Shares ISA provider. Details of this service can be obtained from Halifax Share Dealing Limited on telephone 08457 22 55 25.

ShareGift

ShareGift is a charity (registered charity number 1052686) which specialises in accepting donations of small numbers of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed onto a wide range of UK charities. They can also help with larger donations of shares. Further details about ShareGift can be obtained from their website at www.sharegift.org or by writing to ShareGift at 17 Carlton House Terrace, London, SW19 5AH, telephone: 0207 930 3737.

Dividends

A requirement of the REIT regime is that a REIT must distribute to shareholders by way of dividend at least 90 per cent of its profits from the Tax Exempt Business (calculated under UK tax principles after the deduction of interest and capital allowances and excluding chargeable gains). Such distributions are referred to as Property Income Distributions or PIDs. Any further distributions may be designated as PIDs or as ordinary dividends.

Property Income Distribution Reinvestment Plan

SEGRO now operates a Property Income Distribution Reinvestment Plan (PIDRIP). The PIDRIP provides shareholders with an easy and convenient way to grow their shareholding by using their whole PID to buy SEGRO shares (following SEGRO assuming REIT status, PIDs are now paid rather than dividends, although SEGRO may make dividend payments as appropriate). There is a minimum £1 charge on the purchase of the shares and a 0.5 per cent charge on the value of shares after that. Stamp duty reserve tax is currently 0.5 per cent of the value of shares purchased. Shareholders may join or leave PIDRIP at any time and at no cost.

Participants in the PIDRIP should be aware that entitlements from the ordinary cash dividend will not be eligible for the PIDRIP and as such shareholders will receive a cheque or have the funds credited to their nominated bank account. If you wish to participate in the PIDRIP, you can apply online or by telephone direct with Computershare (see shareholder enquiries).

Withholding tax

SEGRO is required to withhold tax at source from its PIDs at the basic tax rate (20 per cent for PIDs paid on or after 6 April 2008, previously 22 per cent). UK shareholders need take no immediate action (unless they qualify for exemption as described below) and will receive with each dividend payment a tax deduction certificate stating the amount of tax deducted.

UK shareholders who fall into one of the classes of shareholder able to claim an exemption from withholding tax may be able to receive a gross PID payment if they have submitted a valid relevant Exemption Declaration form (either as a beneficial owner of the shares, or as an intermediary if the shares are not registered in the name of the beneficial owner. The Exemption Declaration form is available at www.SEGRO.com) to Computershare by the deadline stated in the dividend timetable. A valid declaration form, once submitted, will continue to apply to future payments of PIDs until rescinded, and so it is a shareholder's responsibility to notify SEGRO plc if their circumstances change and they are no longer able to claim an exemption from withholding tax.

Shareholders resident outside the UK may be able to claim a partial refund (either as an individual or as a company) from HMRC subject to the terms of a double tax treaty, if any, between the UK and the country in which the shareholder is resident.

Taxation

The values at the following dates for the purposes of UK capital gains tax were:

	6 April 1965	31 March 1982
Ordinary shares of 25 pence each (adjusted for capitalisation issues in 1967, 1979, 1982 and rights issue in 1993)	11.76p	117p

Stock Market prices

Financial Year	Highest	Lowest	31 December
2008	538p	204.75p	247p
2007	801.5p	390.75p	470p
2006	796p	559p	785.5p[1]
2005	598.5p	469p	598.5p[2]
2004	551.25p	413.5p	550.0p

1 As at 29/12/2006.
2 As at 30/12/2005.

Glossary of Terms*

Basis points
A unit that is equal to 1/100th of 1%.

Combined portfolio
The investment, development and trading properties of the Group, including the relevant share of joint ventures' properties.

Development pipeline
The Group's current programme of developments authorised or in the course of construction at the balance sheet date, together with potential schemes not yet commenced on land owned or controlled by the Group or its joint ventures.

Equivalent yield
The internal rate of return from an investment property, based on the value of the property assuming the current passing rent reverts to ERV and assuming the property becomes fully occupied over time. Nominal yield assumes rent is received annually in arrears. See also True equivalent yield.

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

Estimate to complete (ETC)
Costs still to be expended on a development or redevelopment to practical completion (not to complete lettings), including attributable interest.

Gearing
Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, as a percentage of equity shareholders funds adjusted to add back deferred tax on investment properties.

Gross rental income
Rental income recognised in the period, including surrender premiums, interest receivable on finance leases and service charge income. Lease incentives, initial costs and any contracted future rental increases are amortised on a straight line basis over the lease term.

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

Initial yield
Annualised current passing rent expressed as a percentage of the property valuation.

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

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

Passing rent
The annual rental income currently receivable on a property as at the balance sheet date (which may be more or less than the ERV – see over-rented and reversionary).

Pre-let
A lease signed with an occupier prior to completion of a development.

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

Rent roll
See passing rent.

Reversionary yield
The ERV of a property, expressed as a percentage of the property's valuation. In the case of portfolio data, the reversionary yield assumes all properties are fully occupied.

Square metres (sq m)
The area of buildings measurements used in this analysis. The conversion factor used, where appropriate, is 1 square metre = 10.639 square feet.

Topped up initial yield
Annualised current passing rent plus the value of annualised rent associated with leases signed which are the subject of rent free periods expressed as a percentage of the property valuation.

Topped up initial yield excluding vacant properties
Topped up initial yield calculated for occupied properties only.

Total Property Return (TPR)
Net rental income, valuation gains and losses and profits and losses on the disposal of properties, expressed as a percentage of the average value of the combined portfolio.

True equivalent yield
The equivalent yield assuming rent is received quarterly in advance.

TSR
Total shareholder return based upon share price movement over the period and assuming reinvestment of dividends.

* For full Glossary of Terms go to http://www.segro.com/segro/investors/glossaryofterms.htm

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