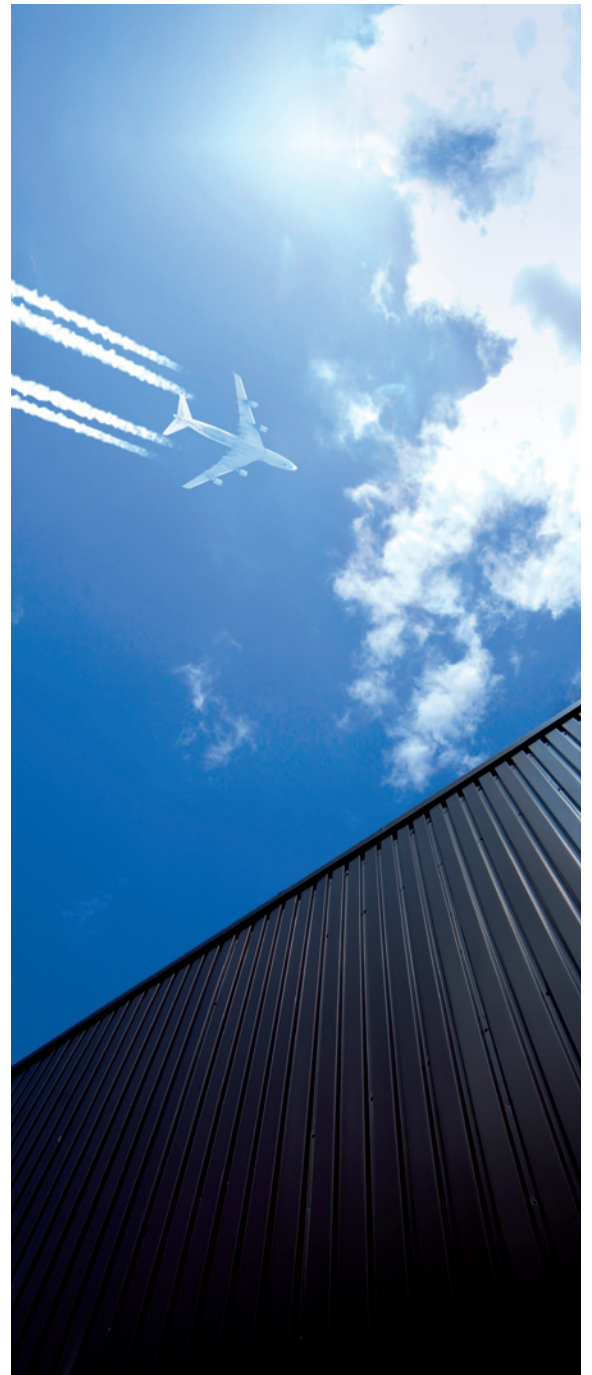


# TRANSFORMING SEGRO'S PERFORMANCE

ANNUAL REPORT AND ACCOUNTS 2011





## TRANSFORMING SEGRO'S PERFORMANCE

SEGRO is Europe's leading owner-manager and developer of industrial property. We serve over 1,600 customers across a range of industry sectors and geographies. Our portfolio comprises £5.1 billion of assets concentrated in and around major conurbations and transportation hubs such as airports, ports and transportation networks.

In 2011, SEGRO undertook a detailed review of the Group's operations and business and launched a new strategy aimed at generating improved shareholder returns. This Report has been structured around the new strategy.



The Directors present the Annual Report for the year ended 31 December 2011 which includes the business review, governance report and audited financial statements for the year. References to 'SEGRO', the 'Group', the 'Company', 'we', or 'our' are to SEGRO plc and/or its subsidiaries, or any of them as the context may require. Pages 1 to 76, inclusive, of this Annual Report comprise a Directors' Report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law.

The Annual Report contains forward looking statements. For further information see the inside back cover.



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## OUR HIGHLIGHTS

### EPRA profit before tax<sup>1</sup>

**£138.5million**

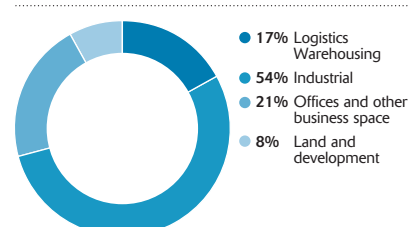


### Total dividend per share

**14.8pence**

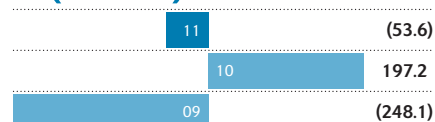


### Asset type



### Profit/(loss) before tax<sup>2</sup>

**£(53.6)million**

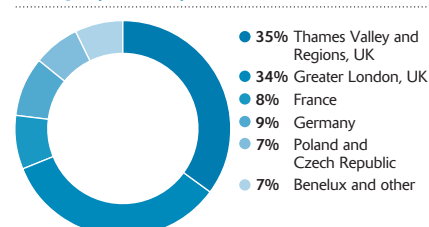


### EPRA net asset value per share

**340pence**



### Geographical split



### Portfolio value<sup>3</sup>

**£5.1 billion**



### EPRA earnings per share<sup>4</sup>

**18.4pence**



1. As referred to in note 2 of the financial statements
2. Includes property valuation movements
3. Includes Group share of properties held within joint returns
4. As referred to in note 13 of the financial statements

# RESHAPING OUR BUSINESS

## INTRODUCTION

2011 was a year of change for SEGRO with the appointment of a new Chief Executive in David Sleath. David took over in April on the retirement of Ian Coull. Clearly, he knew the Company well, having been Finance Director for the previous five years, but nonetheless he quickly embarked on a detailed review of the business. Your Board was conscious that over the past few years the Company has underperformed in terms of shareholder value. Whilst markets were a factor in this, the Board felt that we needed to do more to improve our performance.

The Chief Executive's review was completed in the last quarter of the year and, following Board approval of the proposals, these were communicated to the market in November. The strategy is to improve shareholders' returns through Disciplined Capital Allocation and Operational Excellence. Historically we have managed our properties well, but we see room for improved performance. We have been less good at capital allocation and there is a considerable opportunity for improvement, especially with a more proactive approach to capital recycling. Our new strategy is the basis on which we expect to generate value for shareholders over the longer term. David will elaborate on this in his review.

It remains a challenging market in both the UK and the rest of Europe for industrial property companies because many of our tenants face their own challenges. However, we have managed to improve our occupancy and have not suffered from too many insolvencies of tenants. As a result of property disposals our rental income for the year marginally decreased but our EPRA profits increased, enabling the Board to recommend a 14.8 pence full-year dividend, an increase of 3.5 per cent on the prior year. EPRA NAV per share decreased by 9.6 per cent, reflecting valuation declines, mainly within the more secondary properties earmarked for disposal following the strategic review.

We go into 2012 determined to execute our strategy and have made a good start to reshaping our portfolio with the completion since the year end of the acquisition of the UK Logistics Fund in conjunction with a partner and the disposal of a portfolio of non-core holdings in the UK. Our investment team is also very focused on a disposal programme of non-core assets, which have been partly responsible for our underperformance. This will also help to lower our loan to value ratio over time.

## FOCUSED ON SUSTAINABILITY

We have continued to make progress this year on our journey to embed sustainability into every aspect of our business. Our review of performance begins on page 34.

Find out more online by visiting [www.segro.com](http://www.segro.com)

## MANAGEMENT CHANGES

Following David Sleath's promotion to Chief Executive, the Board undertook a search for a new Finance Director. In August, Justin Read was appointed Finance Director and joined the Board. Justin was previously Finance Director at Speedy Hire plc.

As part of the business review, David looked at his management structure and decided to create two important new positions of Chief Operating Officer and Chief Investment Officer. Andy Gulliford and Phil Redding were appointed to these positions respectively in November. These were both internal promotions.

## OVERVIEW OF PERFORMANCE

The EPRA profit before tax was £138.5 million (2010: £127.3 million) on net rental income of £271.2 million (2010: £282.1 million). EPRA earnings per share increased by 7.6 per cent to 18.4 pence, compared with 17.1 pence in 2010, reflecting the continued focus on driving down both vacancy and the total cost ratio. On an unadjusted basis, profit before tax was

£(53.6) million (2010: £197.2 million), including a £187.0 million write-down in the second half of the year on the assets which were identified as non-core in the strategic review.

The Board is grateful to all our employees for the delivery of the results for the past year.

The decrease in capital value of our portfolio of properties, including joint ventures at Group share, amounted to £255 million and EPRA net asset value per share was, therefore, 340 pence (2010: 376 pence).

The final dividend payment will consist of a 7.0 pence Property Income Distribution (PID) and a 2.9 pence ordinary cash dividend. The Board is offering a Dividend Reinvestment Plan (DRIP) on the PID for the 2011 final dividend.

The Board stated in November that it expected to at least maintain the dividend throughout the reshaping process, and is committed to a progressive dividend policy in the longer term.

2012 is likely to be no less challenging than 2011 for the economies in which we operate, with consumer confidence low and industrial demand weak. We remain alert to the potential financial and operational risks to the business arising from a further deterioration in the Eurozone crisis, but nearly all our assets in Continental Europe are concentrated in the stronger metropolitan areas of Germany, France, Poland and the Benelux countries. These potential risks, together with the actions being taken to mitigate our exposure to them, are set out in more detail in the Financial Review and in the discussion of principal risks on pages 50 to 53. We believe that in the longer term our focus on Disciplined Capital Allocation and Operational Excellence, together with the commitment of our employees to the strategy, will deliver significantly better returns for our shareholders.

**NIGEL RICH CBE**  
CHAIRMAN

**"THE GROUP HAS MADE GOOD  
PROGRESS IN 2011, WE ARE  
NOW LOOKING FORWARD TO  
TRANSFORMING OUR BUSINESS  
FOR THE FUTURE"**

**NIGEL RICH CBE**  
CHAIRMAN





"WE DELIVERED STRONG  
OPERATING RESULTS FOR 2011  
AND HAVE A CLEAR STRATEGY  
TO TRANSFORM PERFORMANCE  
FOR THE FUTURE"

DAVID SLEATH  
CHIEF EXECUTIVE

# CREATING A INCOME-FO

## INTRODUCTION

SEGRO is Europe's leading owner-manager and developer of industrial property, with a high-quality portfolio and leading market positions in some of the most attractive markets, including London and the South East of England and major conurbations in Germany, France and Poland. In the UK we have £3.5 billion of assets, the vast majority of which are in prime locations in and around London, including estates at Park Royal and Heathrow, and in the Thames Valley – which includes the Slough Trading Estate, Europe's largest industrial park in single ownership. In Continental Europe, we have a good platform, with £1.6 billion of assets in several strong industrial and logistics markets including Frankfurt and the Rhine-Ruhr region of Germany, the Ile de France region around Paris, and four areas in Poland. Our strengths in developing and managing industrial property estates are underpinned by a diversified income stream from our high-quality customer base across many different industries.

We believe a focus on industrial real estate creates a good basis for building a REIT which can offer its investors an attractive dividend yield and resilient capital growth.

Industrial property is an attractive asset class which, in the UK, has outperformed retail and offices over the last 25 years. The principal reasons for this are firstly that industrial provides a high income yield relative to other property sectors; and secondly that industrial land in major conurbations has the potential to be converted to higher value uses.

Despite the very well timed sale of our US assets in 2007 and the acquisition of Brixton in 2009, our portfolio has underperformed over the last decade by having too many non-income producing assets, including long-term development sites, suburban offices, older more secondary and higher vacancy estates as well as investments in sub-scale or weaker markets.

# LEADING CLOSED REIT

### A NEW STRATEGY

Following my appointment as Chief Executive in April, we have developed a new strategy for SEGRO to build on our considerable strengths and to address the areas of historical underperformance in order to deliver better returns for our shareholders.

Our ambition is to create the best industrial property business in Europe and a leading income-focused REIT. Our vision envisages a low-risk, efficiently run portfolio, producing good income returns, with minimal cost leakage and resilient capital growth. We intend to own a very high quality portfolio of mainly prime and good secondary assets, which are well specified and located, of modern design, with good sustainability credentials and which (due to their quality and location) benefit from a low structural void rate and relatively less intensive asset management. We will only operate in a small number of markets where we can achieve competitive advantage and critical mass. We will hold only modest amounts of land and other non-income producing 'opportunity' assets and will operate with moderate levels of gearing. We will also partner with third-party capital providers, where appropriate, in order to enhance our risk-adjusted returns and to help us achieve scale positions in our markets.

Our strategy to achieve this vision has two key pillars:

- Disciplined Capital Allocation, which consists of picking the right geographic markets and asset types, creating the right portfolio shape, actively managing the portfolio ('Buy Smart, Add Value and Sell Well') and deploying the right capital structure (including partnering with third-party investors).
- Operational Excellence, which consists of optimising performance from the portfolio through customer focus, expert asset management, development and operational efficiency.

In terms of the implementation of the new strategy, our four main priorities are to:

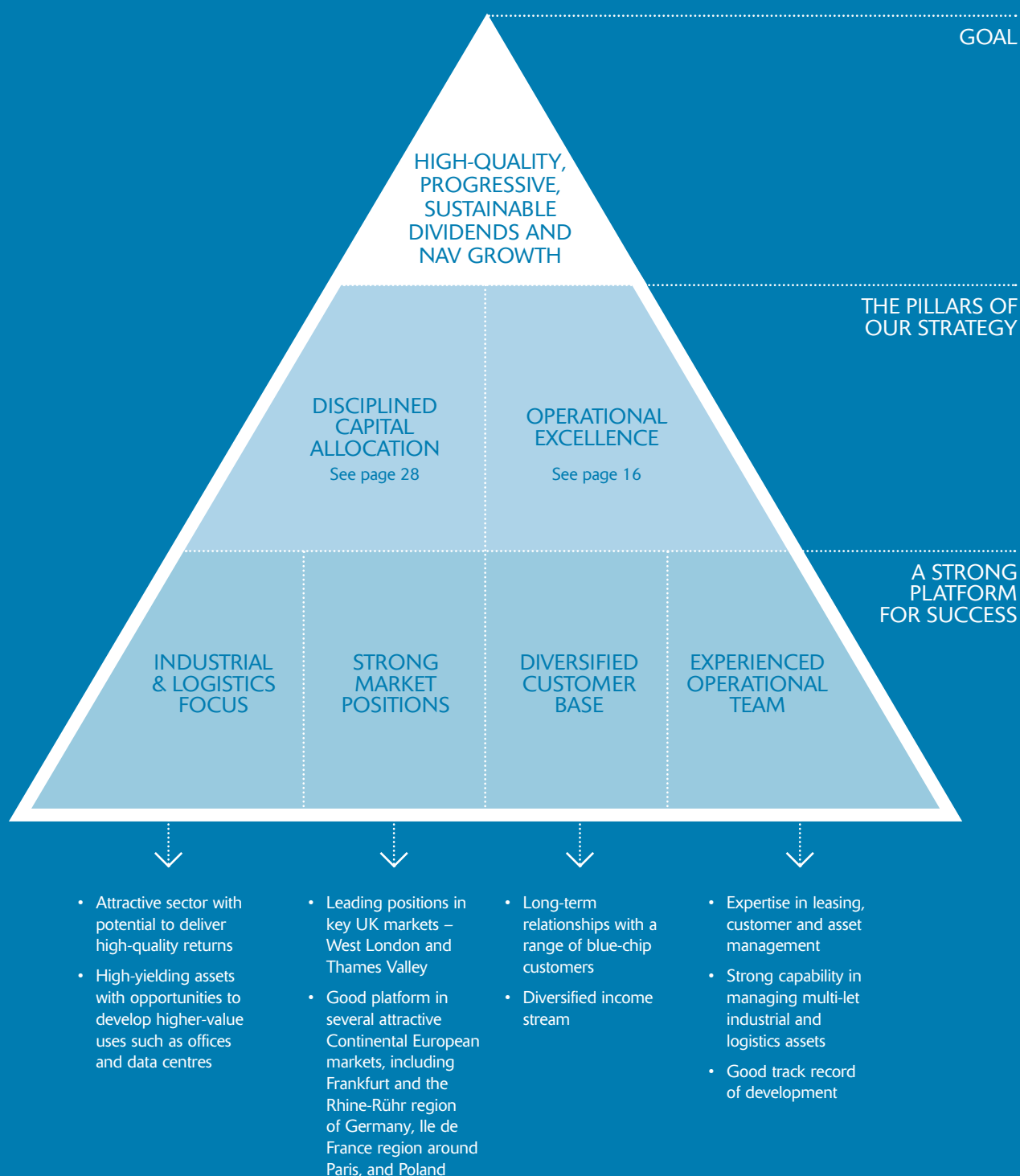
- Reshape the portfolio by selling the non-core assets which do not pass our strategic filter and by changing the balance of the business to have a lower risk, more resilient portfolio and less opportunity assets
- Grow the business in our target markets through development and acquisition of both light industrial parks in the largest and most vibrant urban conurbations and 'big box' logistics assets in and around major ports, airports and distribution corridors (mainly in France, Germany, Poland and the UK). We also intend to exploit opportunities to develop higher value uses such as data centres, offices, research facilities and retail
- Reduce debt over the medium-term towards our target for a 40 per cent loan to value ratio and introduce third-party investors where appropriate
- Drive further operational improvements across the business. This means an even greater emphasis on customer service, more development and upgrading of our assets and further investment in systems and processes to enable us to simplify the business and reduce costs.

### GOOD PROGRESS ON STRATEGIC PRIORITIES

Although implementation of the strategy is at an early stage, we are making good progress on a number of our key initiatives. During 2011 we sold non-core assets for £110.9 million. Since the year-end we have completed the acquisition of 14 prime logistics warehouses in the UK Logistics Fund for £314.7 million in a joint venture with Moorfield Real Estate Fund, and the disposal of a portfolio of five non-core industrial estates to Ignis Asset Management for £80.2 million. Within the business, we have introduced a new organisational model based around the two key disciplines of Disciplined Capital Allocation and Operational Excellence. I am confident that we are well-positioned to make further progress on our strategic objectives during 2012.

# A CLEAR AND DELIVERABLE STRATEGY

Our vision for SEGRO is to be the best owner-manager of industrial property in Europe and a leading income-focused REIT. By building on our existing strengths and focusing our strategy on the two key strands of Disciplined Capital Allocation and Operational Excellence, our goal is to deliver stronger performance for shareholders in the form of a sustainable, high-quality and progressive dividend stream and more resilient NAV performance.



# WITH THE RIGHT PRODUCTS

We believe that high-quality industrial and distribution property provides a good basis for generating sustainable and growing dividends and resilient capital growth. As an asset class, it produces a higher yield than other property sectors and can benefit from an uplift in value upon change of use.

## MULTI-LET INDUSTRIAL

Multi-occupier light industrial estates of varying size located in and around attractive, growing and supply-constrained conurbations. Our focus is on modern, well-specified and well-located estates. Our estates support a variety of activities, including light manufacturing, showrooms, urban distribution and storage.

## LOGISTICS

Larger distribution warehouses of, typically, 10,000 sq m and above located in and around major ports and airports and along transportation networks to serve varied distribution needs. The largest well-established markets in the UK and Continental Europe, including Poland and Czech Republic (see map on facing page).

## HIGHER VALUE USES

Within our multi-let industrial markets we seek to develop higher value uses to deliver enhanced rents and returns. These uses, which currently represent 21 per cent of portfolio by value, include: data centres, suburban offices, trade counters, car showrooms, research facilities, self-storage.



# IN THE RIGHT MARKETS

We evaluate the geographical markets in which SEGRO should operate for the size, economic growth potential, attractiveness of the local real estate market, supply/demand dynamics and the competitive landscape. We then select only those geographies where we already have critical mass and a strong market position, or where we believe we can achieve this relatively quickly.

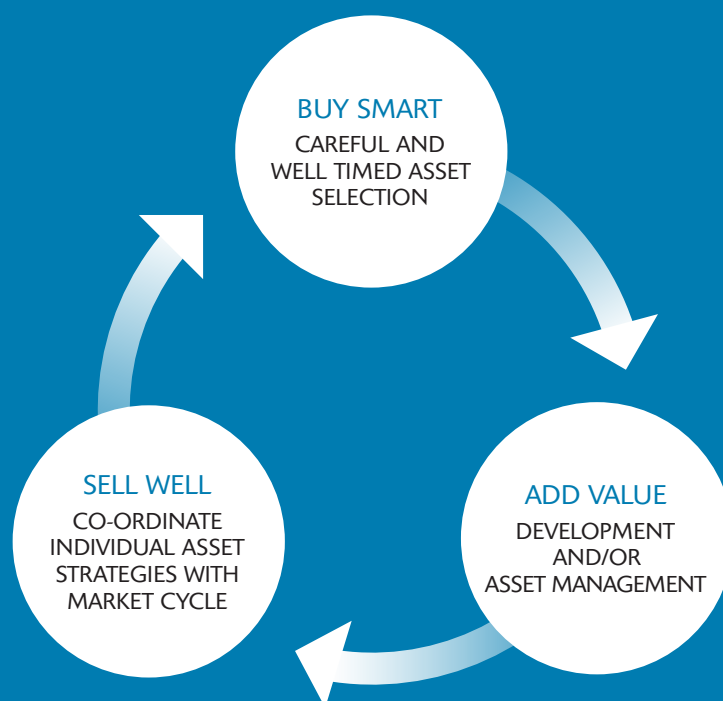
Therefore, for multi-let industrial we are focusing our investments on: Greater London; the Thames Valley; and South East of England; Paris and the Ile de France; Düsseldorf and Frankfurt. Our primary markets for logistics are: UK (Midlands and South); France (Paris, Ile de France and Lyon); Germany (Düsseldorf, Frankfurt and Hamburg); Benelux (Amsterdam, Rotterdam and Belgian triangle); Poland (Warsaw, Poznan, Lodz and Silesia); and Czech Republic (Prague).



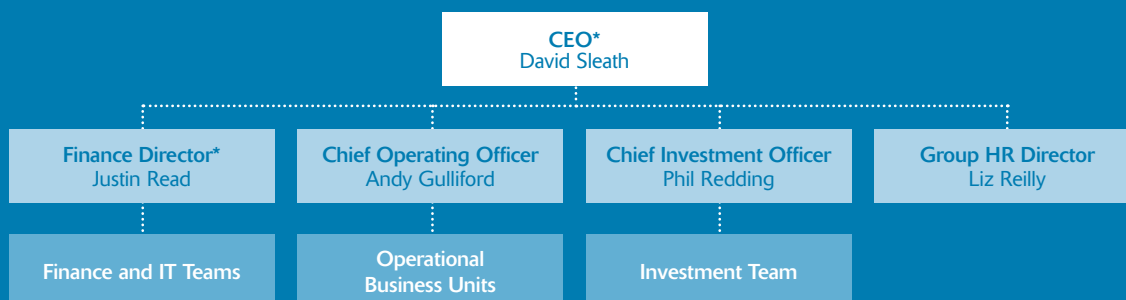
● Multi-let industrial and logistics    ● Logistics

# WITH THE RIGHT BUSINESS MODEL TO DELIVER ATTRACTIVE RETURNS

Disciplined, active and rigorous portfolio management will be a vital and increasingly prominent element of our ongoing strategy, which means buying the right assets at the right time and adding value through development or asset management initiatives. Most importantly, it is also about crystallising value and taking our capital out of assets before leases reach maturity – to realise cash and begin the cycle again.



## THE RIGHT MANAGEMENT STRUCTURE TO DELIVER OUR STRATEGY



\*Board Member



## FOUR KEY STRATEGIC PRIORITIES TO TRANSFORM FUTURE PERFORMANCE

### 1. RESHAPE THE EXISTING PORTFOLIO

- Divest assets which do not fit our strategic priorities
- Reduce land holdings and other non-income producing assets as a proportion of the total portfolio

### 2. GROW ASSETS UNDER MANAGEMENT IN TARGET AREAS THROUGH DEVELOPMENT AND ACQUISITION

- Light industrial in the largest and most vibrant conurbations
- Logistics in and around major ports, airports and distribution corridors
- Exploit opportunities to create higher value uses on industrial land

### 3. REDUCE FINANCIAL LEVERAGE OVER TIME AND INTRODUCE THIRD-PARTY CAPITAL

### 4. CONTINUE TO FOCUS ON OPERATIONAL EXCELLENCE AND DRIVE FURTHER IMPROVEMENT



# KEY PERFORMANCE INDICATORS GOING FORWARD

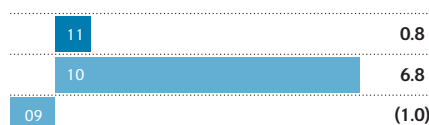
## OVERVIEW

We have reviewed and refined our key performance indicators (KPIs) to ensure that the measures that we will report against this year and in the future are fully aligned with our goal to deliver attractive shareholder returns in the form of high-quality, sustainable dividend and NAV growth.

This year, and moving forward, we will be reporting against eight KPIs, reduced from 18 in the previous year, which we perceive to be fundamental measures of our performance. Included in our KPIs are Total Property Return (TPR) and Total Shareholder Return (TSR), both of which are key metrics used in setting our Executive Directors' and senior managers' long-term incentive plan targets. TPR, along with earnings, is also a key element in the annual bonus targets which apply to all employees.

## Total Property Return (TPR)<sup>†</sup>

0.8%



**What it is:** A measure of the ungeared combined income and capital return from the portfolio. TPR shows the return we have achieved on our capital over the period and is therefore an important measure of our ability to maximise returns from our asset base.

**How we calculate it:** Realised and unrealised property gains and losses plus net rental income expressed as a percentage of capital employed.

## EPRA\* EPS

18.4pence



**What it is:** EPRA earnings represent the underlying recurring performance of the property rental business, which is our core operational activity. EPRA EPS reflects EPRA earnings on a per share basis, attributable to our shareholders for the period.

**How we calculate it:** EPRA earnings, stated after tax and non-controlling interests and calculated in accordance with EPRA Best Practices Recommendations, divided by the weighted average number of shares in issue during the period.

## RISK MANAGEMENT

The activities of the Group and the delivery of its strategy will always include an element of risk, which could impact the performance of our KPIs. We have a robust risk management process in place which seeks to mitigate these risks. The principal risks and uncertainties facing the Group are set out on pages 50 to 53 and our management of risk is in the Governance section on pages 60 and 61.

## Loan to value ratio (LTV)

50%

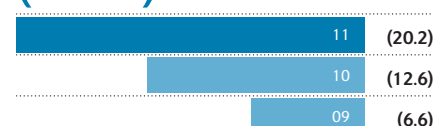


**What it is:** The proportion of our property assets that are funded by borrowings. Over the medium term a key objective, as part of our strategy, is to drive down the LTV ratio to approximately 40%.

**How we calculate it:** Reported net borrowings expressed as a percentage of our wholly-owned property assets (investment, owner-occupier and trading properties).

## Total Shareholder Return (TSR)

(20.2)%



**What it is:** A measure of our ability to generate income and capital returns for our shareholders over the year. This KPI reflects our commitment to delivering enhanced returns for our shareholders through the execution of our strategy over the medium term.

**How we calculate it:** The change in SEGRO's share price measured on a 3-month average basis during the period and assuming dividends are reinvested.

## Additional EPRA measures

	2011	2010	2009
Earnings (£m) <sup>1</sup>	136.6	126.0	103.4
NNNAV (pence per share) <sup>2</sup>	322	360	363
Net Initial Yield (%) <sup>3</sup>	6.4	6.0	–
Topped up Net initial Yield <sup>3</sup>	7.1	6.9	–

1. Stated after tax and non-controlling interests.

2. Excludes tax effect of adjustment in respect of fair value of debt as discussed further in note 13.

3. Implemented by EPRA in 2010 and therefore no 2009 comparatives available. Please see 2011 Property Analysis Booklet for further details of our yields, available at [www.segro.com](http://www.segro.com)

<sup>†</sup> As in previous years, the TPR shown above is an internal calculation based on income earned and realised and unrealised property gains or losses as recognised in the financial statements, compared to the average portfolio value for the year. In future years portfolio performance and TPR will be measured independently by IPD in order to provide a consistent comparison with an appropriate IPD benchmark using the methodology to be applied under the rules of the proposed new LTIP scheme, as further described on pages 67 and 68.

## EPRA\* NAV per share

340 pence

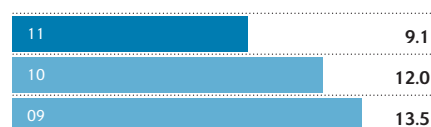


**What it is:** EPRA NAV per share highlights the fair value of net assets on an ongoing, long-term basis. We aim for sustainable long-term asset value growth, whilst carefully managing our liabilities to maintain balance sheet strength.

**How we calculate it:** Total assets minus total liabilities, adjusted for assets and liabilities that are not expected to crystallise in normal circumstances per the EPRA Best Practices Recommendations, divided by the number of shares in issue at the period end.

## EPRA vacancy

9.1 %



**What it is:** A measure of our ability to lease the assets within our portfolio. A reduction in the vacancy rate increases our rental income and reduces vacant property costs. However, given the nature of our industry, some level of vacancy will always exist within the portfolio in order to support our asset management activities and allow our customers the opportunity to move premises.

**How we measure it:** Estimated Rental Value (ERV) of our vacant space expressed as a percentage of the ERV of our entire portfolio. The vacancy rate includes short-term lettings and is calculated in accordance with EPRA Best Practice Recommendations.

## Total cost ratio

24.3 %



**What it is:** The ratio of our costs to rental income generated. This is an indicator of how cost-effectively we manage both our property assets and our administrative costs in order to improve profitability. Over time we are targeting a reduction in our total cost ratio to the low 20 per cent range.

**How we calculate it:** The total cost ratio is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income and includes the Group's share of costs and revenue from joint ventures.

## Customer satisfaction

78 %



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

**How we measure it:** A Group-wide survey for which we surveyed over 200 customers across eight countries during 2011.

\* EPRA NAV and EPRA EPS are alternate metrics to their IFRS equivalents that are calculated in accordance with the Best Practice Recommendations of the European Public Real Estate Association (EPRA). SEGRO uses these alternative metrics as they highlight the underlying recurring performance of the property rental business, which is our core operating activity. The EPRA metrics also provide a consistent basis to enable a comparison between European property companies.



### STRONG 2011 OPERATING RESULTS

We achieved a strong operating performance for 2011, despite the unsettled macro-economic environment, securing £38.4 million of new rental income contracted during the year, increasing our retention rate to 74 per cent and further reducing our vacancy to 9.1 per cent. This is testament to both the strength of our property teams and the high quality of our portfolio in key markets. We saw resilient demand for space across a range of businesses, including third-party logistics providers, national food and fashion retailers and data centre operators and from a variety of businesses which viewed the current market as providing a good opportunity to take on space. The high quality and locational strength of most of the assets in our portfolio, combined with the limited supply in the wider market for good quality, modern assets, helped SEGRO to deliver a strong net leasing performance for the year.

Within the UK, which accounts for 69 per cent of the total portfolio, London and the Thames Valley (in aggregate accounting for around 88 per cent of our UK portfolio), were the most resilient areas for occupier demand.

Conditions continued to be more challenging in regional UK markets, where a significant supply of second-hand space added to the pressure on occupancy, rents and incentive packages. In Continental Europe, representing 31 per cent of the total portfolio, concerns about the economy appear to have had some impact on general business sentiment, but the key markets in our portfolio in Germany and France continued to see good levels of demand and our businesses in the non-Eurozone markets of Poland and Czech Republic also performed well. Within this macro environment, SEGRO's priority remained operational delivery, focused on customer and asset management, leasing, pre-let development and tight cost control. Reflecting improved vacancy rates and tight control of operating expenses, we reduced our total cost ratio for the year to 24.3 per cent, from 28.1 per cent in 2010.

Progress in all these key areas during the year helped to deliver EPRA profit before taxation of £138.5 million, an increase of 8.8 per cent on 2010, and a 7.6 per cent increase in EPRA EPS to 18.4 per cent per share. EPRA NAV per share decreased by 9.6 per cent to 340 pence, reflecting a 4.2 per cent decline in the value of the completed property portfolio, comprising a 13.0 per cent reduction in the value of assets which are non-core to our long-term portfolio strategy and a 0.4 per cent decline in the valuation of the core portfolio. Reflecting the reduction in the value of our properties, the total property return for the year was 0.8 per cent, comprised of an income return of 5.7 per cent and capital loss of (4.9) per cent. This compares to a TPR of 6.8 per cent for 2010. In terms of total shareholder return (TSR), a lower share price at the end of the year, partly offset by dividends paid in the year resulted in a disappointing TSR of (20.2) per cent.

## SIGNIFICANTLY STRENGTHENED OUR ALREADY SECURE FINANCIAL POSITION

Our funding position was further strengthened during the year with new or extended bank facilities totalling €440.0 million (£367.0 million), reflecting our strong relationships with our lending banks, and as a result the Group has no significant debt maturities before 2014. Our APP joint venture with Aviva separately agreed a five-year refinancing package of £400.0 million and, since the end of the year, our joint venture with Moorfield has secured a facility of £186.6 million over five years secured on the assets of UKLF.

Net borrowings at the year end were £2,303.4 million (31 December 2010: £2,203.2 million) and the Group's gearing ratio was 89 per cent (2010: 80 per cent). Our loan to value ratio is now 50 per cent, up from 46 per cent at 31 December 2010. In the medium-term, our intention remains to reduce our loan to value ratio to 40 per cent.

Further details of the financial position, including sensitivities to interest rate and currency fluctuations, are provided in the Financial Review.

## OUTLOOK

In 2011 we delivered strong income-generation and earnings growth, driven by an excellent operational performance which included further reducing our vacancy rate, significantly increasing customer retention and building a strong pipeline of future income from pre-let developments.

As part of the revised strategy for the Group outlined on 8 November 2011, we have made a promising start to reshaping our portfolio with the completion since the year-end of the acquisition of prime logistics assets with a joint venture partner and the disposal of a portfolio of non-core holdings in the UK.

We expect the macro environment to remain unsettled for some time to come, both in the UK and Continental Europe. However, we have 20 mainly pre-let development projects due to come on stream and have started the new year with good momentum in our letting activity. We have a strong balance sheet and a clear focus to build on our strengths of investing in the strongest locations in resilient sectors, both in the UK and key industrial markets of Continental Europe, and to recycle those assets which do not fit our strategic criteria. Given the strengths of our operational teams and core assets, we are well-positioned to continue to capitalise on demand for newly-developed and well-located industrial space from a diverse range of customers and industries.

An element of our strategy envisages increasing over time the proportion of our assets under management that are located in the stronger markets in Continental Europe. We strongly believe that our selected target and product markets in this region provide attractive expansion and growth opportunities for SEGRO over the medium-term. In setting our strategy and budgets we have not assumed a significant worsening in the current economic and political landscape of the countries in which we operate. We will however continue to monitor events in Europe to ensure that our assumptions remain valid, particularly as regards their impact on the strength of our diverse customer base and funding partners and on the appropriate timing for our asset recycling programme.

**DAVID SLEATH**  
CHIEF EXECUTIVE

## TRANSFORMING SEGRO'S PERFORMANCE

We have a clear strategy for the coming years and have put in place a new organisational structure which is aimed at implementing the strategy and, thereby, transforming SEGRO's future performance. The following sections outline how we performed during 2011, arranged in accordance with the new structure.

### OPERATIONAL EXCELLENCE

#### ANDY GULLIFORD

Oversees maximisation of total property returns from the portfolio in the UK and Continental Europe. Responsibility across all leasing, customer and asset management activities and development

### DISCIPLINED CAPITAL ALLOCATION

#### PHIL REDDING

Determines Group-wide investment strategy and its implementation. Oversees capital allocation across the business, including managing acquisitions and disposals

### COMMITTED TO SUSTAINABILITY

#### DAVID SLEATH

Leading the Group's focus on resource efficiency, communities and stakeholder engagement and flexibility, accessibility and safety of our assets

### STRONG FINANCIAL FOUNDATIONS

#### JUSTIN READ

Responsible for all aspects of financial management across the business



"EXPERTISE IN CUSTOMER  
RELATIONSHIP AND  
ASSET MANAGEMENT IS THE  
CORNERSTONE OF OUR  
STRONG OPERATING PLATFORM"

**ANDY GULLIFORD**  
CHIEF OPERATING OFFICER

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# DELIVERING OPERATIONAL EXCELLENCE

## INTRODUCTION

Our overall operational performance during 2011 was strong, reflecting the quality of our portfolio, a diversified customer base and the wealth of expertise that exists within our property teams.

## RESILIENT LETTINGS PERFORMANCE IN A CHALLENGING ENVIRONMENT

Through our leasing activities we generated £33.5 million of annualised new rental income (2010: £37.7 million). This excludes the value of agreements for pre-lets which will be delivered in future years. Excluding 2011 pre-let completions, which are reviewed below, we generated £24.4 million of new annualised rental income (2010: £32.5 million).

Our strong lettings activity has not come at the expense of overall rental levels, despite our flexible approach to leasing and asset management. In 2011, overall headline rents across the business on new lettings and lease renewals were 1.7 per cent higher than 31 December 2010 ERVs. Lease incentives stood at 11.0 per cent of the committed rents (2010: 10.0 per cent).

## UK

In the UK, we completed over 200 lettings generating £21.9 million of new annualised rental income (2010: £26.3 million), driven by a strong performance in London and the South East. Pre-let development completions contributed £3.7 million to this figure compared with £5.2 million in the prior year.

In our Greater London business unit, which represents 49 per cent of our UK portfolio and 43 per cent of lettable space, lettings at our two major clusters, Park Royal and Heathrow, remained resilient. At Park Royal, covering 408,500 sq m of lettable space, 30 lettings were completed across 28,800 sq m, a high proportion of which derived from demand from existing customers. The largest letting at Park Royal in the year was a 4,400 sq m unit to MedicAnimal.



# £33.5<sub>m</sub>

NEW ANNUALISED RENTAL INCOME



## PERFORMANCE REVIEW

### OPERATIONAL EXCELLENCE CONTINUED

At Heathrow, which has 411,500 sq m of lettable space, including our share of joint venture assets, momentum in the occupier market was driven by the restricted supply of assets located within close proximity to the airport. A total of 29 completed lettings across 37,700 sq m in the year included the expansion of Airworld Services to all four ground floor units at the X2 building, a 3,700 sq m let at the Heathrow Cargo Centre to Worldwide Flight Services and 5,200 sq m at Polar Park to AML.

Demand for space within our Thames Valley and the Regions business unit, representing 51 per cent of our UK portfolio and 57 per cent of lettable space, continued to be driven by the Thames Valley's prime business location and excellent transport links. During the period over 120 new deals were completed for a total of 120,300 sq m of space.

At the Slough Trading Estate, which covers 619,700 sq m, new lettings included 5,600 sq m of speculative development to an existing data centre customer at the estate.

At IQ Winnersh, 10,600 sq m of office space was leased, including the recently-refurbished Building 230 and Building 1020, making it one of the Thames Valley region's best performing business parks. Key deals during 2011 included 2,200 sq m of office space to an existing data centre customer and 4,400 sq m to Atos.

At the Maylands Estate in Hemel Hempstead 7,900 sq m was let to the data centre operator Gyron Internet, reflecting the attractiveness of buildings in our portfolio for higher-value use. The largest letting in the UK during the year was completed at Meteor Park, Birmingham, for 10,700 sq m of warehousing space.



## DATA CENTRES – A GROWTH AREA

# 127,000 sq m

DEVELOPED FOR DATA CENTRE OPERATORS

During 2011 we signed leases for three new data centres across our portfolio, which has increased SEGRO's total data centre coverage to 19 properties across 127,000 sq m and enhanced our position as a leading UK provider of such higher value uses.

Data centres are an attractive asset type for SEGRO. They can be constructed relatively quickly and easily and are typically secured on long leases with limited break clauses.

During the year, Infinity, the specialist data centre operator, agreed a pre-let, 25-year lease with SEGRO for the development of a new 11,400 sq m data centre facility at the Slough Trading Estate due to be completed in 2012.

Also on the Trading Estate, a speculative development of 5,600 sq m was let to an existing data centre customer, to enable expansion of its operations, and the same customer also leased 2,200 sq m of new space at our IQ Winnersh business park. We also converted an existing warehouse at our Maylands Wood estate in Hemel Hempstead to a data centre for Gyrone Internet on a 20-year lease with no breaks.

## IQ WINNERSH – ATTRACTING KNOWLEDGE-BASED CUSTOMERS

SEGRO has owned IQ Winnersh for more than 20 years, and in more recent times we have undertaken work to redevelop and re-position the park to make it an innovative and attractive location for the knowledge-based businesses in the Thames Valley.

A key attraction is the park's integrated transport network, as it is conveniently located close to the M4 motorway and has its own dedicated railway station and a daily 10-minute shuttle bus to central Reading.

In 2011, we welcomed new occupiers Grant Thornton, a leading accountancy firm, and Atos, the international IT company, to Building 1020. This 8,000 sq m building of grade A energy-efficient office accommodation was a speculative development by SEGRO. In December 2011, the business intelligence software company, QlikTech, leased 1,975 sq m to meet its growing space requirements. IQ Winnersh is home to other major businesses, including Virgin, Intel, Jacobs Engineering, Microchip and Harris Systems.



## CONTINENTAL EUROPE

In Continental Europe, we generated £11.6 million of new annualised rental income (2010: £11.4 million), reflecting robust demand for the assets in our key markets, which offset more difficult occupier market conditions in Benelux. In comparison to the prior year, when there were no pre-lets completed, 2011 completions contributed £5.4 million to income.

Driven by a resilient macro-economic environment, in Germany 22 new lettings were secured for a total 96,500 sq m. These included 23,400 sq m to Metro at Holzwickede, Dortmund and, in Frankfurt, a 10-year lease for 6,600 sq m to Universum Inkasso at the Neckermann site. Occupancy at the former Kardstadt-Quelle site in Fürth increased to almost 90 per cent following a 20-year lease taken out by a manufacturing customer.

In France, the majority of our portfolio is located in the Ile de France and, in particular, the prime industrial area north from Paris city centre to Charles de Gaulle Airport, where demand for our industrial and logistics assets continues to provide high-quality income. We secured 12 new lettings across 64,500 sq m during the year, including a large letting of 21,300 sq m to Bovis Transport at Bondoufle and 6,700 sq m of logistics space to CMP at Marly la Ville.

Our logistics operations in Poland continued to benefit from a strong occupier market, driven by a relatively buoyant economy coupled with large-scale infrastructure projects and preparations for the 2012 UEFA European football tournament. A total of 20 lettings across 80,700 sq m were completed during the year. At Nadarzyn, Warsaw, our property team worked closely with an existing customer of 24,000 sq m to meet their changing space requirements, and successfully managed the phased handover of the majority of this space to three customers, including 6,500 sq m to PepsiCo.

In Benelux, we completed 8,600 sq m of lettings, the largest of which was for 3,300 sq m to Tommy Hilfiger in the Netherlands. Despite the strengths of the facilities at Pegasus Park, our office development close to Brussels airport, the local office market remained subdued as customers took longer to reach decisions on taking new space and vacancy levels remained higher.

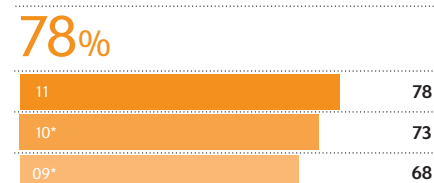
## TAKEBACKS REDUCED BY 28% TO £21.0 MILLION

Our performance in reducing the impact of takebacks, (the amount of rental income lost due to lease expiry, exercise of break option, surrender or insolvency) was robust, with takebacks falling to £21.0 million (2010: £29.3 million), of which £16.2 million related to the UK and £4.8 million to Continental Europe.

## WORKING CLOSELY WITH OUR CUSTOMERS HAS INCREASED RETENTION RATES TO 74%

Our commitment to providing excellent customer service and working closely with our customers where their leases are due for renewal, or in situations where they may be experiencing difficulties, helped to increase the Group retention rate in the year to 74 per cent from 63 per cent. This included an increase to 69 per cent from 55 per cent in the UK, and to 87 per cent from 75 per cent in Continental Europe.

### Customer satisfaction



\* 2010 data for UK only; 2009 data for Continental Europe only.

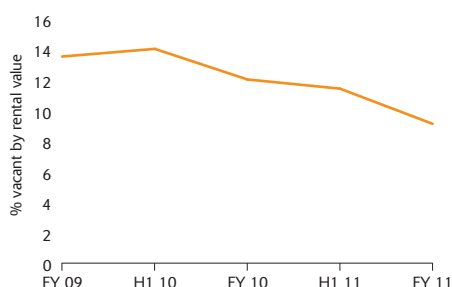
A Group-wide customer satisfaction survey was carried out during the year with over 200 SEGRO customers across eight countries, the results of which were very encouraging and underline our increasing commitment to working closely with and meeting the needs of our customers. Overall satisfaction as an occupier of our buildings was rated as good or excellent by 78 per cent of customers. Over 80 per cent of respondents believe that SEGRO provides a consistently strong property management service, and over 70 per cent expressed satisfaction with the quality of our estate services.

Our commitment to high operational standards was recognised during the period by prestigious industry awards for Best Property Company in Industrial and Distribution (Estates Gazette), Property Company of the Year and Deal of the Year in the under 50,000 sq ft category, for a development on behalf of GeoPost (both Industrial Agents Society).

## PERFORMANCE REVIEW OPERATIONAL EXCELLENCE CONTINUED

### SIGNIFICANT IMPROVEMENT IN GROUP VACANCY RATE TO 9.1%

Through a combination of strong lettings activity and an improvement in retention rates, overall Group vacancy was significantly reduced to 9.1 per cent as at 31 December 2011 (2010: 12.0 per cent). Short-term lettings benefitted the Group vacancy rate by 1.9 per cent (31 December 2010: 1.5 per cent).



In the UK, we began the year with a vacancy rate of 13.3 per cent, reflecting the higher level of vacancy in the Brixton portfolio acquired in 2009 as well as at our wholly-owned properties at Heathrow. Our local property teams worked hard to reduce these levels, and we ended the year with a vacancy rate for the UK of 10.2 per cent, including a reduction of the former Brixton vacancy to 13.4 per cent from 18.6 per cent at the start of the year. Reducing the void rate in the Brixton portfolio was a key value driver for our acquisition of the portfolio, and with this year's performance our originally stated target for a 15.0 per cent vacancy rate by the end of 2012 has been achieved well ahead of schedule. In our two UK business units, Greater London and Thames Valley and the Regions, vacancy stood at 11.3 per cent and 9.3 per cent respectively.

Within our Greater London portfolio, further strong progress was made during the year at two of our largest and best-performing estates at Park Royal, both of which were part of the former Brixton portfolio. At Greenford Park, vacancy was reduced to 6.0 per cent from 47.2 per cent at acquisition and, at Premier Park, our assets were fully-let, compared with a vacancy rate of 7.4 per cent at acquisition.

In Continental Europe, vacancy continued to decline year on year, to 6.4 per cent, as at 31 December 2011, from 8.9 per cent. The relative strength of the occupier market in Germany, combined with our continued focus on re-letting returned space at the Karstadt-Quelle properties, helped to significantly reduce the vacancy rate in Germany to 4.1 per cent from 11.5 per cent.

In France, vacancy also declined significantly, to 2.9 per cent from 6.7 per cent at the start of 2011, driven by a strong lettings and retention performance, reflecting continuing demand for our industrial and logistics space located around the key Paris market.

The combined vacancy rate for Poland and the Czech Republic of 3.4 per cent, as at 31 December, included vacancy for our assets in Poland of 4.0 per cent, which compares favourably with the market average of 11.5 per cent, and reflects the strength of our logistics proposition in a growth market.

In Benelux and Other markets, overall vacancy is 16.0 per cent, largely reflecting the subdued lettings market in Brussels and higher vacancy in some of our smaller assets in Italy.

The reduction in overall vacancy this year partly reflects a proactive and commercial approach to maximising income returns from some of our buildings by undertaking shorter-term lets, which may be reflected in future levels of rent at risk from breaks and expiries.

## REDUCING VACANCY – PARK ROYAL, WEST LONDON

# 5.2%

### VACANCY RATE REDUCTION

The acquisition of the Brixton portfolio in August 2009 included two well-located estates in and around Park Royal in West London, Premier Park and Greenford Park. Their strong performance this year has been a key driver in the reduction of vacancy, including at Park Royal where vacancy declined from 16.2 per cent to 11.0 per cent.

These assets have become two of the best-performing estates in our portfolio, reflecting their access links to main arterial roads only a few miles from central London and the high quality of the industrial buildings.

London is an attractive market for SEGRO with excellent fundamentals and where we have critical mass and a strong market position.

At the time of acquisition, vacancy at Premier Park, which has 78,500 sq m of lettable space across 29 units, was 7.4 per cent. As a result of our strong

customer and asset management skills, the estate is now fully-let. The average lease length at Premier Park has also increased to 11.3 years, up from 10.9 years at acquisition.

Greenford Park is of a similar size to Premier Park both in terms of floor space and the number of units. When SEGRO took over the asset management of the estate, the vacancy rate stood at 47.2 per cent and, at 31 December 2011, this has been reduced to 6.0 per cent.

Over the last 18 months lease agreements have been completed with Sainsbury's, Sotheby's and a number of other businesses. All of these deals have been secured on relatively long leases, which has resulted in the average lease length on the estate increasing to 11.1 years from 9.8 at acquisition.





## SECURING PRE-LETS FOR MAJOR RETAILERS

Demand from retailers for logistics space across Europe continues to be driven by the growth in e-commerce and the need to respond to new and growing sales formats, including an increase in the number of smaller, local supermarkets and the general requirement for more frequent replenishment rates.

In Germany, we worked with fashion retailer Takko to acquire land and subsequently develop and build a new 20,700 sq m distribution warehouse facility, all of which was completed within the space of eight months.

In the south of Poland, at Gliwice, we signed an agreement to develop a new 31,300 sq m distribution facility for a French sports retailer which will

occupy the building on a 28-year lease. Construction started in December and is scheduled for completion in the autumn of 2012.

At our location in Tychy, also in the south of Poland, we are developing 18,900 sq m for Zabka, which operates the country's largest network of convenience stores.

In France at our development in Gonesse, to the North of Paris, we built a 28,000 sq m distribution and cold storage warehouse for the French food retailer Casino.



### GROWING PIPELINE OF PRE-LET DEVELOPMENTS WITH 20 PROJECTS UNDER CONSTRUCTION OR CONTRACTED

Demand for pre-let developments has remained resilient throughout the year, driven by a lack of available grade A space across several of our markets. This has enabled us to focus on delivering returns from our land bank, which stood at 641 hectares as at 31 December 2011 (2010: 631 hectares). We undertook some speculative development during the year, although this was limited to those locations where we see a material imbalance between supply and demand for good quality product.

### COMPLETED DEVELOPMENTS

We completed a total of 14 developments across our portfolio during 2011, totalling 136,900 sq m. Of these completions, six were in the UK, totalling 23,500 sq m, all of which are fully let. In Continental Europe, we completed 113,300 sq m, of which 92 per cent was let as at 31 December 2011.

In the UK, completed developments included a 5,700 sq m unit at Heathrow for Heathrow Cargo Handling and two separate facilities at Southall and Enfield in London for GeoPost, totalling 6,900 sq m. The largest pre-let at the Slough Trading Estate was 7,000 sq m for Selig, an existing customer.

In Continental Europe, the largest completion for a single occupier during the period was a 28,000 sq m pre-let warehouse facility for Casino at Gonesse, Paris, which was completed ahead of schedule for occupancy in August. A 20,700 sq m logistics facility was completed for Takko in Hamburg, and at Gliwice in Poland pre-let developments across a total of 32,300 sq m were completed for several customers.





STRONG PIPELINE OF PRE-LET  
DEVELOPMENTS AT THE APP  
PORTAL SITE, HEATHROW

**357,300** sq m  
OF TOTAL LETTABLE SPACE AT APP

The Portal site is one of the prime locations available at Heathrow Airport, situated adjacent to the main cargo terminal and close to Terminal 4, and forms part of the £750 million APP portfolio managed by SEGRO at Heathrow.

In May, we signed the largest pre-let agreement in the Heathrow market for five years with DB Schenker to develop a new 9,900 sq m UK HQ office and warehouse facility on the Portal site, which is scheduled for completion in mid-2012. SEGRO will also construct

on the site two buildings of 7,000 sq m and 1,500 sq m respectively for Rolls-Royce to service and maintain aircraft engines, following a pre-let agreement signed in December 2011.

Both deals were transacted through the Airport Property Partnership (APP), a joint venture formed in June 2010 which brings together SEGRO as the asset manager and Aviva Investors as the fund manager.

## NEW DEVELOPMENTS

Across the Group, we have started construction on or have approval for a total of 20 developments. Our current overall development pipeline represents £116.9 million of capital expenditure to completion and £18.9 million of annualised rental income, of which 78 per cent is pre-let.

In the UK, as at 31 December 2011, we had a total of seven pre-let and two speculative developments totalling 42,200 sq m under construction or contracted, with the demand for new space focused on London and the South East. This represents £25.0 million of capital expenditure to completion and £6.9 million of annualised rental income, of which 89 per cent is pre-let.

At the Airport Property Partnership (APP) Portal site, we signed the largest pre-let for five years in the Heathrow market with DB Schenker for a new 9,900 sq m UK HQ office and warehouse facility, development of which commences in early 2012. In the final quarter of 2011, a further pre-let at the Portal site was signed with Rolls-Royce for an 8,500 sq m facility. Both of these developments are expected to complete in the second half of 2012.

On the Slough Trading Estate, five pre-lets were secured in the year; including one with Infinity in November to build an 11,400 sq m data centre on a 25-year lease. This development will be fast-tracked under the estate's Simplified Planning Zone status, and is expected to be completed in the fourth quarter of 2012. We are also developing 5,600 sq m of speculative space, which is now let to an existing data centre customer at the estate, and is due to be completed early in 2012. Two further speculative developments totalling 5,900 sq m are in progress at the estate, which we expect to complete in the first half of 2012.

In Continental Europe, as at 31 December 2011, a total of eight pre-let and three speculative developments totalling 162,300 sq m were under construction or contracted. The development pipeline represents £91.9 million of capital expenditure to completion and £12.0 million of annualised rental income, of which 72 per cent is pre-let.

Key pre-let deals during the year included 11,300 sq m of development substantially let to WIR Packens in Düsseldorf, and a 31,300 sq m facility in Gliwice for a sports retailer. The development pipeline continued to progress at Energy Park at Vimercate in Milan; agreement was secured and construction commenced for two significant office facilities, the largest of which was for a 34,000 sq m campus for Alcatel Lucent, which has had its headquarters on the estate since 1962. The development, comprising five new buildings for Alcatel and a multi-storey car park, is expected to be complete for a handover to Alcatel at the end of 2013.

A full list of current and completed projects can be found in our 2011 Property Analysis Booklet, which is available at [www.segro.com](http://www.segro.com).

## COST RATIO REDUCED TO 24.3% BY CONTINUING TO FOCUS ON OPERATING EFFICIENCIES

We continued to tightly control our operating cost base, reducing our total cost ratio for the year to 24.3 per cent from 28.1 per cent. This performance was primarily driven by lower vacancy and a reduction in administrative expenses and represents good progress on our target to reduce our percentage cost ratio over time to the low 20 per cent range.

Positive steps have been taken this year to further improve operational efficiency and consistency across the portfolio. Our property teams in the UK and Continental Europe have been streamlined to create an integrated Group-wide operating unit to more effectively manage our assets and deliver superior customer service. We believe this unified 'One SEGRO' approach will help us to meet both our strategy objective for Operational Excellence and target to deliver attractive total property returns.

**ANDY GULLIFORD**  
CHIEF OPERATING OFFICER



"WE ARE RESHAPING OUR PORTFOLIO  
BY FOCUSING ON HAVING THE  
RIGHT PROPERTIES IN THE RIGHT  
MARKETS, AND MAKING THE MOST  
PRODUCTIVE USE OF OUR CAPITAL"

**PHIL REDDING**  
CHIEF INVESTMENT OFFICER

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# DISCIPLINED CAPITAL ALLOCATION



## OVERVIEW

Taking a disciplined approach to capital allocation is a key part of our strategy. We have a high-quality team of investment professionals with extensive sector and local knowledge who are based in our key UK and Continental European markets. As Chief Investment Officer, my primary objective is to integrate and lead this resource to ensure that our investment approach across the Group is consistent and remains focused on maximising total property returns.

The key priority of the investment team is to implement our strategy to reshape the portfolio by focusing on the right properties in the right markets. This means being robust in our appraisals when deploying capital into new acquisitions and developments and rigorously reviewing our existing asset base, to enable gains to be crystallised and the risk of future underperformance to be mitigated.

The medium-term goal is to create a portfolio focused on the light industrial and logistics sectors, located within our defined core markets across Europe, and which displays the right balance between stabilised and opportunity assets. Our acquisition, since the year end, of UK Logistics Fund's 14 distribution units are an excellent example of how we intend to deploy our capital. We believe that a portfolio with such characteristics will produce strong income-orientated total property returns capable of being delivered on a sustainable basis.

SEGRO's disciplined approach to capital allocation is illustrated by the three case studies featured on pages 31–33.

## RIGHT PORTFOLIO SHAPE – RECYCLING CAPITAL

Every asset in our portfolio was reviewed during 2011 to determine the fit with our sector focus, selected core markets and required portfolio returns. From this review, a group of non-core strategic assets and other non-core smaller estates were identified for disposal over the medium-term. Non-core strategic assets comprise large individual holdings which are either suburban office parks or bespoke industrial and office complexes. A number of these have been successfully developed by SEGRO and comprise modern property, let on long leases to strong tenants. There exists now, however, an opportunity to crystallise the value created from these developments, and to reinvest the proceeds to commence the cycle again.

The remaining non-core assets are geographically dispersed, smaller lot sizes mainly comprising industrial property and land which adversely affect portfolio efficiency and drag total returns. The combined value of these non-core assets represents almost 30 per cent of our portfolio. A key priority of the investment team is to recycle these assets to generate proceeds for reinvestment in our core portfolio and to reduce gearing levels.

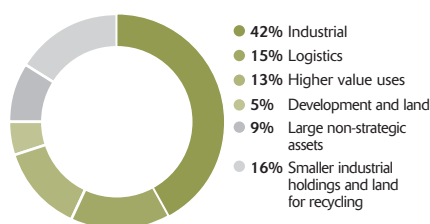
During the year we completed a number of disposals across our portfolio with proceeds of £110.9 million at a profit of £10.4 million. The largest disposals are shown below. Since the year end we have sold a portfolio of five non-core industrial estates in the UK, the proceeds of which are £80.2 million.

Asset	Country	Month of disposal	Proceeds (£m)
GL6 portfolio, various locations	UK	September	38.2
DHL portfolio, France wide	France	July to November	17.9
Geopost developments, Great Western Estate, Southall	UK	June	10.3
IQ Cambridge, Cambridge	UK	February	10.2
Trafford Trio, Manchester	UK	September	8.2
Cressex Estate, High Wycombe	UK	June	8.0
Braunschweig, Düsseldorf	Germany	January	3.0

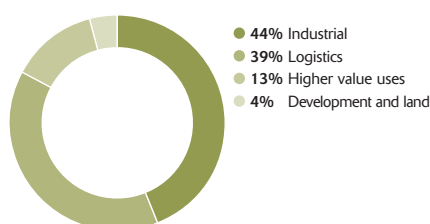
## PERFORMANCE REVIEW

### DISCIPLINED CAPITAL ALLOCATION CONTINUED

#### Right portfolio shape – 2011



#### Right portfolio shape – potential future shape



#### RIGHT PORTFOLIO SHAPE – REBALANCING ASSETS

A fundamental part of our portfolio strategy is to create an appropriate balance between stabilised and opportunity assets, ensuring that SEGRO remains an active owner-manager and developer of property but preventing such value-added opportunities from disproportionately diluting income returns from our stabilised assets. Good examples of our stabilised assets include Premier Park at Park Royal in London and Le Blanc Mesnil in Paris, both of which are modern, well-specified and well-located assets, benefitting from a low structural void rate, good income returns, minimal cost leakage and low capital expenditure requirements. Our target is for such stabilised assets to represent around three-quarters of our portfolio, with the remainder being opportunity assets focused on high-quality locations which allow our asset management and development skills to enhance income and capital returns, but which are capable of being delivered into a stabilised condition within a relatively short period of time.

#### DEVELOPMENT

As we recycle capital from our non-core holdings our aim is to reinvest in the industrial heart of our portfolio, building on our existing position in attractive markets where we have critical mass. SEGRO has a successful development track record, producing 1.1 million sq m of new space over the last five years, most of it pre-let, and delivering good returns at a project level. Although development remains a key element of our

value-add proposition, we intend to carry a reduced amount of land on our balance sheet, mainly comprising smaller sites with shorter development cycles. Our appetite for exposure to speculative development risk remains low, with the majority of capital expenditure being allocated to projects de-risked with a pre-letting in place. However, we will continue to assess local market conditions and to seek opportunities to draw down our existing land bank, as appropriate.

#### WORKING WITH THIRD-PARTY CAPITAL

We are continuing to explore options, particularly in the logistics sector, to partner with institutional providers of capital in situations where we believe this will allow us to achieve competitive scale more quickly, reduce the risk on our balance sheet and allow us to leverage our asset management platform over a larger property portfolio. Management of third-party capital also provides a potential source of additional income which helps cover our fixed cost base. We have seen excellent returns from our joint ventures at Heathrow Airport with APP and Big Box, and look forward to similar success through our joint venture ownership and management of the assets of UKLF.

#### VALUATION DECLINE IN NON-CORE ASSETS; CORE PORTFOLIO MORE RESILIENT

The total value of the Group's property portfolio, comprising completed properties (including joint ventures at share), land and development, decreased from £5.3 billion to £5.1 billion over the 12 months to 31 December 2011. This movement includes a £255.0 million valuation decline, of which £242.0 million relates to the second half, including £187.0 million for the Group's non-core assets. Over the full year, the movement also reflects disposals of £103.0 million and a £38.0 million adverse impact from the weakening euro, offset by acquisitions and additions of £194.0 million.

Within the total portfolio, completed properties recorded a valuation decline of 4.2 per cent on a like for like basis, including a 0.4 per cent in the core portfolio and a 13.0 per cent fall in non-core assets.

Valuation movements during the year reflect the north-south divide within the UK, the importance of proximity to prime areas (such as Paris) within the Continental European portfolio, together with the quality of assets. Prime, well-let properties in the strongest locations have generally held their values, whereas further declines have been observed in the secondary market. Valuations of older

and secondary properties have been under pressure in Continental Europe, in particular, as a result of relatively weak occupier demand which has allowed customers undergoing lease renewals or entering into new leases to negotiate more competitive terms.

The UK completed portfolio declined by 3.2 per cent, with the balance of losses weighted towards our non-core assets located outside of London and the South East. Within our Greater London business unit, positive valuation gains were recorded in Park Royal and in our joint venture portfolios, APP and Big Box, reflecting good letting progress and the limited availability and high investor demand for prime investment property. This was offset by value declines for the balance of our wholly-owned Heathrow assets, due to their comparatively higher level of vacancy, leading to the overall decline in value for the business unit of 1.1 per cent.

#### THE RIGHT PORTFOLIO SHAPE

A key element to creating the right portfolio shape is to have an appropriate balance between stabilised and opportunity assets

##### STABILISED ASSETS

- Modern, well-located assets
- Structural vacancy rate of < 10%
- Solid income returns, minimal 'leakage'
- Low capital expenditure requirements
- Above average long-term total return

##### OPPORTUNITY ASSETS

- Well-located assets in key markets
- Potential for significant future income and capital upside

##### Examples:

- Developments under construction
- Land holdings or options
- Good secondary assets with deliverable asset management opportunities

##### Not:

- Large, long-term development sites
- Secondary assets in secondary locations – 'turnaround assets'
- Large bespoke manufacturing and office complexes

## PROGRESS IN A PRIME INDUSTRIAL AREA – ILE DE FRANCE, PARIS

# 17

### ESTATES IN ILE DE FRANCE

Good progress has been made over the last few years in focusing our portfolio on the right products and best markets and in expertly managing our assets and customer relationships in France.

SEGRO in Ile de France manages 530,000 sq m of high-quality multi-let light industrial, office and logistics assets, focused on 17 well-located estates in the prime industrial area north from Paris city centre to Charles de Gaulle Airport.

At Le Blanc Mesnil, close to Le Bourget Airport to the North East of Paris, SEGRO acquired the 37,800 sq m Le Carré des Aviateurs industrial park in 2003. Over the subsequent five-year period, the estate was redeveloped to comprise 12 units which are today fully let to high-quality customers. The estate has consistently delivered strong returns from both an income and capital perspective, and is one of the top performing estates in the French portfolio.

The first phase of the 62,000 sq m Parc des Damiers estate at La Courneuve, located alongside the A86 and with close proximity of the A1 and A3 motorways, was completed by SEGRO in 2008. The first phase is fully let, with a second speculative phase of development totalling 8,200 sq m due to be completed in May 2012.

Centralspace Parc at Marly-la-Ville, adjacent to the A1 motorway and close to Charles de Gaulle Airport, is the major logistics location for SEGRO in Ile de France, comprising 120,000 sq m of prime warehouse space across five, fully-let units.



## LOGISTICS IN POLAND

# 500,000 sq m

OF LOGISTICS SPACE DEVELOPED SINCE 2006

SEGRO's business in Poland is an excellent example of how, through a strategic acquisition, we entered a growth market at an advantageous time and have subsequently leveraged our development skills to build a strong market position.

Grontmij Real Estate was acquired by SEGRO for €19.1 million in 2006, giving us immediate access to 71 hectares of development land in Central and Western Poland. The acquisition also included a 16,000 sq m prime office development in Warsaw, which we developed, let and sold, realising a profit on the sale that paid for the entire purchase of Grontmij.

Over the past five years we have developed over 500,000 sq m of logistics space at six different prime locations across Poland, with a further two sites under development today.

Silesia, encompassing Wrocław, Gliwice and Tychy, has the most developed transport infrastructure in Poland, making it highly attractive for logistics companies seeking access to the rest of Poland, Germany and other Central European countries.

At Gliwice, we have developed logistics space for customers including Brenntag, S&T Deawoo and Kaufland, the German hypermarket chain for

which we have recently developed an additional 6,500 sq m as part of a larger, mostly pre-let 25,900 sq m logistics development. We are also developing 31,300 sq m of logistics space for a French sports retailer and, at Tychy, a 18,900 sq m facility for Zabka, a major Polish convenience store chain.

At Stryków in central Poland, we have developed space for a range of customers, including Hellmann Worldwide Logistics, Stanley Black & Decker and Schenker, one of the largest logistics operators in Poland.

Overall in 2011, we completed 20 lettings across 80,700 sq m through a combination of lease renewals, lettings, renegotiations and pre-let agreements. Our property team has built up substantial sector and local expertise and an 'on the ground' approach to managing our assets that has enabled us to achieve a vacancy rate of 4.0 per cent, significantly below the Polish market average of 11.5 per cent.

12

11



## BUILDING CRITICAL MASS IN THE UK LOGISTICS MARKET

# 404,100 sq m

OF MODERN UK LOGISTICS SPACE

One of the key planks of our new strategy is to expand our existing expertise and management of logistics assets and, where possible, to do so with third-party capital providers.

In early 2012, we took a significant step towards these aims by acquiring UK Logistics Fund's (UKLF) portfolio of 14 prime logistics warehouse units plus one development site for £314.7 million in a joint venture with Moorfield Real Estate Fund.

The UKLF portfolio is focused on 12 locations on or near main arterial roads in established distribution areas across the UK, has a total lettable space of 404,100 sq m, 64 per cent of which by value is located in the South of

England. The high-quality customer base includes national retail chains, postal carriers and an aerospace manufacturer, and income generated in 2011 was around £18 million.

The portfolio has a current weighted average lease length to expiry of 13.3 years and a vacancy rate of 16 per cent by rental value, which arises from two speculative, well-located grade A units. We are confident that overall returns will be enhanced by bringing SEGRO's excellent customer relationships, market knowledge and flexible leasing approach to bear on the two void units.

The development site at Avonmouth has planning consent for a 23,226 sq m warehouse unit which, we believe,

should be attractive to occupiers on either a leasehold or freehold basis, or to owner-occupiers with an interest in buying the site.

The UKLF acquisition has helped us to achieve multiple goals; rebalancing the portfolio towards stabilised assets, extending the average portfolio lease length, improving tenant quality, minimising cost leakage and improving overall operational efficiency. The portfolio also allows SEGRO to leverage its asset management platform over a wider base of properties and to produce additional income from management fees.



In Thames Valley and the Regions, capital values declined by 5.1 per cent. This business unit includes Slough Trading Estate and IQ Winnersh as well as the large non-strategic assets in Crawley and Farnborough and non-core assets in the Midlands and North of England. The division was, therefore, impacted by both the larger valuation declines attributed to assets identified for disposal and the focus of investor interest on London and the South East relative to the UK regions.

Within our completed Continental Europe portfolio, the strongest capital appreciations were in Poland and the Czech Republic, where values increased by 2.7 per cent, driven by robust demand for our prime logistics assets in the key transportation corridors of Gliwice and Poznan.

Capital values for our assets in France were marginally positive, reflecting valuation gains for our prime assets in the Ile de France region around Paris, offset by weaker performing non-core assets elsewhere in the country.

In Germany, a capital value decline of 10.9 per cent largely reflected the impact of negative movements for the two large non-strategic assets of Neckermann in Frankfurt and MPM in Munich.

A valuation decline of 15.4 per cent in Benelux and Other markets was primarily impacted by the valuation falls at the two large non-strategic assets at Pegasus Park, Brussels and Energy Park, Milan.

Overall in Continental Europe, the capital appreciation made by our core assets was offset by the valuation declines of our non-strategic assets, to provide an aggregated completed portfolio decline of 6.6 per cent. To the extent that the current economic outlook for countries in Continental Europe changes as a result of the Eurozone crisis, valuations could fall further, particularly in relation to the Group's non-strategic or secondary assets.

**PHIL REDDING**  
CHIEF INVESTMENT OFFICER

## INTRODUCTION

For 90 years our success has been founded on our ability to adapt to and meet the changing requirements of customers, whether they are international brands or local start-ups. We view sustainability as a fundamental part of the way in which we do business and believe that, by investing in our buildings, our employees and the local communities in which we operate, we can create value for our stakeholders.

We last reviewed our sustainability strategy, and set targets, in 2009. Our aim was to ensure that we were focused on the most important sustainability issues, which we gauged through external and internal stakeholder dialogues, whilst taking into account any potential impact on our performance, reputation or customer satisfaction.



**“BY INVESTING IN OUR BUILDINGS, EMPLOYEES AND LOCAL COMMUNITIES SEGRO CAN DRIVE BOTH VALUE NOW AND IN THE FUTURE”**

Whilst we have continued to report against these targets in 2011, we will be looking again at our sustainability strategy in 2012 to ensure that the areas we concentrate on are fully aligned with the new Group strategy to deliver progressive, sustainable dividend and resilient NAV growth for shareholders.

As part of this review, we have begun consultations with stakeholders and will conclude this process during 2012. We will also be taking into consideration recent or upcoming changes to legislation that are likely to impact upon our business, such as the Energy Act 2011 and Localism Act 2011. As a result, we expect to make some changes to our sustainability strategy and strengthen the structures we have in place to manage sustainability. These changes, will be designed to ensure that sustainability is more fully integrated into our operations and supports our vision to be the best owner-manager and developer of industrial property in Europe. We intend to report our new strategy, outline new targets and report our performance against the targets in our Sustainability Report for the 12 months ending 31 December 2012.

**DAVID SLEATH**  
CHIEF EXECUTIVE

# CREATING VALUE THROUGH SUSTAINABILITY

# A CLEAR AND SUSTAINABLE STRATEGY

Our sustainability strategy was developed in 2009 and covers six key areas:



# MEASURING OUR PERFORMANCE

As part of our five-year strategy, we set 11 longer-term sustainability targets which we aim to achieve by 2014 across the categories of Customers, Resource Efficiency, Communities and Accessibility and 2011 marks the second year of assessment against these targets. Two of our targets have been achieved; six targets are on track to be achieved and only one target requires significant work to be on track to be achieved. Two of our targets are no longer deemed to be applicable to our business. We also set five annual targets for 2011, across the categories of Safety and Customers, of which four were fully achieved and one was not achieved. Further details can be found in the performance table below:

TARGET	2011 PROGRESS	TARGET DATE
<b>RESOURCE EFFICIENCY</b>		
<b>ASSET DESIGN AND REFURBISHMENT</b>		
Construct buildings with 30 per cent better energy efficiency than base-build.	Our current developments, when completed, are forecast to achieve 26 per cent better energy efficiency on average than current standards. In the UK the target is being met with a 36 per cent average better efficiency. In Continental Europe the average energy efficiency is below the 30 per cent target. Therefore, on a Group-wide basis this target is still in progress.	2014
Incorporate water-efficiency measures and water recycling to reduce mains water use by 20 per cent compared to base-build.	The installation of water-saving design features means that our new buildings, developed in 2011 and 2012, when completed, are forecast to use 12 per cent less mains water on average than current standards.	2014
<b>RENEWABLES</b>		
Investigate the feasibility of renewable energy for every development site.	We investigated the feasibility of renewable energy sources at 13 out of 18 of our new developments, including all of the UK sites. Four of these sites are taking forward renewable energy sources, with the capacity to provide 681 MWh per annum when completed.	2014
<b>OPERATIONAL PERFORMANCE</b>		
Improve SEGRO's energy efficiency by 30 per cent.	The challenges with energy data collection, in particular the nature of our portfolio where there are many individual units on multi-let industrial estates, have been discussed in our two previous Sustainability Reports. It has taken considerable time to get to a point where we are confident in the robustness and accuracy of the energy data collection and validation processes across the whole of the portfolio. We are now in a position to establish a roadmap for achieving the 30 per cent reduction target, including defining which assets are suitable for reductions. However, we recognise that there is significant work to do to achieve this target.	2014
Reduce water use by 20 per cent.	SEGRO's landlord-consumed water consumption was 62,000 cubic metres*. Relative to our peers this is a small amount of consumption. Therefore we have decided that this target is not currently material for our business as it is much more important that we focus on increasing the water efficiency of the buildings we design and refurbish, as well as engaging with our customers on how they can manage water more efficiently.  *Excludes data for one quarter of UK consumption.	2014
Reuse or recycle 80 per cent of development waste.	We reused or recycled 97 per cent of all non-hazardous excavation, demolition and construction waste, diverting 340,366 tonnes of waste from landfill and exceeding our target.	2014
Reduce the weight of development waste to landfill by 70 per cent.	SEGRO no longer considers this target to be applicable due to the achievement of 97 per cent re-use or recycling of developments in 2011.	2014

TARGET	2011 PROGRESS	TARGET DATE
<b>COMMUNITIES</b>		
Invest in communities where we have a major presence.	We invested over £1.7 million in good causes, through money, time and business space. We invested in local communities around four of our largest business locations in the UK; Park Royal, Slough, Heathrow and Enfield.	2011
Ensure community engagement plans are in place where we have a major presence.	We are in the process of implementing and maintaining structured community engagement plans. In 2011 we began programmes in Hounslow, Ealing and Hillingdon in the UK. During 2012, a structured approach to community engagement for Continental Europe will be established with our operations teams in Paris and Düsseldorf.	2011
<b>STAKEHOLDERS</b>		
<b>CUSTOMERS</b>		
Continental Europe target only – To improve customer satisfaction with our understanding of their business needs from 57 per cent in 2009, by focusing on customer relationship management, as measured through our 2011 survey.	Satisfaction with our understanding of customer business needs increased from 57 per cent in 2009 to 62 per cent in 2011, whilst satisfaction with our communication increased from 76 per cent to 87 per cent. Overall satisfaction remained high at 75 per cent.	2011
Continental Europe target only – To continue to improve consistency in satisfaction levels between countries, as measured through our 2011 survey, by implementing smart, efficient customer service procedures.	Compared to 2009 figures consistency improved in several areas, and we now demonstrate high consistency in communication and responsiveness, property management and overall satisfaction as an occupier. A decline in consistency in the areas of value for money, rent and service charges is mainly explained by market circumstances.	2011
Engage with a significant number of customers to improve sustainability.	In 2011 we engaged with 58 customers on sustainability issues. As part of this 24 new lease contracts contained Green Leases and Memoranda of Understanding, an increase of 10 over 2010 figures. In total 90 contracts contain Green Lease clauses, representing £11.5m in annualised rental income, which equates to around 3.5 per cent of total Group-wide rent. By the end of the year 81 lease contracts contained the newly-revised Eco efficiency guide for customers occupying SEGRO buildings.	2014
<b>SAFETY</b>		
Maintain a zero fatality rate throughout Group operations.	A zero fatality rate was maintained throughout Group operations during 2011.	2011
Ensure no health and safety prosecutions or enforcement action throughout Group operations.	We received one health and safety prosecution and enforcement action over the course of 2011. All conditions contained in the prohibition notice from the local authority have been complied with by SEGRO.	2011
Implement assessment and training requirements for the Group-wide Driving for Work Policy.	Implementation of the Driving for Work Policy has been by means of corporate communication, online driver awareness training and online driver assessment for employees. The next steps during 2012 are to use assessments to identify further training needs and to implement the policy in Continental Europe.	2011
<b>ACCESSIBILITY &amp; FLEXIBILITY</b>		
For all appropriate new developments and managed estates to have a tailored travel plan.	The number of green travel plans covering our major estates has increased to five in 2011. We continue to maintain and develop those plans established previously.	2014

## LEED AWARD AT ENERGY PARK, VIMERCATE

# 1<sup>st</sup> building

IN ITALY AWARDED LEED PLATINUM

In November 2011 SEGRO was awarded the prestigious LEED (Leadership in Energy and Environmental Design) Platinum Certificate by the US Green Building Council, for one of its buildings at Energy Park, Vimercate in Italy. This is the first building in Italy and one of only six buildings in Europe to have received this level of accreditation.

The award recognises that the building, known as Building 03, has been built and designed to the highest standards of sustainable practices.

LEED promotes a whole building approach to sustainability, recognising performance in key areas such as water efficiency, materials and resources, awareness and education and innovation in design.

Building 03 totals 11,000 sq m and was constructed in 2009. Its major occupier is SAP ITALIA SpA, a leading provider of IT software solutions.



## RESOURCE EFFICIENCY

As part of our drive to reduce both energy consumption and costs, we appointed a specialist energy consultancy, Inenco, during the year. As a result we have in place a new bespoke energy procurement strategy and an early warning system to monitor any spikes in consumption throughout our UK operations. We are also rolling out the installation of automated meter readers to our properties, which will give us a greater level of control over our energy data and help with future reporting requirements. We have also taken steps internally during 2011 to strengthen the quality and coverage of our data across our operations in Continental Europe.

During 2011 we purchased 54.8 million kWh of energy (2010: 40.5 million kWh), both for our own use and on behalf of our customers. This is an increase compared to 2010, largely as a result of the implementation of more rigorous data collection procedures across the business. Whilst the number of estates reported in 2011 was broadly comparable to 2010, the number of meters being captured within these estates increased. As a result, our total carbon footprint from landlord-purchased energy, excluding that which was exclusively metered to tenants across Continental Europe, also increased to 21,200 tonnes (2010: 15,200 tonnes).

Total energy expenditure on our managed multi-let and vacant properties declined to £2.1 million in 2011 (2010: £2.3 million\*), largely due to the reduction in vacancy across our portfolio during the year. In addition, a process of rationalising supplier contracts, which commenced in 2010, benefitted vacant energy costs through a more competitive unit price.

We purchased 62,400 cubic metres of water in 2011 (2010: 68,700 cubic metres) and continued to work with our customers to reduce water costs by installing dual-flush toilets, low-flow taps, automatic urinal flushing and by introducing rainwater harvesting schemes.

We reused or recycled 340,400 tonnes of development waste (2010: 6,900 tonnes), reflecting the increased level of development activity in both the UK and Continental Europe during 2011 compared with the prior year.

One of the major initiatives we have undertaken in recent years has been to increase the number of photovoltaic panel installations on our buildings. During 2011, we assessed the feasibility of installing renewable energy sources at all of our UK developments and over 60 per cent of our Continental European developments contracted or under construction during the year. As at 31 December 2011 we had installed renewable energy sources at 18 of our properties.

In addition, over 1,000 of our buildings across the UK and Continental Europe, representing 1.8 million sq m, were EPC-rated, of which 74 per cent achieved a rating of D or above. A further 28 buildings in Germany and Flemish Belgium were rated under local standards, of which 25 were rated as more efficient than their market average benchmark.

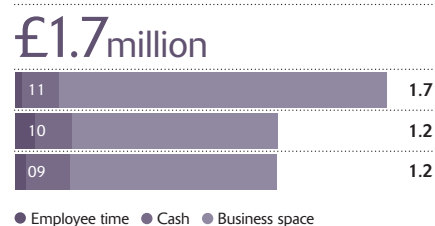
## COMMUNITIES

SEGRO invested more than £1.7 million in good causes and local communities based around its largest business locations during 2011 by donating money, time and business space. This represents a 42 per cent increase on the prior year (2010: £1.2 million).

During 2011 we actively increased our engagement in the communities in which we operate, supporting 80 charities and community groups compared with 52 in 2010. We continue to offer a wide variety of support to local and national organisations to help ensure their needs are met, including the provision of free commercial space, business advice and guidance and donating much needed cash and equipment. As well as maintaining and developing links with many charities, such as Berkshire East and South Bucks Women's Aid, new and exciting partnerships have been formed. In October 2010, we teamed up with Alexander Devine Children's Hospice Trust to work towards building Berkshire's very own children's hospice for local families by helping the Trust to establish new fundraising headquarters on the Slough Trading Estate.

SEGRO made a number of cash donations in 2011. We continued our popular community bursary scheme in Heywood, through which seven charities received funding, and we made new donations to community centres in Slough, Hounslow and Ealing to support the development of young people from deprived backgrounds. SEGRO will continue to work with these community centres throughout 2012. For the fourth consecutive year, we supported The Outward Bound Trust, which provides residential courses to help young people from challenging backgrounds to develop new skills and confidence.

### Voluntary community investment (£m)



\* 2010 restated to exclude expenditure recharged to customers via a service charge



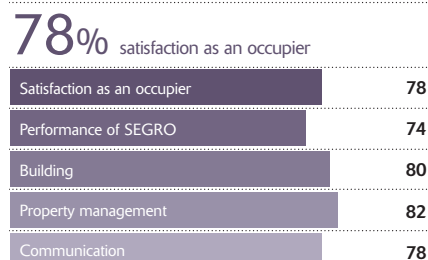
## NATIONAL AWARDS HIGHLIGHT TOP LOCAL PARTNERSHIP

In July, SEGRO and Berkshire East & South Bucks Women's Aid won Best Small Charity Business Partnership at the prestigious Institute of Fundraising National Awards. The award recognised that SEGRO had donated much-needed office space and professional support to the charity, enabling it to develop its award-winning Independent Domestic Violence Advocacy service which supports victims of domestic abuse. With SEGRO's help, this service reached over 800 victims last year and also received the Queen's Award for Voluntary Service.

## STAKEHOLDERS

### Our Customers

2011 Group customer satisfaction rating as "good" or "excellent"



A Group-wide customer satisfaction survey was carried out during the year with over 200 SEGRO customers across eight countries, the results of which were very encouraging and underline our increasing commitment to working closely with and meeting the needs of our customers.

Overall satisfaction as an occupier of our buildings was rated as good or excellent by 78 per cent of customers. Over 80 per cent of respondents believe that SEGRO provides a consistently strong property management service, and over 70 per cent expressed satisfaction with the quality of our estate services.

### Our Suppliers

We implemented a new procurement policy in the UK in 2010 to reduce our supplier base and forge closer relationships with a smaller number of suppliers. During 2011 we have continued to rationalise our supplier base and now directly deal with less than one quarter of the original number of suppliers. In 2011 this included the rationalisation of our estate management supply chain, such that all service charge recoverable services are now provided by less than 25 suppliers compared with around 300 in recent years, generating significant savings.

Additionally, prior to the award of any new supply agreement we now ensure that all suppliers comply with our health and safety and environmental policies. In 2011, 480 suppliers were assessed on this basis (2010: nil).

During the year, we started a phased roll-out of our procurement policy to Continental Europe which will continue during 2012.

### Our Investors

SEGRO places frequent and open communication with the investment community among the highest of its priorities. During 2011 we met with around 135 investors through a combination of one-to-one meetings, conferences and roadshows in locations including the UK, US, Netherlands

and France. Additionally, in November around 80 institutional investors and analysts attended an Investor Day at which our new strategy for the business was outlined. This included site visits to operations at the Slough Trading Estate and Park Royal. Throughout the year we hosted a further 13 visits for professional investors to our assets in the UK and Continental Europe.

We ensure that the Chairman and Senior Independent Director are available to our shareholders, should they have any concerns where contact through our usual channels has failed to resolve or is otherwise inappropriate. All Board Directors are available for meetings with shareholders.

The Company's website [www.segro.com](http://www.segro.com) provides all shareholders with comprehensive information on the Group's recent business activities and financial developments. Shareholders can access this information through webcasts, press releases and interviews with the Chief Executive.

## Our Employees

### Our team

We believe SEGRO people are amongst the best in our industry. We have a talented and committed team of employees in the UK and across Continental Europe. Our aim is to continue to attract, develop and retain the best and brightest employees in the industry.

### Growing our own

We are proud of our track record in spotting and nurturing talent. In 2011 we filled three of the most senior roles in the organisation through internal promotion – our Chief Executive, Chief Operating Officer and Chief Investment Officer were all promoted from within.

We are also keen to attract people from different sector backgrounds to SEGRO and in 2011 our new Finance Director joined us with experience gained from a variety of financial and management roles across different types of businesses to add to our diversity of thinking and approach.

When reviewing talent, we look across the entire business with the aim of spotting talent early and growing our own successors for key roles. Our ambition is to make sure every individual has the opportunity to maximise their potential and their careers with SEGRO.

### Reshaping our portfolio and our structure

Our ambition is to be the best owner-manager and developer of industrial property in Europe. Our review of strategy in 2011, led by the new Chief Executive, created a clear focus on reshaping our property portfolio. To support the new business strategy, we reorganised our structure and teams to deliver the two key pillars of our strategy – Disciplined Capital Allocation and Operational Excellence.

We managed the change successfully, creating a number of new and expanded roles whilst at the same time minimising the number of redundancies. Once again, we were able to promote successfully from within the business with all of the new roles created being filled by existing SEGRO employees.

## Valuing diversity

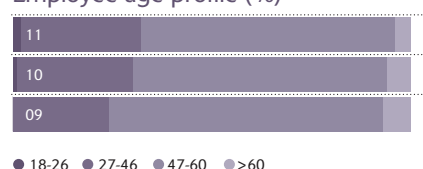
We believe that diversity is good for business and aim to ensure that SEGRO provides equal opportunities in how we recruit new employees and develop and promote existing employees, regardless of age, gender or ethnicity. We are also committed to offering equal opportunities to people with disabilities and, if an employee becomes disabled whilst in our employment, we will offer appropriate support, retraining, equipment and facilities to enable them to continue in their role with SEGRO.

We have a strong talent pipeline of women in senior roles in SEGRO. Our team reporting directly to members of our key decision-making forum (the Executive Committee) is equally balanced, with 50 per cent of women fulfilling key roles in the business.

### One team – one voice

We believe that regular two-way communication is essential for building meaningful employee engagement throughout our business. We communicate with employees through a variety of mediums including face-to-face briefings at weekly and monthly meetings, a Friday notice board update and access to Group-wide intranet and webinar sessions. We have also run bi-annual employee surveys since 2004 and will be undertaking our next independent, all-employee survey across the business during 2012.

### Employee age profile (%)



### *Being the best*

Our people want to be at the top of their game – to reach the highest standards and provide the best solutions and services for our customers. Training and development is therefore very important to us.

In 2011, we invested more than 3,400 hours in training – a 25 per cent increase on the prior year. In addition to our general management training and vocational education, we offer specialised development and networking opportunities for our senior managers.

We are a member of the Henley Partnership, run by Henley Business School, which offers a range of thought leadership events focusing on current issues relevant to business, team-building and leadership skills. In 2011, 26 employees from across the business attended partnership sessions with other business leaders from diverse industry backgrounds.

Other employees attended a three-day programme designed for present and future leaders of real estate organisations covering issues such as sustainability, strategy and risk management. This programme is run by the Reading Real Estate Foundation, to which we provided funding for research during the year and are actively involved on the committee. Several employees also attended an Advanced Leadership Programme at Cranfield Business School during the course of 2011.

### Average number of hours training (per employee)

14 hours



### SAFETY

Safety is a top priority at each of our development sites and in our buildings. We work hard to ensure that we meet and, where possible, exceed minimum health and safety requirements in all of the countries in which we operate. We carry out rigorous audits of any accidents that occur on our sites in order that we can prevent future accidents from happening wherever possible.

In 2011, we reviewed our Company policy and guidance in connection with driving for work. All employees who are identified as potentially having a requirement to drive for work now complete basic online driver awareness training. Drivers completing the online training are then categorised as low, medium or high-risk, according to their role and driving needs. Based on these risk-assessed ratings, we plan to deliver further training with accredited trainers through a combination of classroom and in-car sessions during 2012.

We met our targets to maintain a zero fatality rate and to implement assessment and training requirements for the Group Driving for Work Policy in 2011. This year we will continue to strive to meet our principal targets, which are as follows:

- To maintain a zero fatality rate throughout Group operations;
- To ensure no health and safety prosecutions or enforcement action throughout Group operations; and
- To prepare a new 'One SEGRO' health and safety strategy that will embed health and safety within all decision-making processes throughout the Group.

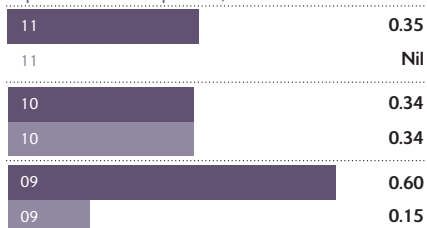




#### Accident frequency rate

# 0.35

Reportable incidents per 200,000 hours worked



- Accident Frequency Rate: Group-wide employees
- Accident Frequency Rate: UK-only contractor

#### FLEXIBILITY

We design and construct our industrial buildings so that they can be easily adaptable for multiple uses and are, therefore, attractive to a wide variety of businesses. This benefits our customers because we have the flexibility to meet their individual requirements. It also benefits local authorities and communities in the areas in which we operate by giving them a competitive advantage in attracting and retaining investment and safeguarding and creating new jobs.

#### ACCESSIBILITY

Accessibility is a key consideration for each of our sites. We work with our customers, local authorities and transport providers to ensure that our estates have travel plans and can be reached in an environmentally-friendly manner.

We now have Green Travel Plans in place at five of our larger estates, compared with three estates in the prior year. These estates in the UK are Slough Trading Estate, IQ Winnersh, Heywood Distribution Park and IQ Farnborough and, in Continental Europe, Vimercate in Italy. We have also implemented initiatives such as the launch of a car-sharing scheme for employees at Winnersh and, wherever possible, we encourage cycling to work by incorporating bike racks into the design of our buildings.

#### COMPLIANCE WITH EPRA SUSTAINABILITY BPRS

SEGRO is a member of the EPRA Sustainability Reporting Committee and has worked with the European publicly-listed real estate sector to lay out a set of recommendations for standardised reporting on key environmental impacts across the industry. In our full 2011 Sustainability Report which is available at [www.segro.com](http://www.segro.com), we demonstrate how we have applied the guidelines to our reporting. It is not yet feasible for SEGRO to achieve full compliance with all of the overarching recommendations and indicators in this first year of using the guidelines. However, we support the move towards integrated reporting and have set ourselves a trajectory in future years to align our reporting to the EPRA Sustainability Best Practice Recommendations in both our Annual Report and Accounts and Sustainability Report.



“OUR BALANCE SHEET REMAINS SOLID WITH NO SIGNIFICANT DEBT MATURITIES BEFORE 2014. WE HAVE ALSO MADE GOOD PROGRESS WITH COST REDUCTION”

JUSTIN READ  
FINANCE DIRECTOR

# STRONG FINANCIAL FOUNDATIONS

## HIGHLIGHTS

	31 December 2011	31 December 2010
Total property return (%)	0.8	6.8
Net asset value (NAV) per share (p)	345	366
EPRA <sup>1</sup> NAV per share (p)	340	376
Realised and unrealised property (loss)/gain <sup>2</sup> (£m)	(260.1)	57.1
Profit/(loss) before tax (£m)	(53.6)	197.2
EPRA <sup>1</sup> profit before tax (£m)	138.5	127.3
Earnings/(loss) per share (EPS) (p)	(4.1)	28.5
EPRA <sup>1</sup> EPS (p)	18.4	17.1

1 EPRA NAV, EPRA EPS and EPRA profit before tax are alternate metrics to their IFRS equivalents that are calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). SEGRO uses these alternative metrics as they highlight the underlying recurring performance of the property rental business, which is our core operational activity. The EPRA metrics also provide a consistent basis to enable a comparison between European property companies.

2 Includes the realised and unrealised property loss of £271.8 million for the wholly owned portfolio (see note 7 to the financial statements) and the realised and unrealised property gain of £11.7 million from our share of joint ventures' (see note 6 to the financial statements).

## TOTAL PROPERTY RETURN

Total property return is a measure of the ungeared combined income and capital return from the portfolio and is calculated as the total realised and unrealised property gain or loss plus net rental income, expressed as percentage of capital employed.

Total property return for the year was 0.8 per cent, a decline on the 6.8 per cent return for 2010. This reflects a consistent income return in comparison to the prior period, with the reduction attributable to the unrealised valuation deficit recognised in 2011 compared to a valuation surplus in 2010.

## NAV AND EPRA NAV PER SHARE

A reconciliation of EPRA net assets to total net assets attributable to ordinary shareholders and the corresponding NAV and EPRA NAV per share calculations is provided in note 13 to the financial statements.

EPRA NAV per share at 31 December 2011 was 340 pence, compared with 376 pence as at 31 December 2010. The decrease is largely as a result of the reduction in non-core property values, particularly in the second half of the year and dividends paid, offset by EPRA profit generated.

	£m	Shares million	Pence per share
<b>EPRA net assets attributable to ordinary shareholders at 31 December 2010</b>	<b>2,781.2</b>	<b>740.2</b>	<b>376</b>
Realised and unrealised property loss	(260.1)		(35)
EPRA profit before tax	138.5		19
Dividends (2010 final and 2011 interim)	(107.4)		(15)
Reduction in unrecognised valuation surplus in relation to trading properties	(18.8)		(3)
Exchange rate movement	(5.3)		(1)
Other	(6.6)		(1)
<b>EPRA net assets attributable to ordinary shareholders at 31 December 2011</b>	<b>2,521.5</b>	<b>740.6</b>	<b>340</b>

## REALISED AND UNREALISED PROPERTY GAIN/(LOSS)

A total realised and unrealised loss on property for the wholly owned portfolio of £271.8 million (2010: £26.0 million gain) has been recognised in 2011, which includes an unrealised valuation deficit on investment properties of £272.3 million (2010: £32.4 million surplus). A gain of £5.2 million arose in 2011 on disposal of investment properties and a further gain of £5.2 million arose on disposal of trading properties (2010: £2.8 million loss and £0.1 million loss, respectively). Impairment provisions of £9.1 million (2010: £3.6 million) were recorded on certain trading properties as the fair value is deemed to be less than the original cost. The total realised and unrealised property loss for the wholly owned portfolio is further analysed in note 7 to the financial statements.

Our share of realised and unrealised property gains generated from joint venture interests was £11.7 million (2010: £31.1 million) and are further analysed in note 6 to the financial statements.

The Group's trading property portfolio (including share of joint ventures) has an unrealised valuation surplus of £11.4 million at 31 December 2011 (2010: £30.2 million surplus), which has not been recognised in the financial statements as they are recorded at the lower of cost or fair value.

## EPS AND EPRA EPS

EPS is (4.1) pence for 2011, compared to 28.5 pence in 2010. The main driver behind this was the unrealised property loss in 2011 compared to a gain in 2010.

EPRA EPS of 18.4 pence per share is higher than the 2010 equivalent (17.1 pence per share) as a result of a £13.4 million increase in EPRA profit after tax, which is further analysed in the EPRA Profit and following sections.

## PERFORMANCE REVIEW

### FINANCIAL REVIEW CONTINUED

#### EPRA PROFIT

EPRA profit is arrived at as follows:

	2011 £m	2010 £m
Gross rental income	326.1	344.6
Property operating expenses	(54.9)	(62.5)
<b>Net rental income</b>	<b>271.2</b>	<b>282.1</b>
Joint venture management fee income	5.9	1.9
Administration expenses	(32.1)	(39.2)
Share of joint ventures' EPRA profit <sup>1</sup>	16.6	10.8
<b>EPRA operating profit before interest and tax</b>	<b>261.6</b>	<b>255.6</b>
Net finance costs, excluding fair value movements on derivatives	(123.1)	(128.3)
<b>EPRA profit before tax</b>	<b>138.5</b>	<b>127.3</b>
Tax on EPRA profit	(2.1)	(4.3)
<b>EPRA profit after tax</b>	<b>136.4</b>	<b>123.0</b>

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

A reconciliation between EPRA profit before tax and IFRS loss before tax is provided in note 2 to the financial statements.

EPRA profit before tax increased by £11.2 million compared to 2010, primarily due to an increase in SEGRO's share of joint ventures' EPRA profit and joint venture management fee income due to the full year impact of APP, a decrease in finance costs and a decrease in administration expenses, which offset the decrease in net rental income, all of which are described more fully below.

#### NET RENTAL INCOME

Like for like net rents have increased by £2.1 million, with an increase in both the UK (£0.7 million) and Continental Europe (£1.4 million), largely driven by cost savings in the UK and net lettings (lettings exceeding takebacks) in Continental Europe.

Net rental income in total has decreased by £10.9 million compared to 2010, largely due to the impact of disposals (£11.6 million decrease in the UK and £2.8 million decrease in Continental Europe), offset by the improved like for like rent noted above. Disposals in the UK include assets sold into the APP joint venture, in which the Group retains a 50 per cent interest (£5.1 million impact), along with disposals of Treforest, Cambridge and various portfolio sales (Westcore in 2010 and GL6 in 2011). Additionally, a lower level of lease surrenders (£4.3 million decrease, all in the UK) has occurred in 2011, with 2010 including the benefit of a large individual surrender. Development lettings have increased net rental income in 2011, with a £2.9 million increase in the UK (largely in Slough and Farnborough) and a £3.4 million increase in Continental Europe (largely Takko in Germany and Casino in France).

	United Kingdom		Continental Europe		Group	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
<b>Like for like net rental income</b>						
Completed properties owned throughout 2011 and 2010 (like for like rents)	157.8	157.1	92.2	90.8	250.0	247.9
Development lettings	5.8	2.9	4.1	0.7	9.9	3.6
Properties taken back for development	–	1.0	–	–	–	1.0
<b>Net rental income pre acquisitions/disposals</b>	<b>163.6</b>	<b>161.0</b>	<b>96.3</b>	<b>91.5</b>	<b>259.9</b>	<b>252.5</b>
Properties acquired	0.9	0.3	0.1	–	1.0	0.3
Properties sold	1.1	12.7	–	2.8	1.1	15.5
<b>Net rental income before surrenders, dilapidations and exchange</b>	<b>165.6</b>	<b>174.0</b>	<b>96.4</b>	<b>94.3</b>	<b>262.0</b>	<b>268.3</b>
Lease surrenders and dilapidations	6.1	10.4	–	–	6.1	10.4
Rent lost from lease surrenders & other income	1.9	3.5	1.2	1.5	3.1	5.0
Exchange rate movement	–	–	–	(1.6)	–	(1.6)
<b>Net rental income per financial statements</b>	<b>173.6</b>	<b>187.9</b>	<b>97.6</b>	<b>94.2</b>	<b>271.2</b>	<b>282.1</b>

## JOINT VENTURES

SEGRO's share of joint ventures' EPRA profits has increased by £5.8 million and joint venture management fee income has increased by £4.0 million as a result of a full-year of APP income compared to six months in 2010. In addition to the full-year benefit, lower interest costs have been incurred in the APP joint venture following its debt facility refinancing in August 2011, along with the recognition of a performance fee achieved in 2011 (2010: £nil).

## TOTAL COSTS

The Group is focused on carefully managing its cost base and regards the total cost ratio as a key measure of performance. The total cost ratio is calculated by expressing the sum of property operating expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income and includes the Group's share of costs and revenue from joint ventures.

The total cost ratio for 2011 was 24.3 per cent compared to 28.1 per cent in 2010. The decrease compared to 2010 reflects a reduction in administrative expenses of £7.1 million partially due to a release of excess reserves in share schemes. In addition, vacant property costs, which are one of the Group's largest costs, whereby property taxes, maintenance and other estate service expenses relating to unlet properties are borne by the Group, have decreased by £7.5 million to £15.2 million (2010: £22.7 million).

The reduced vacant property costs are a result of a fall in vacancy, £3.9 million of prior period rates refunds in the UK, largely recognised in the first half of the year. Excluding vacant property costs, the cost ratio for 2011 was 20.1 per cent (2010: 21.9 per cent).

## NET FINANCE COSTS

Excluding fair value gains and losses on interest rate swaps and other derivatives, net finance costs decreased by £5.2 million to £123.1 million. The decrease is mainly attributable to the impact of pay floating, receive fixed sterling interest rate swaps put in place at the end of 2010, combined with lower average net debt and reduced commitment fees following the cancellation of surplus undrawn bank facilities.

A net fair value gain on interest rate swaps and other derivatives of £67.1 million has been recognised within net finance costs in 2011 (2010: £21.5 million gain), mainly as a result of the impact of the significant decrease during 2011 in medium-term sterling interest rates on the fair value of the Group's pay floating, receive fixed sterling interest rate swap portfolio. This gain is not included in EPRA profit, in accordance with EPRA best practice recommendations.

## TAX

A tax credit of £23.0 million has been recognised in 2011 (2010: £11.1 million), largely due to the release of deferred tax provisions following valuation movements. The underlying tax rate for the year ended 31 December 2011 on an EPRA profits basis was 1.5 per cent (2010: 3.4 per cent), consistent with a Group target tax rate of less than 5.0 per cent and reflecting a favourable geographical mix of profits. The Group's target tax range reflects its tax exempt status as a REIT in the UK and a SIIC in France.

## CASH FLOW

A summary of cash flows for the year is set out in the table below:

	2011 £m	2010 £m
Cash flow from operations	239.0	244.9
Finance costs (net)	(120.3)	(141.1)
Dividends received (net)	10.4	8.8
Tax paid (net)	(4.9)	(6.0)
<b>Free cash flow</b>	<b>124.2</b>	<b>106.6</b>
Acquisitions and development of investment properties	(187.1)	(61.1)
Investment property sales (including joint ventures)	79.9	397.0
Dividends paid	(107.4)	(82.8)
Net settlement of foreign exchange derivatives	(8.1)	23.4
Net investment in joint ventures	(15.9)	(193.5)
Other items	7.9	4.1
<b>Net funds flow</b>	<b>(106.5)</b>	<b>193.7</b>
Net increase/(decrease) in borrowings	78.3	(260.6)
<b>Net cash outflow</b>	<b>(28.2)</b>	<b>(66.9)</b>
Opening cash and cash equivalents	44.6	111.9
Exchange rate movements	(0.4)	(0.4)
<b>Closing cash and cash equivalents</b>	<b>16.0</b>	<b>44.6</b>

## PERFORMANCE REVIEW

### FINANCIAL REVIEW CONTINUED

Free cash flow generated from operations was £124.2 million in 2011, an increase of £17.6 million from 2010, primarily due to a reduction in cash paid for finance costs.

Capital expenditure on acquisitions and development of investment properties totalling £187.1 million has been incurred, which was funded through proceeds from investment property sales of £79.9 million, proceeds received from trading property sales of £31.0 million (included within cash flow from operations) and an increase in borrowings of £78.3 million. Dividends paid of £107.4 million are £24.6 million higher than that paid in 2010, due to the Scrip dividend on offer for the 2009 final dividend, which was not offered for the 2010 final dividend. Overall this resulted in a net cash outflow of £28.2 million (2010: £66.9 million) during the year.

#### CAPITAL EXPENDITURE/ DIVESTMENT

During 2011, the Group invested net capital of £90.8 million compared to a net divestment of £195.9 million in 2010. This is largely a result of pre-let led development expenditure, where we have seen a re-emergence of this market during 2011 following limited development in the last three years, and a reduced level of disposals in 2011.

Contractual obligations in respect of future committed acquisitions and development expenditure on projects currently in progress or committed amount to approximately £100.7 million (2010: £70.2 million).

#### TREASURY POLICIES AND GOVERNANCE

Group Treasury operates within a formal treasury policy covering all aspects of treasury activity, including funding, counterparty exposure and management of interest rate, currency and liquidity risks. Group Treasury policies are reviewed by the Board at least once a year and Group Treasury reports on compliance with these policies on a quarterly basis to the Treasury Committee, which includes the Chief Executive and is chaired by the Finance Director.

#### FINANCIAL POSITION AND FUNDING

At 31 December 2011, the Group's net borrowings were £2,303.4 million (2010: £2,203.2 million) comprising gross borrowings of £2,324.6 million (2010: £2,247.8 million) and cash balances of £21.2 million (2010: £44.6 million). These cash balances, together with the Group's interest rate and foreign exchange derivatives portfolio, are spread amongst a strong group of relationship banks, all of whom currently have long term credit ratings of A- or better.

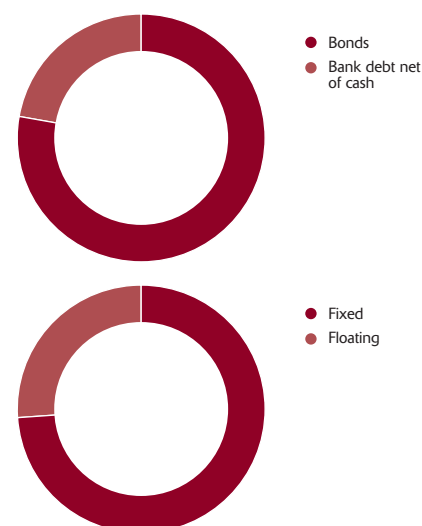
In November 2011, the Group agreed new bank facilities totalling €440 million (£367 million) with a group of nine relationship banks to refinance a £270 million bank facility maturing in 2013, which was prepaid and cancelled in full.

At 31 December 2011, 78 per cent of the net borrowings of the Group were long-term bonds with the remaining 22 per cent representing bank borrowings net of cash.

#### ANALYSIS OF NET BORROWINGS

At 31 December 2011, the weighted average maturity of the gross borrowings of the Group was 8.8 years (2010: 9.8 years). Secured borrowings at 31 December 2011 were £52 million, representing approximately 2 per cent of the Group's total gross borrowings.

#### Analysis of net borrowings 2011



The market value of the gross borrowings of the Group at 31 December 2011 was £2,507.5 million (2010: £2,323.3 million), £182.9 million (2010: £75.5 million) higher than the carrying value. The net market value of the Group's derivative portfolio of interest rate swaps and forward foreign exchange and currency swap contracts at 31 December 2011 was a net asset of £109.6 million (2010: £11.1 million).

#### GEARING AND FINANCIAL COVENANTS

The loan to value ratio of the Group at 31 December 2011 was 50 per cent (2010: 46 per cent). On a look-through basis, including the borrowings and property assets of the Group's share of joint ventures, loan to value at 31 December 2011 was 49 per cent (2010: 45 per cent).

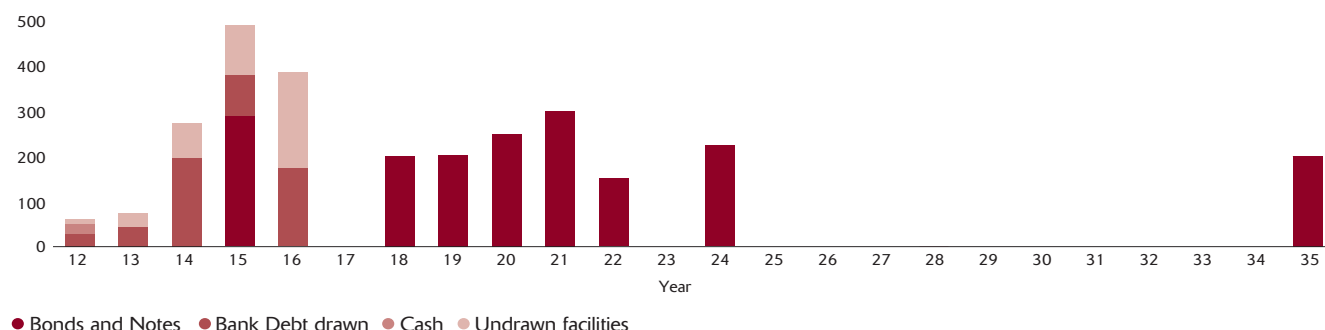
The gearing ratio of the Group at 31 December 2011 was 89 per cent (2010: 80 per cent), significantly lower than the Group's tightest financial gearing covenant of 160 per cent. Property valuations would need to fall by around 23 per cent from their 31 December 2011 values to reach the gearing covenant threshold of 160 per cent.

The Group's other key financial covenant is interest cover, requiring that net interest before capitalisation be covered at least 1.25 times by net property rental income. At 31 December 2011, the Group comfortably met this ratio at 2.2 times (2010: 2.2 times).

	2011 £m	2010 £m
<b>Capital expenditure</b>		
Development expenditure on investment properties	136.9	48.0
Acquisitions of investment properties	45.3	14.6
Development expenditure on trading properties	8.4	20.9
Acquisitions of trading properties	3.6	–
<b>Total capital expenditure<sup>1</sup></b>	<b>194.2</b>	<b>83.5</b>
Less disposals of:		
Investment properties	(77.6)	(390.7)
Trading properties	(25.8)	(55.0)
Joint ventures	–	(11.8)
<b>Total disposals<sup>1</sup></b>	<b>(103.4)</b>	<b>(457.5)</b>
Net investment in joint ventures <sup>1</sup>	–	178.1
<b>Net capital investment/(divestment)</b>	<b>90.8</b>	<b>(195.9)</b>

<sup>1</sup> Values are stated on an accruals basis rather than a cash flow basis and exclude gains or losses on disposals and therefore can differ to the Cash Flow section above.

## Debt profile (£m)



## LIQUIDITY POSITION

Funds availability at 31 December 2011 totalled £456.1 million, comprising £21.2 million of cash and £434.9 million of undrawn bank facilities provided by the Group's relationship banks, of which only £9.9 million were uncommitted. The Group has a favourable debt funding maturity profile with only £10.4 million of committed debt facilities maturing before 31 December 2012.

## GOING CONCERN

Whilst wider economic conditions remain challenging, the Group has completed significant bank refinancing activity during 2011 and, as a result, has a strong liquidity position, a favourable debt maturity profile, substantial headroom against financial covenants and can reasonably expect to be able to continue to have good access to capital markets and other sources of funding.

Having made enquiries and having considered the principal risks and uncertainties facing the Group as detailed on pages 50 to 53, the Directors have a reasonable expectation that the Company and the Group has 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.

## INTEREST RATE RISK EXPOSURE

The Group's interest rate risk policy is that between 60 and 100 per cent of net borrowings should be at fixed or capped rates, both at a Group level and by major borrowing currency (currently euro and sterling), including the impact of derivative financial instruments.

At 31 December 2011, including the impact of derivative instruments, £1,703.3 million of borrowings were at fixed rates, representing

74 per cent of the net borrowings of the Group. By currency, 67 per cent of the euro denominated net borrowings of the Group of £1,273.1 million and 82 per cent of the remaining net borrowings (predominantly sterling) of £1,030.3 million were at fixed rates.

The weighted average maturity of fixed rate cover of £1,703.3 million at 31 December 2011 was 8.6 years at an average fixed interest rate of 5.3 per cent. Including the impact of derivative financial instruments, floating rate gross borrowings at 31 December 2011 were £621.3 million at an average interest rate (including margin) of 3.6 per cent, giving a weighted average interest rate for gross borrowings at that date, before commitment fees and amortised costs, of 4.8 per cent or 5.2 per cent after allowing for such items.

If short-term interest rates had been 1 per cent higher throughout the year to 31 December 2011, the adjusted net finance cost of the Group would have increased by approximately £4.9 million, representing under 4 per cent of EPRA profit after tax.

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 best practices recommendations, these gains and losses are eliminated from EPRA profit before tax and EPRA EPS.

## FOREIGN CURRENCY TRANSLATION EXPOSURE

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

The Group policy is to hedge between 50 per cent and 90 per cent of foreign currency denominated assets with liabilities of the same currency to protect the Group's reported consolidated net asset value, earnings, cash flows and financial gearing covenant.

As at 31 December 2011, the Group had gross foreign currency assets amounting to £1,696.6 million, which were 84 per cent hedged by gross foreign currency denominated liabilities (including the impact of derivative financial instruments) of £1,430.7 million.

A 10 per cent weakening against sterling in the value of the currencies in which the Group operates at 31 December 2011 would have reduced net assets by approximately £24 million and reduced reported gearing by approximately 1 per cent. Including the impact of forward foreign exchange and currency swap contracts used to hedge foreign currency denominated net assets, the reduction in gearing would have been approximately 4 per cent.

The average exchange rate during 2011 was €1.15: £1. Based on the hedging position at 31 December 2011, and assuming that this position had applied throughout 2011, if the euro been 10 per cent weaker than it was against sterling throughout the year (€1.27: £1), EPRA profit after tax for the year would have been approximately £2.7 million (2 per cent) lower than that reported.

**JUSTIN READ**  
FINANCE DIRECTOR

# MANAGING RISK RESPONSIBLY

Effective risk management is integral to delivering our strategic priorities. The process for identifying, assessing and reviewing risks faced by the Group is described in the Governance Report section page 60.

Principal risks and uncertainties facing the Group are described below.

## STRATEGIC RISKS

### 1. THE ECONOMIC ENVIRONMENT

Risk compared to previous year:



#### Risk

Changes in the macro-economic environment in the UK and Continental Europe could have a significant impact on the Group's performance. SEGRO has approximately one-third of its business in Continental Europe and the ongoing Eurozone sovereign debt crisis is therefore a particular concern.

If macro-economic conditions were to worsen then this could result in reduced demand for business space, increased customer insolvency and falling asset values. This could, in turn, slow the rate of portfolio recycling due to a reduction of potential buyers and available investment capital and increase the financial risks detailed opposite.

In addition to its potential macro-economic impact, significant changes to the composition of the Eurozone could indirectly impact on the efficacy of the Group's hedging arrangements and the continued availability of individual bank funding.

#### Mitigation

The Board monitors the external financial environment closely and maintains a capital structure that allows for a degree of market turbulence. The Group has stated its intent to further reduce leverage, which is the most effective way that it can prepare to address major changes in the economic environment (also see Capital Structure risk).

SEGRO has a diverse customer base with over 1,600 customers and is not over-reliant on a particular industry or sector.

Geographically, the portfolio is located predominantly in the relatively stronger European economies. The split by net asset value is:

UK 68%, Germany 9%, France 8%, Poland 6%, Belgium 4%, Netherlands 2%, Italy 2% and Czech Republic 1%.

The Financial Review on page 49 details the Group's foreign exchange exposure to the euro and the hedging arrangements to protect income and net asset value.

Changes in the economic environment could also create opportunities, for which the Group has a strong track record of acting quickly to take advantage.

#### Commentary

The economic environment remains difficult to predict and there is increasing uncertainty surrounding the solvency of the weaker Eurozone countries and their banks.

SEGRO's exposure to a potential collapse in one of the weaker Eurozone countries is difficult to assess and depends on the level of contagion to the banking sector and the wider European economy. Management continues to work with external advisors to review the potential impact of such an event and to see if there are further practical steps that the Group could take to protect shareholder value.

Income information is detailed in the Financial Review on page 46.

### 2. PORTFOLIO PERFORMANCE

Risk compared to previous year:



#### Risk

Management considers that the portfolio currently contains too many non-income producing or non-core assets and that if this is not addressed the business could underperform relative to its peers.

#### Mitigation

The reshaping strategy detailed in this Annual Report is designed to rebalance the portfolio by reducing the number of non-income producing and non-core assets and by recycling this capital into stronger target markets and assets.

Target markets were chosen by analysing the market to assess its size, economic growth potential, the attractiveness of the local real estate investment market, the supply/demand dynamics and the competitive landscape. The Group then considered its position in each market and only geographies where we have a critical mass and a strong market position already, or where we believe such a position can be relatively quickly achieved have been targeted.

Industrial property, in which SEGRO is a specialist, is a high-yielding sector and attractive asset class due to its potential to deliver above average rental growth and greater resilience

during down cycles. The Group's three areas of focus within this sector are:

- Multi-occupier estates
- Logistics (larger 'big-box' distribution warehouses)
- Modern, higher-value use properties, such as data centres, suburban offices and R&D facilities.

#### Commentary

The reshaping strategy will take place over the medium term and should result in SEGRO holding the appropriate balance between stabilised and opportunity assets that we believe is needed to achieve the returns that our shareholders require.

The reshaping strategy is detailed in the Chief Executives Review on pages 4 to 11.

Portfolio rebalancing and reinvestment plans are detailed in the Performance Review on page 30.

### 3. IMPLEMENTING STRATEGIC CHANGES

Risk compared to previous year:



#### Risk

Performance could suffer if the Group was to fail to execute the medium-term strategic plans announced on 8 November 2011. The main implementation risks are associated with our ability to:

- Sell non-core assets at acceptable prices
- Identify and acquire suitable assets
- Move quickly and take opportunities as and when these are available
- Manage portfolio recycling to mitigate the impact on earnings, dividends and leverage.

#### Mitigation

The Executive Committee has established detailed plans to deliver the strategic changes announced in November 2011. Implementation is well underway and progress is being tracked against a series of key performance indicators.

The organisation has been realigned and the new positions of Chief Operating Officer and Chief Investment Officer established. The revised structure improves the Group's ability to deliver portfolio changes while maintaining a strong day to day operational performance.

External agents and advisors are involved alongside SEGRO's own personnel to identify potential acquisition targets and to ensure that asset disposals and acquisitions take place on competitive terms.

The Group is committed to recycle a significant amount of the portfolio and recognises that the pace of this change needs to be managed in order to protect dividend paying capacity.

#### Commentary

The Strategy and Key Performance Indicators, are detailed in the Chief Executive's Review on pages 4 to 15.

### FINANCIAL AND OPERATIONAL RISKS

#### 4. CAPITAL STRUCTURE

Risk compared to previous year:



#### Risk

Failing to maintain an appropriate and cost-effective capital structure for any point in the market cycle could, if the Group holds too much debt when the market is falling, increase the risk of covenant breach (see Solvency and Covenant Breach risk overleaf).

If the Group holds too little debt when the market is rising, it could underperform against peers.

#### Mitigation

The Group sources debt and equity capital from a variety of sources including, where appropriate, third-party capital to achieve a balanced and cost-effective capital structure.

The Group is currently targeting a loan to value ratio of 40% over the medium-term. This will be achieved mainly through using proceeds from the recycling programme to help pay down debt and reduce leverage. This position is intended to provide additional downside protection against valuation declines and to offer increased financial flexibility.

#### Commentary

Key financial ratios are detailed in the Financial Review on pages 48 and 49.

#### 5. AVAILABILITY AND COST OF BORROWING

Risk compared to previous year:



#### Risk

Deterioration in debt market conditions, a worsening of the Company's credit profile or a general rise in interest rates could impact the availability and cost of borrowing with a direct impact on both the solvency of the Group and the returns it generates.

#### Mitigation

The Group monitors its key financial ratios and seeks to maintain a strong investment grade credit rating.

The Group also monitors changes to credit market conditions and to the broader financial environment and seeks to diversify debt funding with an appropriate mix of bank and capital market debt financing. The Group also seeks to spread debt maturities and to refinance debt well ahead of its contractual maturity. During 2011 the Group agreed new or extended bank facilities totalling €440 million (£367 million). The Group has only £10.4 million of committed debt facilities that mature before 31 December 2012.

Interest rate sensitivity is mitigated by using fixed rate debt instruments. At 31 December 2011, 74% of net borrowings were at fixed rates.

#### Commentary

Treasury policy, key financial ratios, debt maturity profile, the interest rate hedging position and related sensitivities are detailed in the Financial Review on pages 48 and 49.

## FINANCIAL AND OPERATIONAL RISKS CONTINUED

### 6. SOLVENCY AND COVENANT BREACH

Risk compared to previous year:



#### Risk

A material fall in the Group's property asset values or rental income could lead to a breach of financial covenants within its debt funding arrangements. This could result in the cancellation of debt funding which would, in turn, leave the Group without sufficient long-term resources (solvency) to meet its commitments.

#### Mitigation

The Group has a flexible funding strategy and manages liquidity in accordance with Board-approved Treasury Policies which are designed to ensure that the Group has adequate funds for its ongoing needs.

The Board monitors financial covenant ratios closely and undertakes scenario and sensitivity analysis to inform its financial planning.

#### Commentary

Treasury policy, funding headroom, financial covenant ratios and related sensitivities are detailed in the Financial Review on pages 48 and 49.

### 7. FOREIGN EXCHANGE RATES

Risk compared to previous year:



#### Risk

Changes in the sterling to euro exchange rate could reduce the sterling value of Continental European assets and earnings.

Significant exchange rate changes could also impact the Group's gearing ratio.

#### Mitigation

The majority of foreign currency assets are matched by borrowings denominated in the same currencies. This provides a hedge against the value of the Group's overseas assets and earnings.

#### Commentary

Foreign exchange hedging policy, the hedging position and related sensitivities to gearing, earnings and NAV are detailed in the Financial Review on page 49.

### 8. OPERATIONS

Risk compared to previous year:



#### Risk

The Group's ability to maintain its reputation, revenues and value could be damaged by operational failures such as:

- Health and Safety incidents
- Environmental damage
- Business systems or IT disruption
- Failing to attract, retain and motivate key staff.

#### Mitigation

The Executive Committee oversees internal policies and procedures that address a range of different operational areas, including Health and Safety and Sustainability.

The business is actively managed to maintain compliance with regulations and to ensure that robust operational controls are in place.

#### Commentary

The role of the Executive Committee is detailed in the Governance report on page 58.

Health and Safety accident rates throughout the Group remain low. Safety information is detailed in the Sustainability Review on page 42.

## REAL ESTATE AND INVESTMENT RISKS

### 9. MARKET CYCLE

Risk compared to previous year:



#### Risk

The property market is cyclical and there is an inherent risk that the Company could either misinterpret the market or fail to react appropriately to changing market conditions, which could result in capital being invested or disposals taking place at the wrong time in the cycle.

#### Mitigation

The Board, Executive Committee and Investment Committee monitor the property market cycle on a continual basis and seek to adapt the Group's capital investment/divestment strategy in anticipation of changing market conditions.

#### Commentary

The market outlook is detailed in the Chief Executive's Review on pages 4 to 15.

### 10. INVESTMENT PLANS

Risk compared to previous year:



#### Risk

Investment decisions to buy, hold, sell or develop assets could be flawed due to inadequate analysis, inappropriate assumptions, and poor due diligence or changes in the operating environment.

#### Mitigation

High-level asset management plans have been established for all major locations. During 2012 asset management plans will continue to be updated to ensure that underlying assumptions are robust and that capital allocation is optimised across the portfolio.

A dedicated investment team has been created reporting to the Chief Investment Officer.

The Group's major development projects are generally pre-let to customers on a long lease; this reduces the risk associated with vacancy and income loss. Speculative development is limited to sites with high potential demand.

All new potential investments are subject to comprehensive due diligence involving experienced property teams and external advisors. Significant potential investments and disposals are reviewed by the Investment Committee and, where appropriate, the Board.

#### Commentary

The approach to Development and Investment is detailed in the Performance Review on pages 25 to 33.

# FOCUSED ON MAINTAINING HIGH STANDARDS IN GOVERNANCE



**1. NIGEL RICH CBE****CHAIRMAN**

Chairman of the Nomination Committee

Appointed as a Non-Executive Director on 1 July 2006 and became Chairman on 1 October 2006.

He is a Non-Executive Director of Bank of the Philippine Islands (Europe) plc, Matheson & Co Ltd, and Pacific Assets Trust. He was previously Chairman of Xchanging plc, Exel PLC, CP Ships and Hamptons Group Ltd. In his career he was Managing Director of Hongkong Land and then Jardine Matheson. He is an Alternate Member of The Takeover Panel. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Aged 66.

**2. DAVID SLEATH****CHIEF EXECUTIVE OFFICER**

Member of the Nomination Committee

Appointed as Chief Executive Officer on 28 April 2011 having joined the Company as 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 and Assurance for the Midlands. He is a Non-Executive Director of Bunzl plc, a Board member of the European Public Real Estate Association and a member of the London Regional Board of Royal & Sun Alliance. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Aged 50.

**3. JUSTIN READ****FINANCE DIRECTOR**

Appointed as Finance Director on 30 August 2011.

He joined the Company as Finance Director on 30 August 2011. Between April 2008 and August 2011 he was Group Finance Director at Speedy Hire Plc. Prior to that, he spent 13 years in a variety of roles at Hanson Plc, as well as working at Euro Disney SCA and Bankers Trust Company. Aged 50.

**4. ANDREW PALMER****SENIOR INDEPENDENT****NON-EXECUTIVE DIRECTOR**

Member of the Audit, Nomination and Remuneration Committees

Appointed as a Non-Executive Director on 26 January 2004.

Formerly Group Finance Director of Legal & General Group plc where he had also held a number of financial and operational roles in the asset management, insurance and international businesses. He is a Non-Executive Director of RBS Insurance and Royal London, a Director of the Royal School of Needlework and a member of the Financial Reporting Review Panel of the Financial Reporting Council. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Aged 58.

**5. CHRIS PEACOCK****INDEPENDENT****NON-EXECUTIVE DIRECTOR**

Chairman of the Remuneration Committee  
Member of the Nomination Committee

Appointed as a Non-Executive Director on 28 January 2004.

He is a Director of Howard De Walden Estates Limited and sits on the Advisory Investment Committee for Trinova Real Estate LLP. He was previously President and Chief Executive Officer of Jones Lang LaSalle. He is a Fellow of the Royal Institution of Chartered Surveyors. Aged 66.

**6. THOM WERNINK****INDEPENDENT****NON-EXECUTIVE DIRECTOR**

Member of the Audit and Nomination Committees

Appointed as a Non-Executive Director on 23 May 2005.

He is a Non-Executive Director of 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. Aged 66.

**7. DOUG WEBB****INDEPENDENT****NON-EXECUTIVE DIRECTOR**

Chairman of the Audit Committee

Appointed as a Non-Executive Director on 1 May 2010.

He is Chief Financial Officer of London Stock Exchange Group plc, a post he has held since June 2008. He was previously Chief Financial Officer of QinetiQ Group plc, Finance Director Continental Europe at Logica plc and spent 12 years at Price Waterhouse. He is a member of the International Integrated Reporting Council, the FSA Practitioner Panel and Hundred Group of Finance Directors. Aged 50.

**8. MARK ROBERTSHAW****INDEPENDENT****NON-EXECUTIVE DIRECTOR**

Member of the Remuneration Committee

Appointed as a Non-Executive Director on 1 June 2010.

He is Chief Executive Officer of The Morgan Crucible Company plc, a post he has held since August 2006, having joined the company in 2004 as Chief Financial Officer. He was previously Chief Financial Officer of Gartmore Investment Management plc. Prior to this he spent nine years with Marakon Associates, a leading management consultancy headquartered in the US. Aged 43.

# COMMITTED TO GOOD GOVERNANCE

"I BELIEVE THAT  
GOVERNANCE SHOULD  
BE EMBEDDED AT EVERY  
LEVEL IN THE BUSINESS"



Good corporate governance is central to all aspects of our business and the recently introduced UK Corporate Governance Code (the Code) represents a step forward for the governance of listed companies. This report sets out how we complied with the Code and how we applied its principles to the running of the business.

Having announced the appointment of David Sleath as Chief Executive in December 2010, an independent executive search firm was engaged to assist with the search for a new Finance Director. Following a process which involved a number of members of the Board, Justin Read was appointed to this position in August 2011. With the announcement of our new strategy, we also made a number of changes to the senior management structure reflecting the two main themes of this strategy, Disciplined Capital Allocation and Operational Excellence. During 2012, we will continue to focus on risk management and the governance processes that support our strategy.

In the final quarter of 2011, we conducted our second external Board evaluation. It concluded that the Board was effective and professional. The atmosphere at Board meetings was found to be conducive to open dialogue and constructive challenge. Further details, including our progress in addressing actions from the previous year's evaluation, are provided on page 59. In 2012, the Nomination Committee will renew its focus on succession planning for the Board, ensuring that the boardroom continues to provide a forum for challenge and debate.

The Board recognises the benefits of gender diversity as well as diversity in a wider sense. All appointments to the Board are made not only on the basis of individual merit but also having regard to the composition of the Board as a whole. Succession planning provides one means by which we can create a more diverse Board. At SEGRO, we believe that developing a 'talent pipeline' is essential for addressing diversity issues, particularly in real estate, a sector which has traditionally been male-dominated; approximately half of our senior management team below the Board are women.

**NIGEL RICH CBE**  
CHAIRMAN

## UK CORPORATE GOVERNANCE CODE

Throughout 2011, the Company complied with the UK Corporate Governance Code.

## THE BOARD, BALANCE AND INDEPENDENCE

Details of the roles and biographies of the Directors who served during the year are shown on pages 54 and 55. The Board comprises a Non-Executive Chairman, two Executive Directors and five independent Non-Executive Directors, all of whom are equally responsible for the proper stewardship and leadership of the Group. The Board considers it is currently of appropriate size for the discharge of its duties. As set out later in this report, the Nomination Committee has begun a search process for new Directors. Accordingly, the size of the Board may increase.

Taking into account the provisions of the Code, the Board has determined that each of the Non-Executive Directors is independent. The Chairman was considered independent on appointment.

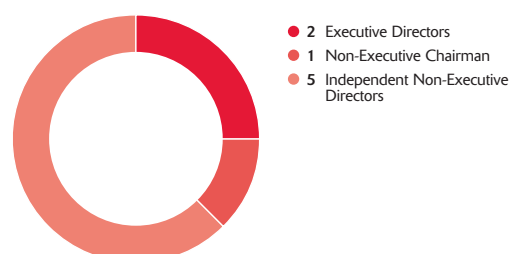
Procedures have been put in place for managing Directors' conflicts of interest. Directors are required to submit any potential or actual conflicts they may have with the Company to the Board for approval.

## BOARD ACTIVITIES AND ATTENDANCE AT BOARD MEETINGS

All Directors are expected to attend each Board meeting and meetings of Board Committees of which they are members. In exceptional circumstances, when a Director is unable to attend, he will be provided with the papers and given an opportunity to discuss his comments with the Chairman prior to the meeting. This ensures that his views are given due consideration. Attendance at Board and Board Committee meetings is set out in the table on page 58.

Board papers are generally circulated one week in advance of the meetings. Board papers, copies of presentations made during meetings and analysts' reports are available to the Directors. Sector updates are circulated periodically and Directors receive weekly press cuttings. Between meetings, the Chief Executive and the Chairman are available and regularly communicate with the Directors to update them on recent developments.

## Balance of Non-Executive and Executive Directors



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 seek independent professional advice at the Company's reasonable expense. The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors.

Throughout the year, the Chairman met with the Non-Executive Directors, individually and collectively, to discuss business matters. The Chairman, the Chief Executive and the Company Secretary are always available for the Directors to discuss any issues concerning Board meetings or other matters.

Board meetings are held on a regular basis, with additional meetings being arranged when necessary. During 2011, there were 10 scheduled Board meetings. The Chairman, with the assistance of the Company Secretary, is responsible for ensuring good information flows within the Board. They manage the agendas to ensure that items reserved for consideration by the Board are discussed and they track the progress of actions raised at previous meetings. The Chairman further ensures that there is adequate time available for the discussion of all agenda items, in particular strategic issues. The table below sets out details of the matters considered at Board meetings.

Senior managers are invited to present to the Board. During 2011, these presentations included briefings on the investment and asset disposal programme, risk appetite, treasury matters and the UKLF acquisition.

## BOARD ACTIVITIES

Each meeting	Annually	Throughout the year
<ul style="list-style-type: none"> <li>• Health and safety.</li> <li>• Chief Executive reports on key strategic issues, progress with matters considered by the Executive Committee and HR matters.</li> <li>• Reports on financial, tax and treasury matters.</li> <li>• Operations reports on letting performance, development and other business issues.</li> <li>• Investment reports on disposal and investment activities.</li> <li>• Reports on the Group's Key Performance Indicators.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of full-year and half-year results.</li> <li>• Approval of the portfolio strategy and medium-term plan.</li> <li>• Off-site strategy review.</li> <li>• Evaluation of the effectiveness of the Board and its Committees.</li> <li>• Approval of treasury policies.</li> <li>• Group insurance review.</li> <li>• Charity and community engagement report.</li> <li>• Group pension review.</li> <li>• Progress with the Group's sustainability programme and environmental issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Twice-yearly valuation.</li> <li>• Recommendation and approval of dividends.</li> <li>• Twice-yearly review of significant risks.</li> <li>• Regular reports on the Group's key risks.</li> <li>• Approval of significant RIS announcements, including interim management statements.</li> <li>• Presentations from senior managers across the business and in corporate functions.</li> <li>• Review of analysts' reports and shareholder feedback.</li> <li>• Discussion and approval of Group strategy.</li> <li>• Regular reports from the Chairmen of the Audit, Nomination and Remuneration Committees.</li> <li>• Site visits.</li> <li>• Updates on governance and reports on legal and regulatory matters.</li> <li>• Approval of significant investment and disposal proposals.</li> <li>• Approval of the annual budget.</li> <li>• Legislative and regulatory updates.</li> </ul>

## 2011 TABLE OF ATTENDANCE AT SCHEDULED MEETINGS

Name	Board	Remuneration Committee	Audit Committee	Nomination Committee <sup>5</sup>
Nigel Rich	10	N/A	N/A	0
Ian Coull <sup>1</sup>	3	N/A	N/A	N/A
Andrew Palmer	10	8	5	0
Chris Peacock	10	8	N/A	0
Justin Read <sup>2</sup>	4	N/A	N/A	N/A
Mark Robertshaw	10	8	N/A	N/A
David Sleath <sup>3</sup>	10	N/A	N/A	0
Ian Sutcliffe <sup>4</sup>	3	N/A	N/A	N/A
Doug Webb	10	N/A	5	N/A
Thom Wernink	9	N/A	4	0
Total number of meetings	10	8	5	0

1 Retired from the Board on 28 April 2011.

2 Joined the Board on 30 August 2011.

3 Appointed to the Nomination Committee on 22 March 2011.

4 Resigned from the Board on 28 April 2011.

5 In 2011, Nomination Committee activities were undertaken by the Board. Further information is provided on page 60.

## ROLE OF THE BOARD AND COMMITTEE STRUCTURE

The Board is responsible for creating and delivering sustainable shareholder value. Individually, the Directors act in a way they consider will promote the long-term success of the Company for the benefit of shareholders, with regard to the interests of the Group's employees, the impact of the business on the community and the environment and the interests of stakeholders.

The Board is collectively responsible for the success of the Group. The Executive Directors are directly responsible for business operations while the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to the decisions taken by the Board.

There is a Schedule of Matters Reserved for Decision by the Board which was updated in early 2012. Matters requiring Board approval include:

- Group strategy;
- Recommendation and approval of the dividends;
- Group capital structure;
- Financial reporting including approval of results;
- Appointment of Directors;
- Risk identification and management;
- Internal controls;
- Corporate governance; and
- Major acquisitions, disposals and capital investments.

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 can be found at [www.segro.com](http://www.segro.com) in the investor section. The Company ensures that these Committees are provided with sufficient resources to undertake their duties.

The division of responsibilities of the Chairman, Chief Executive and Senior Independent Director are set out in writing. The roles and responsibilities for each of these positions were revised and approved by the Board during the year. The Chairman is primarily responsible for the leadership and effective working of the Board. He ensures a constructive relationship exists between the Executive and the Non-Executive Directors. The Senior Independent Director acts as a sounding board to the Chairman and serves as an intermediary for other Directors when necessary.

Responsibility for all operational matters, including the implementation of Group strategy, is delegated to the Chief Executive. The Executive Committee supports the Chief Executive in the delivery of strategy, establishing financial and operating targets and monitoring performance against those targets. The Finance Director, the Chief Operating Officer, Chief Investment Officer and the Group HR Director are also members of the Executive Committee. The Executive Committee has its own Terms of Reference and meets monthly. Following a governance review, it was decided that health and safety, sustainability and information systems would become matters for the Executive Committee rather than for separate committees. The Executive Committee delegates some of its responsibilities to a further four Committees:

- the Investment Committee;
- the Operations Committee;
- the Risk Management Committee; and
- the Treasury Committee.

These Committees have their own Terms of Reference and membership includes at least one member of the Executive Committee.

## BOARD EVALUATION

Evaluation 2010	Actions taken in 2011	Evaluation 2011
Encourage the Non-Executive Directors to meet with senior managers.	Presentations were given by the Group Insurance and Risk Manager, the Head of Treasury, the Head of Investor Relations and the Investment Director.	Continue to receive presentations from senior managers.
Arrange more site visits, especially for Non-Executive Directors.	Non-Executive Directors visited teams and assets in Düsseldorf, Munich, Berlin, Paris, Milan, Manchester and Slough.	Continue with site visits, tours and meetings with local management.
Allocate additional time to the consideration of risks associated with strategy.	A Board risk workshop was undertaken as well as a review of catastrophic risks and mitigating actions. A Board meeting was devoted wholly to strategy. The Board also reviewed risk appetite.	The Board to dedicate time to review progress with strategy, including the portfolio disposal programme and to focus on the risk management processes that support the strategy.
Formalise the reporting on Bribery Act compliance.	Internal audit of Bribery Act compliance. Procedures put in place for ongoing monitoring.	The Nomination Committee to consider Board succession, diversity and to review the talent pipeline.

## EVALUATION

When the Board concluded its last external evaluation in 2008, it agreed to repeat the process on a three-yearly basis. Following a review of external facilitators, JCA Group was appointed to undertake an evaluation during the final quarter of 2011. JCA Group had no other connection with the Company. The evaluation was based upon input from all members of the Board, the Company Secretary and the Group HR Director. JCA Group presented the final report to the Board in December, which was followed by a discussion of the conclusions and recommendations. JCA Group confirmed to the Senior Independent Director that all information provided was a fair reflection of the feedback from the Directors and was not influenced inappropriately by the Chairman.

The review confirmed that the Board was effective, the quality of Board dialogue was good and that there was a climate of trust and transparency, with a strong level of challenge and no 'group-think'. The Executive Directors were seen as being open and engaged, while the Non-Executive Directors brought a range of skills and experience, ensuring constructive debate.

A number of recommendations were made for the smooth running of Board meetings including identifying major items for discussion in advance of meetings and ensuring that adequate time is provided to discuss them. Sufficient time should also be set aside for monitoring progress in implementing the new strategy and ensuring it delivers shareholder value. The Directors continue to derive value from site visits and, for Non-Executive Directors, tours and meetings with employees below Board level help them to remain engaged with the business.

JCA Group commented on the performance of the three Board Committees and it was noted that each was performing effectively, but that the Nomination Committee would have to meet more frequently in the coming year to consider Board succession, diversity and the talent pipeline.

The table above sets out the action points identified in the internal Board evaluation carried out in 2010, the progress made during 2011, and the action points identified in the 2011 external evaluation.

The Senior Independent Director, with the Non-Executive Directors, led a performance evaluation of the Chairman. The Chairman, with the Non-Executive Directors, conducted a performance evaluation of the Chief Executive.

## JUSTIN READ'S INDUCTION

A full, formal and tailored induction programme was arranged for Justin Read. The programme included site visits, meetings with the Directors and the senior managers within the business, as well as meetings with external advisors including the internal and external auditors, the corporate brokers and the valuers.

**"THIS WELL-STRUCTURED  
INDUCTION PROGRAMME  
HELPED ME TO ESTABLISH  
THE KEY PRIORITIES IN MY  
NEW ROLE "**



## **BOARD DEVELOPMENT**

Directors are encouraged to continually update their knowledge of the business and professional skills. Directors visited a number of the Company's assets with members of the management team and individually attended seminars and conferences associated with their areas of expertise or responsibility. These have included conferences on the Davies Report, remuneration trends and risk management. During the year, internal specialists and external advisors presented to the Board on a wide range of subjects including the outlook for the property market, the economic climate and risk. Presentations will continue to be given to the Board in 2012.

During 2011, Board meetings were held in Manchester, Berlin and Düsseldorf. The Board met with local management teams in these locations and had tours of the local property portfolios. Individual Non-Executive Directors also visited assets and teams in Milan, Munich, Paris and Slough.

Site visits and meetings with the senior management team ensure that all Non-Executive Directors gain appropriate knowledge of the business and have access to its operations and people. To enhance his understanding of the day-to-day issues facing the Group, the Chairman has regular group lunches with employees ranging in seniority from a cross section of the business.

## **REMUNERATION COMMITTEE**

The composition of the Remuneration Committee, its activities during 2011 and the way it applied the principles of the Code are described in the Remuneration Report on pages 64 to 74.

## **NOMINATION COMMITTEE**

The Nomination Committee is chaired by Nigel Rich. The other members of the Nomination Committee are David Sleath, Andrew Palmer, Chris Peacock and Thom Wernick.

The Nomination Committee has responsibility for making recommendations for new appointments to the Board and ensuring that the process is formal, rigorous and transparent. Towards the end of 2010, the Committee recommended to the Board that David Sleath be appointed as Chief Executive in April 2011. This process was described in the 2010 Annual Report. To ensure the participation of those Directors with financial experience, the process to select a Finance Director to succeed David Sleath was undertaken by the Board on behalf of the Nomination Committee. A role profile was prepared and Egon Zehnder was retained to assist with the appointment. The Board reviewed the candidates and made the decision to appoint Justin Read in May 2011.

During the year, the Board made appointments to the newly created roles of Chief Operating Officer and Chief Investment Officer. To assist in making these appointments, Spencer Stuart was engaged to assess the skills required and the ability of the candidates to perform these roles. Both appointments were approved by the Board.

Within the next two years, three Non-Executive Directors, including the Senior Independent Director and Chairman of the Remuneration Committee, will have served approximately nine years on the Board, and in early 2012, the Committee considered their succession. The Committee has discussed the preferred size of the Board and also the benefits that increased gender diversity can bring. The Committee has assessed the specific skills, attributes and experience that would be required of the Non-Executive Directors given the composition of the Board as a whole. A review of executive search firms is underway and, once a firm is selected, the Committee will commence a process to appoint two new Non-Executive Directors.

The remit to executive search firms will be to review candidates from a wide range of backgrounds to ensure the best candidates are selected. Candidates without prior board experience will also be considered if they demonstrate the intrinsic capabilities required for the role.

The Non-Executive Directors have considered succession planning and talent management for the Company's senior executives below Board level. The Committee recognises the benefits of diversity throughout the workforce and is supportive of the Company's talent management programme, which applies at all levels of the organisation, with the aim of developing a diverse talent pool of future senior managers and directors.

## **RE-ELECTION OF DIRECTORS**

In accordance with the Code, all Directors will submit themselves for election or re-election at the 2012 AGM. The Nomination Committee has confirmed that the Directors continue to perform effectively and demonstrate commitment to their respective roles.

## **RISK MANAGEMENT**

The Board recognises that there are significant risks which can affect the strategy of the Company and that it has overall responsibility for Group risk management. The Board reviews the Risk Register twice a year. During the year, the Board reviewed the Company's risk appetite and held a risk workshop facilitated by a third party to undertake an in-depth risk review.

The Risk Management Committee, which is supported by the Group Risk and Insurance Manager, implements the Group Risk Management Policy and oversees the process for the identification and management of risk. The Risk Management Committee is chaired by the Finance Director and is attended by the Chief Executive and senior managers. It reports to the Audit Committee and Executive Committee on the processes for monitoring risks and to the Board on the most significant risks and actions being taken to mitigate them. The assurance of the risk management process is delegated to the Audit Committee.

Risks and opportunities associated with country, region and overall Group business objectives are reviewed regularly. Within each area of the business, the risks are considered in terms of impact and likelihood, taking into account the unmitigated risk (assuming controls fail) and residual risk (with controls operating normally). Identifying these two risk measures allows the Risk Management Committee to monitor the most important controls and prioritise risk management activities.

The most significant risks are detailed in the Risk Register. Each risk is assigned to an executive owner who has developed a plan to manage or mitigate individual risks to an agreed position. The Executive Committee regularly reviews emerging risks and considers actions to mitigate them as they arise.

This risk management reporting structure assists Board members in making informed judgements when taking strategic decisions. Risk management will continue to be an important priority for the Board in 2012. The principal risks and uncertainties facing the Group are set out on pages 50 to 53.

## RELATIONS WITH SHAREHOLDERS

The Board is accountable to shareholders for the continued success of the Company. The Chief Executive and Finance Director are the Company's principal spokesmen with investors, fund managers, analysts, the press and other interested parties. The Board is committed to providing investors with regular announcements of significant events affecting the Group and frequent updates on current trading. During the year, investor tours were arranged in Continental Europe and the UK.

Roadshows were held in London, Edinburgh and Amsterdam, following the release of the financial results, to meet both existing and potential institutional investors. Other roadshows are held periodically throughout the year. In addition, the Chief Executive and Finance Director attend investor conferences to present, participate in panel discussions and meet investors. In 2011, the Chief Executive and/or Finance Director attended conferences in the US, UK and the Netherlands.

The Chairman and Senior Independent Director are available to shareholders, should they have concerns which contact through the usual channels has failed to resolve or is otherwise inappropriate. In March 2011, the Chairman wrote to a number of major shareholders and offered a meeting with himself and the Senior Independent Director. Meetings were held with three of these shareholders. All Directors are available for meetings with shareholders if requested.

The Chairman regularly attends the financial results presentations. The Board is kept informed about any discussions with shareholders and the Directors are regularly provided with analyst research and reports.

The Company's website [www.segro.com](http://www.segro.com) provides shareholders with comprehensive information on the Group's recent business activities and financial developments, where they can view webcasts, press releases and recordings of interviews with the Chief Executive.

## CONSTRUCTIVE USE OF THE AGM

The Notice of AGM is dispatched to shareholders at least 20 working days before the meeting. The Company proposes separate resolutions on each substantially separate issue. At the meeting the Chief Executive makes a presentation to shareholders on the progress and performance of the Group prior to the formal business of the meeting.

All Directors are encouraged to attend the AGM and to be available to answer shareholders' questions either during or after the meeting. All of the Directors serving as at the date of the 2011 AGM attended it. For each resolution, shareholders have the option to direct their vote either for or against a resolution or to withhold their vote. At the 2011 AGM, voting was conducted by a poll. The Board believes that this is more democratic than voting on a show of hands as all shares voted at the meeting, as well as proxy votes lodged prior to the meeting, are counted. The Company intends to continue with this practice.

Following the meeting, the results of votes lodged for and against each resolution are announced to the London Stock Exchange and displayed on the Company's website.

## OUR STRATEGY DAY

In November 2011, approximately 80 investors and analysts attended an Investor Day where David Sleath and Justin Read presented the new strategy and direction for the Company. Andy Gulliford and Phil Redding gave presentations on the logistics market and growth opportunities in key conurbations. These presentations were followed by an interactive session. There was also a tour of the Group's key assets at the Slough Trading Estate and at Park Royal.

Find out more online by visiting [www.segro.com](http://www.segro.com)

**“THE CORE OF THE AUDIT COMMITTEE’S FUNCTION IS THE ASSURANCE OF THE FINANCIAL REPORTING AND VALUATION PROCESSES”**



### **AUDIT COMMITTEE REPORT**

At the core of the Committee’s role is the assurance of the processes that support financial reporting, the valuation process, internal control, risk management and legal and regulatory compliance. This report describes the activities which underpin this work as well as other areas addressed by the Committee during the year.

Assurance of the risk management process, testing of internal controls and setting the internal audit programme continued to form key priorities for the Committee in 2011. The internal audit programme is developed by reference to the Group Risk Register, providing the Committee with a further means of monitoring actions to manage and mitigate those risks identified as posing the greatest threat to the Company. During the year, internal audits were carried out on a number of business processes, including the risk management process itself.

In 2012, the Committee will continue to follow a risk-based approach. In addition to the Committee’s regular responsibilities, areas of focus will include the control processes relating to acquisitions and disposals and the implementation of MRI in the UK. MRI is a finance and property information system which is currently in use across our operations in Continental Europe and will replace legacy systems in the UK.

**DOUG WEBB**  
CHAIRMAN OF THE AUDIT COMMITTEE

### **COMPOSITION**

The Committee comprised Doug Webb, who is the Chairman, Andrew Palmer and Thom Wernink. Both Doug Webb and Andrew Palmer have recent and relevant financial experience. Doug Webb is Chief Financial Officer of London Stock Exchange Group plc and Andrew Palmer is a member of the Financial Reporting Review Panel of the Financial Reporting Council and a former Finance Director of a FTSE100 company. Thom Wernink’s expertise in the property sector brings an appropriate balance of skills to the Committee.

By invitation, there are a number of regular attendees at each meeting including the Finance Director, the Group Financial Controller, representatives of the valuers, the internal and external auditors. The Chairman of the Company and the Chief Executive attend regularly by invitation and the other Directors attend by invitation, as appropriate. Throughout the year, the Committee meets separately with each of the internal and external auditors in the absence of management.

As part of the Board evaluation, the Committee was also reviewed by the external evaluator and it was found to be working efficiently. A number of minor administrative improvements were suggested.

### **ACTIVITIES**

In 2011, the Committee’s principal activities included:

- reviewing the integrity, consistency and key judgements in the Company’s half-year and full-year financial statements;
- reviewing the property valuation reports and considering any significant changes to the valuation of individual assets; this represents the single largest area of judgement in preparing the Company’s financial statements;
- assessing the independence of the valuers and assurance of the valuation process;
- oversight and challenge of the internal control process and the control environment;
- reviewing the Company’s controls for the prevention of bribery and corruption with specific reference to the Bribery Act 2010;
- oversight and challenge of the risk management process;
- monitoring the independence and effectiveness of the internal and external auditors; and
- reviewing the business continuity plans, including two full-scale IT disaster recovery tests and a remote working exercise.

The 2011 internal audit programme included the Company’s development process, the insurance programme and the accounts payable process. In 2011, presentations were given by the Heads of Tax, Treasury, Business Information Systems and Investor Relations and the Group Risk and Insurance Manager, the Group Reporting Manager and the General Counsel and Company Secretary.

During the year, the Committee met twice with DTZ, the valuers of the Group property portfolio, and once with Jones Lang LaSalle, the valuers of the APP joint-venture property portfolio. Following the takeover of DTZ in December 2011, the Committee confirmed that appropriate procedures were in place for the sign-off of the 2011 year-end valuation.

## INTERNAL CONTROL FRAMEWORK

The Committee, on behalf of the Board, is responsible for reviewing the internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. 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.

To enhance the monitoring of the framework, a number of improvements to reporting were made to the internal audit reports, including the introduction of KPIs for the time taken to resolve open internal control items, increasing the detail of reporting on open items and an improved reporting format. The Committee also monitors the effectiveness of the framework through written and verbal reports from the Finance Director and the internal and external auditors on progress with internal control activities.

Reports received cover:

- reviews of business processes and activities, including action plans to address any identified control weaknesses or recommendations for improvements to controls or processes;
- management's own assessment 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 auditor; and
- follow-up actions from previous internal control recommendations.

The Committee monitors management's action plans to improve internal controls which have been identified following the above reviews. The Committee confirms that it has not been advised of any failings or weaknesses which it regards to be significant.

The Company has a whistleblowing policy and has put in place a third-party service whereby employees can, in confidence, raise concerns whether in relation to financial reporting or other matters. Arrangements are in place for reporting such concerns to the Committee. The Committee has ensured that any such reports are acted on promptly and fully investigated, with external support where necessary.

## EXTERNAL AUDIT

On an annual basis, the Committee considers the appointment, remuneration and independence of the external auditor. Following a competitive tender, Deloitte LLP was appointed auditor in 2007 and in accordance with best practice on partner rotation, the lead audit partner will change for the 2012 financial year.

The Committee's policy for the use of the external auditor for non-audit services recognises that there are certain circumstances where, due to its knowledge of the Company, Deloitte LLP will be in the best position to perform non-audit services. The policy specifies sign-off procedures for approval of all non-audit services. Should fees for a specific project be expected to exceed £100,000, sign-off is required by the Chairman of the Committee and the Finance Director, or in his absence, the Chief Executive. Where fees are expected to be in excess of £250,000, approval is required by the Committee. The policy also has a non-exhaustive list of services that Deloitte LLP should not provide as they could be detrimental to its independence as an external auditor. This policy was amended, following the acquisition in 2010 of Drivers Jonas by Deloitte LLP, to formalise the occasions when the business can instruct Drivers Jonas for real estate services. The full policy is available at [www.segro.com](http://www.segro.com).

The Committee recommends the remuneration of the external auditor to the Board and keeps under review the ratio of audit fees to non-audit fees to ensure that the independence and objectivity of the external auditor is not put at risk. In 2011, the fee for audit and audit-related services was £0.8 million. The fee for non-audit services was £0.4 million, £0.3 million of which was in respect of tax compliance and tax advisory services. Deloitte LLP is also the auditor of the APP and Big Box joint ventures.

Deloitte LLP has provided written confirmation of its independence to the Committee. Following a satisfactory outcome of the review of its effectiveness as auditor, the Committee is satisfied that Deloitte LLP continue to provide appropriate levels of scepticism and challenge and has recommended to the Board that Deloitte LLP be proposed for re-election as auditor at the 2012 AGM.

## INTERNAL AUDIT

The Committee believes that the value of internal audit is enhanced by having a third party perform this function, as this supports the independent challenge of management and gives greater access to expertise than an internal function could provide. KPMG LLP performed this role throughout 2011. The Committee undertakes an annual review of the effectiveness of the internal auditor. Following review, the Committee extended KPMG LLP's engagement to March 2013.

# REMUNERATION POLICY AND FRAMEWORK

**"THE KEY ROLE OF  
THE REMUNERATION  
COMMITTEE IS THE  
ALIGNMENT BETWEEN  
THE INTERESTS OF OUR  
SHAREHOLDERS  
AND THOSE OF  
OUR DIRECTORS"**



Following the appointment of a new Chief Executive in April 2011 and a new Finance Director in August 2011, the Committee has worked with the executive management team during the year to support it through this period of transition.

Following his appointment, our Chief Executive, David Sleath, undertook a full review of the Company's strategy and the conclusions were communicated to shareholders in November. As I reported last year, the Committee had already committed to undertake a review in 2011 of the structure of executive remuneration to ensure that our reward strategy continues to reinforce the alignment between the interests of our shareholders and those of our Directors and senior managers. The strategic review has given clarity about the Company's medium-to-long-term objectives and priorities and the Committee designed a remuneration framework which reflects this updated business model.

Following a tender process in spring 2011, the Committee appointed Kepler Associates as its advisors.

Throughout its deliberations this year, the Committee has been mindful of the current public debate on executive remuneration and the need to strike an appropriate balance between rewarding good performance for shareholders and focusing management on delivering the strategy. We believe we have achieved this balance with our proposals which are set out in detail in this report. Following our review and consultation with major shareholders and shareholder representative bodies, the Board will be seeking shareholder approval at the 2012 Annual General Meeting to amend the SEGRO plc 2008 Long Term Incentive Plan.

**CHRIS PEACOCK**  
CHAIRMAN OF THE REMUNERATION COMMITTEE

## GOVERNANCE AND ACTIVITIES IN 2011

The Committee comprises Chris Peacock, who is the Chairman, Andrew Palmer and Mark Robertshaw. The Chairman of the Company, the Chief Executive, the General Counsel and Company Secretary and the Group HR Director may be invited to attend meetings, except when their own remuneration is discussed.

The Committee determines the reward strategy for the Executive Directors and other senior managers. Its key responsibilities include: setting the remuneration of the Chairman and Executive Directors; designing performance-based pay structures and setting performance targets; ensuring that total remuneration reflects individual contribution to results; and appointing external advisors. The Committee retains oversight of the remuneration of a designated group of senior managers and advises on the framework for remuneration across the Group. The Terms of Reference for the Committee are reviewed periodically and are available on the Company's website.

During 2011, the Committee met eight times and it:

- appointed Kepler Associates as its advisor following a competitive tender process;
- approved Ian Coull's pension arrangements on his retirement;
- agreed the terms of Ian Sutcliffe's departure from the Company;
- set Justin Read's remuneration on his appointment as Finance Director;
- assessed the 2011 bonus targets against performance;
- implemented the Deferred Share Bonus Plan (DSBP);
- determined the performance conditions of the 2012 Bonus Scheme;
- approved awards under the SEGRO plc 2008 Long Term Incentive Plan (LTIP) and assessed the performance conditions of the LTIP awards made in 2008; and
- undertook a thorough review of executive remuneration. This included approving new performance conditions and revised terms for the LTIP, and consulting with major shareholders and institutions on these proposed changes.

## CHANGES TO THE BOARD

As reported last year, early in 2011 the Committee finalised the terms and conditions for David Sleath's appointment as Chief Executive. From 1 April 2011 David Sleath was paid a salary of £520,000 with a maximum bonus opportunity of 120 per cent of salary. His 2011 award under the LTIP was 175 per cent of salary.

Ian Coull retired as Chief Executive at the Annual General Meeting (AGM) on 28 April 2011. As a retired employee he was entitled to 'good leaver' status on his LTIP, Share Incentive Plan (SIP) and Sharesave awards. He did receive a bonus in respect of Company 2010 performance and individual performance and 25 per cent of this was deferred under the rules of the DSBP. He will receive a pro rata bonus for 2011.

Ian Coull's pension benefits were put into payment on 31 March 2011. Details of the pension benefits that were paid to him are set out on page 69. These benefits were paid in accordance with his contract and were not enhanced by the Company.

In February 2011, it was announced that Ian Sutcliffe would be leaving the Company. Following David Sleath's appointment, and a preliminary review of the executive management structure, it was concluded that the role of UK Managing Director was redundant. Following a two-month handover period for him to support the new Chief Executive and to facilitate an orderly transition, he left the business at the AGM in April. In line with his contract of employment, his payments in lieu of notice were spread over 10 monthly instalments which would cease should he accept alternative full-time paid employment. He was also entitled to a severance payment of £60,000 and a pro rata bonus for 2011. The bonus he received in respect of Company 2010 performance was subject to 25 per cent deferral under the rules of the DSBP. He was entitled to 'good leaver' status on his LTIP, DSBP, SIP and Sharesave awards.

Justin Read joined the Company on 30 August 2011 as Finance Director. His base salary was set at £340,000, with a maximum bonus opportunity of 100 per cent of salary. On appointment he was awarded an LTIP to the value of 140 per cent of base salary.

Full details of the remuneration paid to the Directors is set out in the table on page 71.

## ADVICE

The Committee has access to sufficient resources to discharge its duties including advice from independent remuneration consultants and access to the General Counsel and Company Secretary, the Group HR Director and other advisors as required.

In spring 2011, following meetings and presentations by a number of remuneration consultants, the Committee appointed Kepler Associates to be its advisor in place of Towers Watson Limited which had previously provided remuneration advice.

To ensure a consistent approach to remuneration across the Group, Kepler Associates also provides advice to the Company in respect of matters relating to the remuneration of all employees. During the year, Hogan Lovells LLP and Slaughter and May provided advice to the Committee and the Company on the DSBP and the Company's share schemes including the revisions to the LTIP. Aon Hewitt Limited provided information to the Committee and the Company in respect of pension-related matters. Towers Watson and Kepler Associates complied with the Code of Conduct for Remuneration Consultants in the UK in discharging their responsibilities.

## REMUNERATION POLICY

Underpinning the reward strategy is a remuneration policy which aligns the interests of shareholders with the Executive Directors and other senior executives. The remuneration policy is structured to attract and retain leaders and to motivate them to promote the success of the Company through the delivery of long-term shareholder value (Chart 2). A substantial proportion of the Executive Directors' remuneration is subject to the achievement of short and long-term performance targets (Chart 1). These targets are structured so as not to encourage inappropriate risk-taking. In setting the remuneration policy, the Committee takes into consideration amongst other matters, the maximum amount

of remuneration the Executive Directors could receive, should all targets be met, and investor guidelines. The Executive Directors' remuneration is set within a remuneration framework which applies to employees across the Group.

With the assistance of its advisors, the Committee undertakes an annual review of the remuneration of the Executive Directors and it also considers the remuneration of a group of senior managers, immediately below Board level. For benchmarking, the Committee takes account of three factors. Firstly, remuneration is benchmarked against the pay of executive directors in a peer group of UK-listed property companies. Secondly, it considers benchmark data for companies of similar market capitalisation. These comparators are used because they represent the wider executive talent pool, from which the Company might expect to recruit externally and the market to which it is at risk of losing employees if remuneration is not competitive. Thirdly, the Committee considers the executives' responsibilities, experience and performance, as well as pay across the Group before making its decisions.

The Committee approves the total annual payroll increase for all employees together with the rules of the Bonus Scheme in which all employees participate.

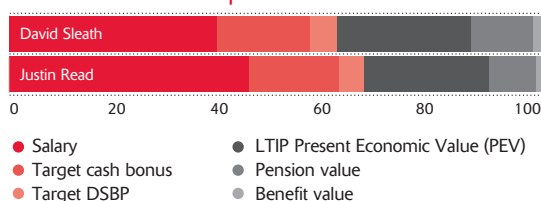
During 2011, the Chief Executive together with the senior management team, undertook a review of the Company's strategy and alongside the process, the Committee, working with its advisors, reviewed the remuneration structure to ensure that the incentive arrangements are aligned with the strategic priorities. In early 2012, the Chairman of the Committee consulted with a number of major shareholders, holding approximately 50 per cent of the Company's issued share capital, and two shareholder representative bodies, ABI and RREV, on the Committee's proposed changes to the long-term incentive arrangements as well as providing information on salary increases and new performance conditions for the annual Bonus Scheme. The feedback from the consultation was helpful and constructive and assisted the Committee to simplify its proposals. Shareholders were broadly supportive of the proposals which included extending the vesting period for awards made under the LTIP from three to four years and to change the performance conditions to relative Total Property Return (TPR) and relative Total Shareholder Return (TSR).

As set out on pages 12 and 13, the Group's KPIs have been refined to reflect what the Company considers are the more appropriate measures of performance. Included in the KPIs are TPR and TSR, both of which are consistent with the execution of the Company's strategy. The 2012 Bonus Scheme will be based on profit, TPR and personal objectives. Going forward, LTIP awards will be based on TPR and TSR performance conditions.

In order to further align the interests of the shareholders with those of Executive Directors, the Committee has an approved policy where Executive Directors are expected to build a shareholding in the Company equivalent to one times the value of their annual salary within five years of being appointed to the Board. The Chief Executive is expected to hold shares equivalent to the value of one-and-a-half times his annual salary.

Chart 1 summarises the relative proportions of remuneration, utilising target levels (not maximum levels) of LTIP and annual bonus, and indicates their relative importance.

**Chart 1 Relative Proportions of Remuneration**



## REVIEW OF EXECUTIVE REMUNERATION

### Salary and Benefits

Full details of the remuneration paid to David Sleath and Justin Read are set out in the table on page 71. The Committee has decided that there will be no base salary increase for David Sleath and Justin Read in 2012.

The Executive Directors receive life assurance, private medical insurance and a cash allowance in lieu of a company car.

### Bonus Scheme and the DSBP

The Bonus Scheme extends to all employees and is operated on an annual basis. To ensure absolute clarity is maintained on delivering business performance, the financial elements of the 2011 Bonus Scheme were common for all employees. In 2011, the three equally weighted targets were based on a combination of EPRA Profit Before Tax (PBT) (or Profit before Interest and Tax for certain executives), Rent Roll Growth (RRG) and stretching personal objectives centred on the achievement of measurable business targets. RRG was selected for its link to future income (short-term deals are excluded from the calculation) and PBT was selected as it supports a sustainable dividend strategy. The personal objectives are aimed at driving and rewarding superior individual performance. Achievement of the PBT and RRG elements were measured against the budget, adjusted for certain events and structured to reward performance in excess of budget. In 2011 these two bonus targets were achieved at their full stretch target. As set out in the Chief Executive's Report, the Group reported strong operational performance for the year. EPRA profit before tax was up 8.8 per cent year on year and exceeded the budget target required for maximum bonus achievement. The Group's contracted rent roll increased by £17.4 million in 2011 (2010: £13.4 million) and exceeded the budget target for maximum bonus achievement.

The 2012 Bonus Scheme is again common for all employees and is based on three equally weighted targets. The PBT target has been retained, while the RRG has been replaced by a relative TPR target, which will be measured against an appropriate IPD benchmark. The Committee considers relative TPR to be the best and most important internal driver of the Company's TSR. The third element is based on an individual year-end performance rating, including the achievement of stretching personal objectives. Personal objectives include targets such as the key drivers of TPR as well as broader targets based on strategy implementation.

The DSBP was introduced for the Executive Directors and senior managers below Board level in 2010. Twenty-five per cent of any payment due under the Bonus Scheme is deferred in shares in the DSBP and held in trust for a period of three years before vesting. There are no further performance conditions attaching to the shares, although vesting is subject to participants continued employment or good leaver status. Awards under the DSBP vest at the discretion of the Committee and the DSBP rules contain claw back provisions in the event of misstatement or misconduct. The Committee is committed to operating the DSBP for future bonus payments.

Further details of the Bonus Scheme including the DSBP are provided in Chart 7.

### FEATURES OF THE CURRENT LTIP

The LTIP is the principal long-term incentive for Executive Directors and senior managers. Awards are made annually on the basis of salary and individual performance. For the 2009, 2010 and 2011 awards, vesting is subject to the achievement of stretching three-year TPR and earnings per share (EPS) performance conditions and the approval of the Committee. Details of LTIP awards granted to the Executive Directors are set out on page 73.

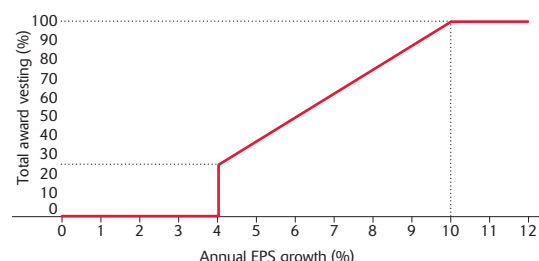
The performance conditions of the current LTIP are detailed in Charts 3 and 4. For the current awards, TPR was selected for its close alignment to shareholder value, and this is measured against the IPD UK Industrial Index as it is independent and provides a measure of the Company's property portfolio performance relative to other UK industrial property investments. EPS was chosen as a performance condition as it underpins the delivery of earnings to shareholders. Adjusted diluted EPS is calculated according to the applicable European Public Real Estate Association (EPRA) guidelines, excluding valuation gains/losses and exceptional items. Actual performance for EPS is calculated from the published figures in the Annual Report. These calculations are reviewed by the auditor and are approved by the Committee. The Committee retains the discretion to withhold vesting of awards, should such payments be deemed inappropriate.

**Chart 2 Components of Executive Remuneration**

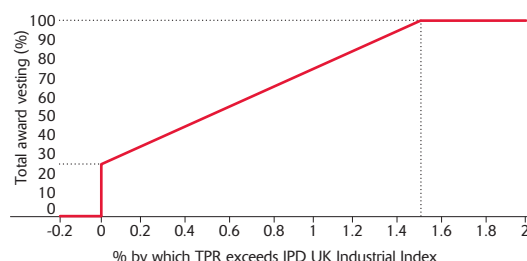
Component	Purpose
Salary	To retain and motivate high-calibre individuals and recognise their skills, experience and contribution to Group performance.
Bonus Scheme including the DSBP	To incentivise the Directors and senior managers to strive for superior performance and focus them on delivery of particular targets during the year, in particular on income generation to support the delivery of a sustainable dividend and total property return. The DSBP is to retain key managers and provide a long-term link between the Bonus Scheme and share price growth and to prevent short-term behaviour.
LTIP	To drive long-term returns for shareholders and to retain senior managers.
Pension and benefits	To create a remuneration package that is competitive with that of peer companies.

## CURRENT LTIP PERFORMANCE CONDITIONS

**Chart 3**  
LTIP EPS Performance Thresholds

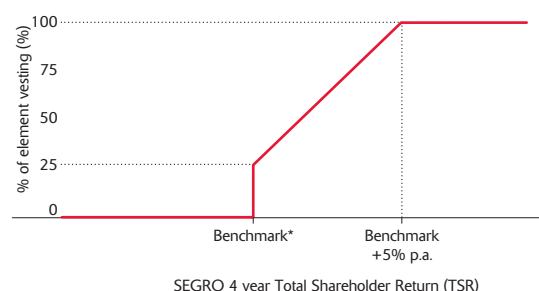


**Chart 4**  
LTIP TPR Relative Performance Thresholds

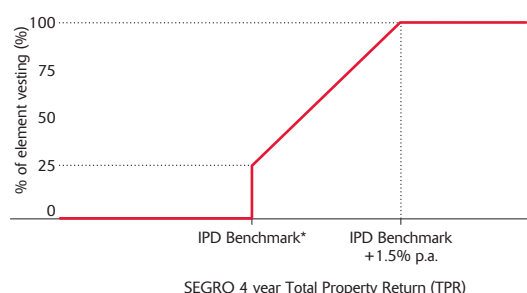


## PROPOSED LTIP PERFORMANCE CONDITIONS

**Chart 5**  
LTIP Relative TSR Vesting Schedule



**Chart 6**  
LTIP Relative TPR Vesting Schedule



## PROPOSED CHANGES TO LTIP

Subject to shareholder approval at the AGM, the performance period for the 2012 awards and beyond will be increased from three to four years to reflect more closely the time horizon for value creation in line with the Company's recently announced strategy. The performance targets will be 50 per cent relative TSR, to strengthen shareholder alignment and 50 per cent relative TPR as the Committee considers this to be the best and most important internal driver of the Company's TSR. It is proposed to set the normal LTIP grant size for the Executive Directors at 200 per cent of salary. This proposal will leave the fair value of total remuneration for SEGRO's Executive Directors between lower quartile and median relative to property companies (adjusted for size) and UK-listed companies of similar FTSE rank.

Relative TSR vesting will depend on the Company's four-year TSR percentage outperformance of a benchmark based on the weighted mean TSR of other FTSE350 REITs. If the Company's four-year TSR is in line with benchmark TSR, 25 per cent of the award will vest, increasing on a straight-line basis to full vesting if the Company's four-year TSR exceeds benchmark TSR by five per cent per annum. Relative TPR vesting will depend on the Company's four-year TPR outperformance of a blended IPD benchmark based on UK/European Industrials weighted to reflect the broad geographical mix of the Group's property portfolio (split 80/20 for the first cycle). The calculation, like the IPD benchmark, will exclude land. As well as being appropriate to ensure consistency with the IPD benchmark, the Committee does not want to disincentivise the senior management team from bringing forward proposals to acquire land in the future, since development is an important element of the Group's

ongoing strategy. Performance in line with the IPD benchmark will result in 25 per cent of the award vesting, rising on a straight-line basis to full vesting if the Company's four-year TPR exceeds the IPD benchmark by at least 1.5 per cent per annum over four years. The performance conditions of the proposed LTIP are detailed in Charts 5 and 6.

The Committee retains the discretion to downwardly adjust unvested incentive awards, if it is not satisfied that the outcome is a fair reflection of underlying performance or in the event of excessive risk-taking or misstatement.

The proposed lengthening of the LTIP performance period from three to four years, would ordinarily result in there being no potential LTIP vesting in 2015. To avoid this, the Committee is proposing to make two reduced awards following the 2012 AGM, a 2012 LTIP award and a LTIP Transitional award, each based on the normal LTIP grant size reduced by 25 per cent. The LTIP Transitional award will vest on three-year performance in part to fill the gap in potential long-term incentive vesting in 2015, whilst the 2012 LTIP (and subsequent awards) will vest on four-year performance. The same performance targets will apply to both awards. These arrangements have been designed so that the overall expected cost (on an accrual basis) to the Company of the LTIP is broadly the same.

In the event of a change of control of the Company, in consultation with the Committee, the Employee Benefit Trust has the discretion to determine whether, and the extent to which, awards under the LTIP vest. Financial performance and institutional guidelines will be taken into account in exercising this discretion.

**Chart 7 Conditions for performance-related pay**

Scheme	Year of allocation	Maximum allocation	Performance conditions and weighting	Performance period
Bonus Scheme including DSBP	2012	Chief Executive – up to 120% of salary Finance Director – up to 100% of salary	33% PBT against the 2012 budget. 33% Relative TPR against the IPD benchmark. 34% individual performance rating.	Based on performance during the 2012 financial year. Bonus is paid following approval of the year-end results and is subject to a 25% deferral into the DSBP for three years. There are no performance conditions during the holding period, save for continued employment but claw back provisions apply.
LTIP	2009, 2010 and 2011 Awards (three-years)	Chief Executive – up to 175% of salary. Other Executive Directors – up to 140% of salary	60% EPS and 40% TPR.  EPS – Shares vest on a straight-line basis between 25% and 100% of the allocation, based on a minimum adjusted diluted EPS growth per annum of 4%. 100% of the allocation vesting on achievement of adjusted diluted EPS growth of 10% per annum.  TPR – Shares under this part of the allocation vest on a straight-line basis between 25% and 100% of the allocation. 25% of the allocation vesting where TPR is equal to the IPD UK Industrial Index and 100% of the allocation vesting where TPR is 1.5% per annum above the IPD UK Industrial Index.	Measured over three financial years.
LTIP	2012 LTIP Award (four-years)	Executive Directors – 150% of salary	TSR – benchmark based on the weighted mean TSR of other FTSE350 REITs. 25% of this element vests if the Company's four-year TSR is in line with benchmark TSR, rising on a straight-line basis to 100% vesting if the benchmark is exceeded by 5% per annum.  TPR – IPD benchmark based on UK/European Industrials weighted to reflect the geographical mix of the Group's portfolio (80/20 for the first cycle). 25% of this element vests if the Company's four year TPR is in line with the IPD benchmark, rising on a straight-line basis to 100% if the IPD benchmark is exceeded by at least 1.5% per annum.	Measured over four financial years.
	2012 Transitional Award (three-years)	Executive Directors – 150% of salary	Performance condition as set out above but will be measured over a three-year period.	Measured over three financial years.

### Sharesave

All UK employees including the Executive Directors are eligible to participate in Sharesave.

Sharesave is an HMRC-approved all-employee savings-related share option plan. All UK employees can save on a monthly basis, over a three-year or five-year period, to purchase shares in the Company, at a price which is set at the beginning of the saving period. This price is usually set at a 20 per cent discount to the market price.

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

UK employees may participate in the SIP, which is an HMRC-approved all-employee share plan. Eligible employees are awarded shares not only in relation to their salary, but also by reference to the Company's prior-year performance. Participating employees may be awarded shares annually up to a maximum of seven per cent of gross annual salary or £3,000, whichever is the lower. In 2011, up to five per cent of gross salary was awarded in shares. The Executive Directors' holdings under the SIP are included in the table showing Directors' interests in shares on page 72.

The GSIP is designed on a similar basis to the SIP but is not HMRC-approved and is operated for non-UK based employees.

### Pension and Retirement Benefits

Ian Coull and David Sleath were, until 31 March 2011 and 17 April 2011 respectively, members of the defined benefit section of the SEGRO Pension Scheme (the SEGRO Scheme) which is registered with the HMRC and the Pensions Regulator. It is contracted out of the State Second Pension. Benefits under the SEGRO Scheme for members are generally subject to 'Deemed Revenue Limits', that mirror the HMRC limits which existed before 6 April 2006, with an allowance for notional increases. For 2011/12 this was £129,600.

Ian Coull's pension benefits were put into payment on 31 March 2011. On retirement, he was entitled to a pension of up to two-thirds of his final salary less any retained benefits from previous employment. Part of his benefit was met by the SEGRO Scheme, which provided a lump sum of £79,490 and a pension which is now in payment of £11,924 per annum. The remainder of his pension benefits were provided by an Unfunded Unapproved Retirement Benefits Scheme (UURBS). The value of this unapproved benefit promise was calculated using assumptions which were consistent with those used for the SEGRO Scheme. On retirement he elected to take a cash payment of £3,783,387. The Company does not have any further liability in respect of the UURBS. These pension payments were in line with his contractual entitlement, as calculated by Aon Hewitt Limited, and were not enhanced by the Company.

David Sleath left the SEGRO Scheme with effect from 17 April 2011. The figures on the table on page 74 reflect the benefits built up over the period to that date. In lieu of further pension accrual beyond 17 April 2011, David Sleath receives a salary supplement equal to 30 per cent of salary.

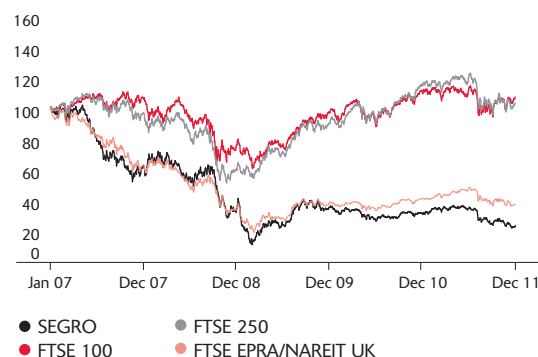
Ian Sutcliffe participated in the defined contribution section of the SEGRO Scheme on the same basis as other UK employees. The Company made a contribution of 12 per cent of his pensionable salary subject to a cap of £129,600. In addition, he received a cash supplement of 26 per cent of salary with which he may have supplemented his pension.

Justin Read does not participate in the Company's pension schemes. He receives a cash supplement of 20 per cent of base salary in lieu of a pension.

### Total Shareholder Return

Chart 8 below shows total shareholder return for the Company for each of the last five financial years compared to the FTSE 100 Index, the FTSE 250 Index and the FTSE EPRA / NAREIT UK Index. The Company is a constituent of the FTSE 250 Index. The Committee has determined that the FTSE EPRA / NAREIT UK Index is an appropriate index as a number of the Company's peers in the property sector are constituents and as such it provides a good indication of relative performance.

**Chart 8 Total Shareholder Return – value of a hypothetical £100 holding of shares**



### **POLICY ON EXECUTIVE DIRECTORS' EXTERNAL APPOINTMENTS**

With the support of the Chairman and Chief Executive, the Executive Directors are permitted to take one non-executive directorship outside the Group as these roles can broaden the experience brought to the Board. Executive Directors may retain fees for external appointments. During the year, David Sleath held a non-executive appointment at Bunzl plc. Ian Coull was a non-executive director of the London Regional Board of RSA. Having announced his forthcoming retirement as Chief Executive in April 2011, the Board gave its approval for him to accept non-executive directorships at Galliford Try plc and Pendragon PLC. Ian Sutcliffe was a non-executive director of Ashted Group plc. Details of the fees paid in respect of these appointments are disclosed on page 72.

### **POLICY ON SERVICE CONTRACTS**

#### **Executive Directors**

The contracts are on a 12-month rolling basis and do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. In determining compensation, it will take into account the best practice provisions of the UK Corporate Governance Code and will take legal advice on the Company's liability to pay compensation.

#### **Non-Executive Directors**

The Chairman and the Non-Executive Directors have letters of appointment, which set out their duties and anticipated time commitment to the Company. They are required to disclose any changes to their other significant commitments to the Board. The Non-Executive Directors are appointed for an initial term of three years. The appointments may be extended for further three-year periods on the recommendation of the Nomination Committee and subject to the Board's agreement. The Non-Executive Directors' letters of appointment contain a three-month notice period and the Chairman's contains a six-month notice period.

The fees payable to Non-Executive Directors are set by reference to those paid by other companies and the time commitment and responsibilities of the role. The Remuneration Committee's advisors provide the Board with data on Non-Executive fees. In 2010, the fees paid to the Non-Executive Directors were reviewed by the Board in the absence of the Non-Executive Directors and that of the Chairman was reviewed by the Committee. Neither the Chairman nor the Non-Executive Directors were involved in the setting of their own remuneration.

The Chairman and Non-Executive Directors do not participate in any of the Company's share-based incentive schemes nor do they receive any other benefits or rights under the pension schemes. The letters of appointment of Non-Executive Directors and service contracts of Executive Directors are available for inspection at the Company's registered office.

### **Chart 9 Dates of appointment and contractual notice periods**

The dates of appointment and the contractual notice periods are set out in the following table:

Name	Date of appointment	Notice period
Nigel Rich	1 July 2006	6 months
David Sleath	1 January 2006	12 months by the Company 6 months by the Director
Justin Read	30 August 2011	12 months by the Company 6 months by the Director
Andrew Palmer	28 January 2004	3 months
Chris Peacock	28 January 2004	3 months
Mark Robertshaw	1 June 2010	3 months
Doug Webb	1 May 2010	3 months
Thom Wernink	23 May 2005	3 months

## AUDITED INFORMATION

### Directors' emoluments 2011

Name	Salary/ fees £000	Payments in lieu of pension £000	Benefits <sup>1</sup> £000	Bonus cash £000	DSBP value of shares £000	Total 2011 £000	Total 2010 £000
<b>Chairman</b>							
Nigel Rich	250	–	–	–	–	250	228
<b>Executive Directors</b>							
Ian Coull <sup>2</sup>							
Chief Executive	192	–	23	149	–	364	1,304
David Sleath	498	110	21	468	156	1,253	870
Ian Sutcliffe <sup>3</sup>	540 <sup>4</sup>	135	37	97	–	809	1,080
Justin Read <sup>5</sup>	116	23	7	87	29	262	–
Andrew Palmer							
Senior Independent Director	65	–	–	–	–	65	56
Chris Peacock							
Chairman of the Remuneration Committee	60	–	–	–	–	60	51
Mark Robertshaw	53	–	–	–	–	53	28
Doug Webb							
Chairman of the Audit Committee	60	–	–	–	–	60	36
Thom Wernink	53	–	–	–	–	53	47
<b>Total</b>	<b>1,887</b>	<b>268</b>	<b>88</b>	<b>801</b>	<b>185</b>	<b>3,229</b>	<b>3,700</b>

1 Benefits include private medical healthcare, life assurance, cash allowance in lieu of a company car and accrued holiday pay for leavers.

2 Ian Coull retired from the Board on 28 April 2011.

3 Ian Sutcliffe resigned from the Board on 28 April 2011.

4 Ian Sutcliffe's salary included a £60,000 redundancy payment.

5 Justin Read was appointed to the Board on 30 August 2011.

## FEES RECEIVED BY EXECUTIVE DIRECTORS IN RESPECT OF EXTERNAL APPOINTMENTS

	Company	Date of appointment	Fees (£)
Ian Coull <sup>1</sup>	The London Regional Board of RSA	1 May 2001	420
	Galliford Try plc	8 November 2010	12,931
	Pendragon PLC	1 December 2010	11,315
David Sleath	Bunzl plc	1 September 2007	71,000
Ian Sutcliffe <sup>2</sup>	Ashted Group plc	7 September 2010	13,333

1 Fees paid to date of retirement from the Board on 28 April 2011.

2 Fees paid to date of resignation from the Board on 28 April 2011.

## DIRECTORS' INTERESTS IN SHARES

The interests of the Directors and their immediate families in the ordinary shares of the Company at 1 January 2011 and 31 December 2011 were:

	Beneficial interests <sup>1</sup>	
	31.12.11 Ordinary 10p shares	01.01.11 Ordinary 10p shares
Number of Ordinary Shares		
Nigel Rich <sup>2</sup>	110,208	96,708
Ian Coull	328,006 <sup>3</sup>	328,006
Andrew Palmer	8,458	5,458
Chris Peacock	11,787	11,787
Justin Read	10,186 <sup>4</sup>	–
Mark Robertshaw	8,000	–
David Sleath	145,925	72,885
Ian Sutcliffe	1,054 <sup>5</sup>	1,054
Doug Webb	15,300	3,300
Thom Wernink	20,000	20,000

1 Beneficial interests in the table above represent shares beneficially held by each Director (as at date of joining or leaving the Company, where appropriate). This includes any ordinary shares held on behalf of the Executive Directors by the Trustees of the SIP and shares owned by spouses. Between 31 December 2011 and 20 February 2012 there were no changes in respect of the Directors' shareholdings. As at 31 December 2011, 864,590 shares (2010: 1,186,801 shares) were held by the Trustees of the 1994 SEGRO plc Employees' Benefit Trust. As at 20 February 2012, 864,590 shares were held by this Trust. The Trustees of the SIP held non-beneficial interest in 212,792 and 113,304 shares as at 31 December 2011 and 1 January 2011 respectively. 208,002 shares were held as at 20 February 2012. As with other employees, the Directors are deemed to have a potential interest in these shares, being beneficiaries under the trusts.

2 Nigel Rich has a technical interest, not disclosed in the table above, in 5,302 shares as a result of a trusteeship he holds; he has no voting rights over these shares.

3 As at date Ian Coull retired from the Board on 28 April 2011.

4 Justin Read was appointed to the Board on 30 August 2011.

5 As at date Sutcliffe resigned from the Board on 28 April 2011.

## DEFERRED SHARE BONUS PLAN

Name	Bonus Award	Date of grant	Number of shares under award 01.01.11	Share price of shares on grant (pence)	Number of shares under award 31.12.11	End of holding period
Ian Coull <sup>1</sup>	2010	01.04.11	–	321.5	52,201	31.03.14
David Sleath	2010	01.04.11	–	321.5	32,531	31.03.14
Ian Sutcliffe <sup>2</sup>	2010	01.04.11	–	321.5	35,010	31.03.14

1 Ian Coull retired from the Board on 28 April 2011.

2 Ian Sutcliffe resigned from the Board on 28 April 2011.

## LTIP

Name	No. of shares under award 01.01.11	No. of shares lapsed/not released	No. of shares over which awards granted	Share price of shares on grant (pence)	No. of shares released	Share price of shares on date of release (pence)	No. of shares under award 31.12.11	End of performance period over which performance conditions have to be met
<b>Ian Coull<sup>1</sup></b>								
30.06.08 LTIP	166,139	125,343	–	706.61	40,796	309.73	–	31.12.10
20.10.09 LTIP	209,090	–	–	380.10	–	–	209,090	31.12.11
28.04.10 LTIP	319,748	–	–	314.70	–	–	319,748	31.12.12
<b>Total</b>	<b>694,977</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>528,838</b>	
<b>David Sleath</b>								
30.06.08 LTIP	86,147	63,749	–	706.61	22,398	309.73	–	31.12.10
20.10.09 LTIP	156,363	–	–	380.10	–	–	156,363	31.12.11
28.04.10 LTIP	191,293	–	–	314.70	–	–	191,293	31.12.12
29.03.11 LTIP	–	–	274,675	331.30	–	–	274,675	31.12.13
<b>Total</b>	<b>433,803</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>622,331</b>	
<b>Ian Sutcliffe<sup>2</sup></b>								
30.06.08 LTIP	50,633	–	–	706.61	50,633	329.70	–	31.12.10
30.06.08 LTIP	118,144	89,134	–	706.61	29,010	309.73	–	31.12.10
20.10.09 LTIP	124,675	–	–	380.10	–	–	124,675	31.12.11
28.04.10 LTIP	213,536	–	–	314.70	–	–	213,536	31.12.12
<b>Total</b>	<b>506,988</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>338,211</b>	
<b>Justin Read<sup>3</sup></b>								
31.08.11 LTIP	–	–	187,106	254.40	–	–	187,106	31.12.13
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>187,106</b>	

1 As a good leaver, Ian Coull's 2008 LTIP holding of 166,139 shares was reduced pro rata to reflect the proportion of the vesting period during which he was employed, of which 26% vested on performance.

2 As part of the terms agreed in respect of the appointment of Ian Sutcliffe, he was awarded shares under the 2008 LTIP award to the value of 200% of his salary, a proportion of which were not subject to performance conditions. Following the adjustments in respect of the rights issue and the share consolidation in 2009, 118,144 shares were subject to the performance conditions described above and the remaining 50,633 were not subject to any performance conditions. When Ian Sutcliffe left the Company, the 50,633 non-performance shares were released and of the remaining 118,144 shares, once reduced pro rata to reflect the proportion of the vesting period during which he was employed, 29,010 vested on performance.

3 Justin Read was appointed to the Board on 30 August 2011.

## CORPORATE GOVERNANCE REMUNERATION REPORT CONTINUED

### SHARESAVE OPTIONS

Name	No. of shares under option 01.01.11	Options granted during the year	Date of grant	Option price (pence)	Options exercised during the year	Options lapsed during the year	No. of shares under option at 31.12.11 <sup>1</sup>	Period in which options can be exercised
Ian Coull <sup>2</sup>	5,027	–	19.05.09	182.0	3,175	1,852	–	Exercised on 31.05.11
David Sleath	8,598	–	19.05.09	182.0	–	–	8,598	01.06.14–31.12.14
Ian Sutcliffe <sup>3</sup>	5,027	–	19.05.09	182.0	3,312	1,715	–	Exercised on 16.05.11

1 Between 31 December 2011 and 20 February 2012 there were no changes in these holdings.

2 Ian Coull retired from the Board on 28 April 2011.

3 Ian Sutcliffe resigned from the Board on 28 April 2011.

The total aggregate gains made on the exercise of options during the year was £8,948.94.

The market price of the shares as at 30 December 2011 was 208.5 pence. The highest and lowest market prices of ordinary shares during the financial year were 331.3 pence and 195.0 pence.

### DEFINED BENEFIT SCHEMES

Name	Additional accrued pension earned in the year £ p.a.	Accrued pension at 31.12.11 £ p.a.	Transfer value at 31.12.10 £	Transfer value at 31.12.11 £	Increase in transfer value less Directors' contributions £
Ian Coull					(See page 69)
David Sleath	10,892	72,020	837,391	1,173,968	328,807

Transfer values have been calculated in accordance with the SEGRO Scheme transfer value basis applicable at relevant dates. They do not represent sums payable to individual Directors. 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.

Name	Additional accrued pension in the year £ p.a.	Transfer value of increase in accrued pension less Directors' contributions £
Ian Coull <sup>1</sup>		(See page 69)
David Sleath <sup>2</sup>		8,997 138,538

The values given exclude the effect of inflation from their calculation.

1 Ian Coull retired from the Board on 28 April 2011.

2 David Sleath left the SEGRO pension scheme with effect from 17 April 2011.

### DEFINED CONTRIBUTION SCHEMES

Name	Company contributions £
Ian Sutcliffe	£5,004

Ian Sutcliffe resigned from the Board on 28 April 2011.

### PENSION ENTITLEMENT IN THE EVENT OF SEVERANCE

There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

### FORMER DIRECTORS

Richard Kingston, a former Director, is a Company nominated Trustee of the SEGRO Scheme. He receives an annual fee from the Company of £15,000 (2010: £15,000). Ex gratia payments for former Directors and their dependants totalled £56,470 (2010: £63,220).

This report was approved by the Board on 20 February 2012 and signed on its behalf by

**CHRIS PEACOCK**  
CHAIRMAN OF THE REMUNERATION COMMITTEE

20 February 2012

## OTHER STATUTORY INFORMATION

### SHARE CAPITAL

The issued share capital for the year is set out on page 107.

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 and all shares are fully paid.

### DIVIDENDS

Subject to approval by shareholders at the AGM, a final dividend of 9.9 pence per share will be paid (2010: 9.6 pence) bringing the total dividend for 2011 to 14.8 pence (2010: 14.3 pence). The final dividend will be paid 7.0 pence as a PID and 2.9 pence as an ordinary cash dividend.

The ex-dividend date for the final dividend will be 21 March 2012, the record date will be 23 March 2012 and the payment date will be 4 May 2012.

### CHANGE OF CONTROL

#### Contracts and joint-venture agreements

There are a number of contracts and joint-venture agreements which could allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

#### Borrowings and other financial instruments

The Group has a number of borrowing facilities provided by various lenders. These facilities generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facilities upon the occurrence of a change of control of the Company.

#### Employee share plans

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on change of control of the Company, in accordance with the rules of the plans.

### AUDITOR TO THE COMPANY

A resolution to re-appoint Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

### 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 appointment of the Directors of the Company do not provide for compensation for the loss of office that occurs because of takeover.

### 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. The Group's trade creditors as a proportion of amounts invoiced by suppliers by 700P47504 sLs N4

## CORPORATE GOVERNANCE

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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
- 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 that they face.

By order of the Board

**DAVID SLEATH**  
CHIEF EXECUTIVE

20 February 2012

**JUSTIN READ**  
FINANCE DIRECTOR

20 February 2012

## FINANCIAL STATEMENTS

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEGRO PLC

We have audited the financial statements of SEGRO plc for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Financial Review in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration

**MARK BEDDY**  
SENIOR STATUTORY AUDITOR

For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, UK

20 February 2012

**FINANCIAL STATEMENTS**  
**GROUP INCOME STATEMENT**  
For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
<b>Revenue</b>	3	<b>400.1</b>	433.6
Gross rental income	3	326.1	344.6
Property operating expenses	4	(54.9)	(62.5)
<b>Net rental income</b>		<b>271.2</b>	282.1
Joint venture management fee income		5.9	1.9
Administration expenses	5	(32.1)	(39.2)
Share of profit from joint ventures after tax	6	26.6	41.9
Realised and unrealised property (loss)/gain	7	(271.4)	25.9
Loss on sale of investment in joint ventures	6	–	(0.5)
Other investment income	8	2.4	5.8
Amounts written off on acquisitions	9	(0.2)	(13.9)
<b>Operating profit</b>		<b>2.4</b>	304.0
Finance income	10	115.3	55.8
Finance costs	10	(171.3)	(162.6)
<b>(Loss)/profit before tax</b>		<b>(53.6)</b>	197.2
Tax	11	23.0	11.1
<b>(Loss)/profit after tax</b>		<b>(30.6)</b>	208.3
Attributable to equity shareholders		(30.4)	210.3
Attributable to non-controlling interests		(0.2)	(2.0)
		(30.6)	208.3
<b>Earnings per share</b>			
Basic and diluted (loss)/earnings per share	13	(4.1)p	28.5p

**GROUP STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
(Loss)/profit for the year		(30.6)	208.3
<b>Other comprehensive income</b>			
Foreign exchange movement arising on translation of international operations		(10.6)	(17.6)
Valuation (deficit)/surplus on owner occupied properties	7	(0.4)	0.1
Actuarial loss on defined benefit pension schemes	21	(8.4)	(0.1)
Increase in value of available-for-sale investments		1.4	4.5
Fair value movements on derivatives in effective hedge relationships		4.7	1.3
Tax on items taken directly to equity		–	–
Net loss recognised directly in equity		(13.3)	(11.8)
Transfer to income statement on sale of available-for-sale investments		(2.1)	(3.3)
Transfer to income statement on close out of effective hedge relationships		2.7	–
<b>Total comprehensive (loss)/profit for the year</b>		<b>(43.3)</b>	193.2
Attributable to equity shareholders		(43.1)	195.2
Attributable to non-controlling interests		(0.2)	(2.0)
<b>Total comprehensive (loss)/profit for the year</b>		<b>(43.3)</b>	193.2

## BALANCE SHEETS

As at 31 December 2011

	Notes	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill and other intangibles		1.5	1.7	–	–
Investment properties	14	4,316.6	4,498.3	–	–
Owner occupied properties		6.5	7.8	–	–
Plant and equipment		5.8	7.3	1.8	1.8
Investments in subsidiaries	6	–	–	5,251.2	5,626.2
Investments in joint ventures	6	298.8	279.8	–	–
Finance lease receivables	15	8.2	8.5	–	–
Available-for-sale investments	16	18.3	26.8	–	3.4
Trade and other receivables	17	114.8	30.8	114.5	30.6
		4,770.5	4,861.0	5,367.5	5,662.0
<b>Current assets</b>					
Trading properties	14	261.4	289.9	–	–
Trade and other receivables	17	140.6	102.0	52.4	18.9
Cash and cash equivalents	19	21.2	44.6	0.9	7.3
		423.2	436.5	53.3	26.2
<b>Total assets</b>		<b>5,193.7</b>	<b>5,297.5</b>	<b>5,420.8</b>	<b>5,688.2</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	19	2,296.9	2,177.9	2,244.4	2,123.6
Deferred tax provision	11	25.2	47.9	–	–
Provisions		11.1	15.2	7.1	12.4
Trade and other payables	18	29.4	22.0	932.0	844.7
		2,362.6	2,263.0	3,183.5	2,980.7
<b>Current liabilities</b>					
Trade and other payables	18	223.8	227.5	36.8	38.5
Borrowings	19	27.7	69.9	11.8	11.9
Tax liabilities		21.9	28.1	4.9	6.5
		273.4	325.5	53.5	56.9
<b>Total liabilities</b>		<b>2,636.0</b>	<b>2,588.5</b>	<b>3,237.0</b>	<b>3,037.6</b>
<b>Net assets</b>		<b>2,557.7</b>	<b>2,709.0</b>	<b>2,183.8</b>	<b>2,650.6</b>
<b>Equity</b>					
Share capital	22	74.2	74.2	74.2	74.2
Share premium	23	1,069.5	1,069.5	1,069.5	1,069.5
Capital redemption reserve		113.9	113.9	113.9	113.9
Own shares held	24	(10.2)	(13.3)	(10.2)	(13.3)
Revaluation reserve		(0.6)	0.2	–	–
Other reserves		189.2	194.9	218.5	219.6
Retained earnings		1,119.5	1,270.9	717.9	1,186.7
<b>Total shareholders' equity</b>		<b>2,555.5</b>	<b>2,710.3</b>	<b>2,183.8</b>	<b>2,650.6</b>
Non-controlling interests		2.2	(1.3)	–	–
<b>Total equity</b>		<b>2,557.7</b>	<b>2,709.0</b>	<b>2,183.8</b>	<b>2,650.6</b>
<b>Net assets per ordinary share</b>					
Basic and diluted	13	345p	366p		

The financial statements of SEGRO plc (registered number 167591) on pages 78 to 112 were approved by the Board of Directors and authorised for issue on 20 February 2012 and signed on its behalf by:

DJR Sleath	JR Read
Director	Director



	Balance 1 January 2011 £m	Retained loss £m	Items taken directly to reserves £m	Shares issued £m	Other £m	Dividends £m	Balance 31 December 2011 £m
<b>COMPANY</b>							
Ordinary share capital	74.2	–	–	–	–	–	74.2
Share premium	1,069.5	–	–	–	–	–	1,069.5
Capital redemption reserve	113.9	–	–	–	–	–	113.9
Own shares held	(13.3)	–	–	–	3.1	–	(10.2)
Other reserves:							
Share based payments reserve	2.9	–	–	–	(0.9)	–	2.0
Translation and other reserves	47.6	–	–	–	(0.2)	–	47.4
Merger reserve	169.1	–	–	–	–	–	169.1
Total other reserves	219.6	–	–	–	(1.1)	–	218.5
Retained earnings	1,186.7	(354.6)	(5.5)	–	(1.3)	(107.4)	717.9
<b>Total equity attributable to equity shareholders</b>	<b>2,650.6</b>	<b>(354.6)</b>	<b>(5.5)</b>	<b>–</b>	<b>0.7</b>	<b>(107.4)</b>	<b>2,183.8</b>

For the year ended 31 December 2010

	Balance 1 January 2010 £m	Retained profit £m	Items taken directly to reserves £m	Shares issued £m	Other £m	Dividends £m	Balance 31 December 2010 £m
<b>COMPANY</b>							
Ordinary share capital	73.5	–	–	0.7	–	–	74.2
Share premium	1,047.6	–	–	21.9	–	–	1,069.5
Capital redemption reserve	113.9	–	–	–	–	–	113.9
Own shares held	(13.5)	–	–	–	0.2	–	(13.3)
Other reserves:							
Share based payments reserve	1.2	–	–	–	1.7	–	2.9
Translation and other reserves	47.4	–	0.2	–	–	–	47.6
Merger reserve	169.1	–	–	–	–	–	169.1
Total other reserves	217.7	–	0.2	–	1.7	–	219.6
Retained earnings	1,259.2	33.0	(1.5)	–	(0.2)	(103.8)	1,186.7
<b>Total equity attributable to equity shareholders</b>	<b>2,698.4</b>	<b>33.0</b>	<b>(1.3)</b>	<b>22.6</b>	<b>1.7</b>	<b>(103.8)</b>	<b>2,650.6</b>

**FINANCIAL STATEMENTS**  
**CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>Cash flows from operating activities</b>	29	<b>239.0</b>	<b>244.9</b>	<b>(6.9)</b>	<b>(26.5)</b>
Interest received		50.6	16.4	184.5	160.4
Dividends received		10.4	8.8	258.1	182.3
Interest paid		(170.9)	(157.5)	(163.7)	(143.0)
Tax paid		(4.9)	(6.0)	–	(0.3)
<b>Net cash received from operating activities</b>		<b>124.2</b>	<b>106.6</b>	<b>272.0</b>	<b>172.9</b>
<b>Cash flows from investing activities</b>					
Purchase and development of investment properties		(187.1)	(61.1)	–	–
Sale of investment properties		79.9	385.7	–	–
Purchase of plant and equipment		(1.9)	(2.8)	–	(0.2)
Purchase of available-for-sale investments		(1.6)	(6.3)	–	(3.2)
Sale of available-for-sale investments		11.8	13.1	3.2	–
Additional net investment in subsidiary undertakings		–	–	(365.1)	(125.2)
Loan advances repaid by/(to) subsidiary undertakings		–	–	70.5	(282.1)
Sale of investment in joint ventures		–	11.3	–	0.2
Investment in joint ventures		(15.6)	(195.4)	(15.6)	–
Net (increase)/decrease in loans to joint ventures		(0.3)	1.9	14.0	4.3
Purchase of minority interest		(0.4)	–	–	–
<b>Net cash (used in)/received from investing activities</b>		<b>(115.2)</b>	<b>146.4</b>	<b>(293.0)</b>	<b>(406.2)</b>
<b>Cash flows from financing activities</b>					
Dividends paid to ordinary shareholders		(107.4)	(82.8)	(107.4)	(82.8)
Proceeds from new bonds		–	–	–	682.0
Repayment of bonds		–	(142.3)	–	(400.4)
Net increase/(decrease) in other borrowings		78.3	(118.3)	130.1	–
Net settlement of foreign exchange derivatives		(8.1)	23.4	(8.1)	23.4
Proceeds from the issue of ordinary shares		–	0.1	–	0.1
<b>Net cash (used in)/received from financing activities</b>		<b>(37.2)</b>	<b>(319.9)</b>	<b>14.6</b>	<b>222.3</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(28.2)</b>	<b>(66.9)</b>	<b>(6.4)</b>	<b>(11.0)</b>
Cash and cash equivalents at the beginning of the year		44.6	111.9	7.3	18.3
Effect of foreign exchange rate changes		(0.4)	(0.4)	–	–
<b>Cash and cash equivalents at the end of the year</b>		<b>16.0</b>	<b>44.6</b>	<b>0.9</b>	<b>7.3</b>
Cash and cash equivalents per balance sheet	19	21.2	44.6	0.9	7.3
Bank overdrafts		(5.2)	–	–	–
<b>Cash and cash equivalents per cash flow</b>		<b>16.0</b>	<b>44.6</b>	<b>0.9</b>	<b>7.3</b>

## 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 2006 applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulations. 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 on page 49.

The Directors have taken advantage of the exemption offered by Section 408 of the Companies Act 2006 not to present a separate income statement and statement of comprehensive income for the Company. The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties, available-for-sale investments and certain financial assets and liabilities. 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 in 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, valuation of the Company's investment in subsidiaries and 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.

In the current year, the following new and revised Standards and Interpretations have been adopted by the Group, none of which had a material impact on the current or prior year reported results:

- IAS 24 (amended), Related Party Disclosures;
- IAS 32 (amended), Classification of Rights Issues;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 (amended), Repayments of a Minimum Funding Requirement; and
- Improvements to IFRSs (May 2010).

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9, Financial Instruments;
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;
- Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income;
- Amendments to IAS 12 (Dec 2010) Deferred Tax: Recovery of Underlying Assets;
- Amendments to IFRS 1 (Dec 2010) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- Amendments to IFRS 7 (Oct 2010) Disclosures – Transfers of Financial Assets;
- IAS 19 (revised June 2011) Employee Benefits;
- IAS 27 (revised May 2011) Separate Financial Statements; and
- IAS 28 (revised May 2011) Investments in Associates and Joint Ventures.

IFRS 9 is expected to replace IAS 39 Financial Instruments: Recognition and Measurement applicable from 1 January 2013, subject to EU adoption. While the full content of the standard is not yet known, it could impact the financial statements of the Group. In addition, the amendment to IAS 28 and the introduction of IFRS 11, both of which are applicable from 1 January 2013, subject to EU endorsement, may impact the financial statements of the Group. The Directors do not expect that the adoption of other standards listed above will have a material impact on the financial statements of the Group in future periods.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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 less accumulated impairment losses. 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.

##### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the income statement as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of non-controlling interest shareholders in the acquiree is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

##### 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 and derivatives 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.

The principal exchange rates used to translate foreign currency denominated amounts in 2011 are:

Balance sheet: £1 = €1.20 (31 December 2010: £1 = €1.17)

Income statement: £1 = €1.15 (2010: £1 = €1.17)

##### Investment properties

These properties include completed properties that are generating rent or are available for rent and development properties that are under development or available for development. Investment 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. As the Group uses the fair value model as per IAS 40 'Investment Properties', no depreciation is provided.

##### Trading properties

These are properties being developed for sale or being held for sale after development is complete, and are shown at the lower of cost and net realisable value. Cost includes direct expenditure and capitalised interest.

##### Property acquisitions and disposals

Properties are treated as acquired at the point when the Group assumes the significant risks and rewards of ownership and as disposed when these are transferred to the buyer. Generally this would occur on completion of contract. Previously acquisitions and disposals were recognised at unconditional exchange. The change had no impact on prior period comparables.

##### 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 gross rental income, joint venture management fee income, income from service charges and proceeds from the sale of trading properties. Joint venture management fee income is recognised as income when earned.

### Rental income

Rental income 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 ('rent averaging'). 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 recognised 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. Service charge income is netted against property operating expenses.

### 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 for the relevant currency. 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.

#### ***Derivative financial instruments***

The Group uses derivatives (principally interest rate swaps, currency swaps and forward foreign exchange contracts) in managing interest rate risk and currency 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.

Derivatives with a maturity of less than twelve months or that expect to be settled within twelve months of the balance sheet date are presented as current assets or liabilities. Other derivatives are presented as non-current assets or liabilities. The comparative balances have been re-presented accordingly.

#### ***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 fair 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 within other investment income.

### 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 comprehensive income. 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 21.

### 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.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2. SEGMENTAL ANALYSIS

The Group's reportable segments are the geographic locations of the United Kingdom and Continental Europe, which were managed and reported to the Board as separate distinct locations.

	United Kingdom		Continental Europe		Group	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
<b>Segment revenue</b>	<b>238.4</b>	267.8	<b>161.7</b>	165.8	<b>400.1</b>	433.6
Gross rental income	210.8	233.5	115.3	111.1	326.1	344.6
Property operating expenses	(37.2)	(45.6)	(17.7)	(16.9)	(54.9)	(62.5)
<b>Net rental income</b>	<b>173.6</b>	187.9	<b>97.6</b>	94.2	<b>271.2</b>	282.1
Joint venture management fee income	5.9	1.9	–	–	5.9	1.9
Administration expenses	(22.0)	(24.7)	(10.1)	(14.5)	(32.1)	(39.2)
Share of joint ventures' EPRA profit after tax	15.8	9.7	0.8	1.1	16.6	10.8
<b>EPRA operating profit before interest and tax</b>	<b>173.3</b>	174.8	<b>88.3</b>	80.8	<b>261.6</b>	255.6
Net finance costs	(75.9)	(95.3)	(47.2)	(33.0)	(123.1)	(128.3)
<b>EPRA profit before tax</b>	<b>97.4</b>	79.5	<b>41.1</b>	47.8	<b>138.5</b>	127.3
<b>Adjustments:</b>						
Adjustments to the share of profit/(loss) from joint ventures after tax <sup>1</sup>	11.5	31.8	(1.5)	(0.7)	10.0	31.1
Profit/(loss) on sale of investment properties	5.3	(2.4)	(0.1)	(0.4)	5.2	(2.8)
Valuation (deficit)/surplus on investment and owner occupied properties	(158.4)	94.4	(114.3)	(62.0)	(272.7)	32.4
Profit/(loss) on sale of trading properties	4.1	0.7	1.1	(0.8)	5.2	(0.1)
Increase in provision for impairment of trading properties	(0.1)	(1.3)	(9.0)	(2.3)	(9.1)	(3.6)
Loss on sale of investment in joint ventures	–	(0.5)	–	–	–	(0.5)
Other investment income	2.4	5.8	–	–	2.4	5.8
Amounts written off on acquisitions	(0.2)	(13.9)	–	–	(0.2)	(13.9)
Net fair value gain/(loss) on interest rate swaps and other derivatives	64.2	23.6	2.9	(2.1)	67.1	21.5
<b>Total adjustments</b>	<b>(71.2)</b>	138.2	<b>(120.9)</b>	(68.3)	<b>(192.1)</b>	69.9
<b>(Loss)/profit before tax</b>	<b>26.2</b>	217.7	<b>(79.8)</b>	(20.5)	<b>(53.6)</b>	197.2
<b>Tax</b>						
On EPRA profits	(1.1)	–	(1.0)	(4.3)	(2.1)	(4.3)
In respect of adjustments	7.1	9.8	18.0	5.6	25.1	15.4
	6.0	9.8	17.0	1.3	23.0	11.1
<b>(Loss)/profit after tax</b>						
EPRA profit after tax	96.3	79.5	40.1	43.5	136.4	123.0
Adjustments	(64.1)	148.0	(102.9)	(62.7)	(167.0)	85.3
<b>Group (loss)/profit after tax</b>	<b>32.2</b>	227.5	<b>(62.8)</b>	(19.2)	<b>(30.6)</b>	208.3
<b>Summary balance sheet</b>						
Total directly owned property assets	3,043.2	3,175.1	1,541.3	1,620.9	4,584.5	4,796.0
Investments in joint ventures	275.4	255.3	23.4	24.5	298.8	279.8
Net borrowings	(1,305.9)	(1,202.4)	(997.5)	(1,000.8)	(2,303.4)	(2,203.2)
Other net (liabilities)/assets	19.9	(81.3)	(42.1)	(82.3)	(22.2)	(163.6)
<b>Segment net assets</b>	<b>2,032.6</b>	2,146.7	<b>525.1</b>	562.3	<b>2,557.7</b>	2,709.0
<b>Capital expenditure in the year</b>	<b>85.2</b>	44.6	<b>109.0</b>	39.9	<b>194.2</b>	84.5

1 A detailed breakdown of the adjustments to the share of profit/(loss) from joint ventures is included in note 6.

Revenues from the most significant countries within Continental Europe were France £55.7 million (2010: £33.3 million) and Germany £47.1 million (2010: £55.4 million).

The adjustments outlined above arise from adopting the Best Practices Recommendations of European Public Real Estate Association (EPRA). The EPRA profit measures highlight the underlying recurring performance of the property rental business, which is our core operational activity and also provide a consistent basis to enable a comparison between European property companies.

### 3. REVENUE

	2011 £m	2010 £m
Rental income from investment properties	298.0	305.9
Rental income from trading properties	17.9	19.5
Rent averaging	6.6	11.2
Surrender premiums	3.0	7.4
Interest received on finance lease assets	0.6	0.6
<b>Gross rental income</b>	<b>326.1</b>	<b>344.6</b>
Joint venture management fee	5.9	1.9
Service charge income	37.1	32.2
Proceeds from sale of trading properties	31.0	54.9
<b>Total revenue</b>	<b>400.1</b>	<b>433.6</b>

### 4. PROPERTY OPERATING EXPENSES

	2011 £m	2010 £m
Vacant property costs	15.2	22.7
Letting, marketing, legal and professional fees	10.6	11.9
Bad debt expense	1.6	3.4
Other expenses, net of service charge income	10.7	9.6
Property management expenses	38.1	47.6
Property administration expenses <sup>1</sup>	18.5	16.1
Costs capitalised	(1.7)	(1.2)
<b>Total property operating expenses</b>	<b>54.9</b>	<b>62.5</b>

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

### 5. ADMINISTRATION EXPENSES

#### 5(i) – Total administration expenses

	2011 £m	2010 £m
Directors' remuneration	3.2	4.1
Depreciation	3.0	2.6
Other administration expenses	25.9	32.5
<b>Total administration expenses</b>	<b>32.1</b>	<b>39.2</b>

The full 2011 depreciation charge, including amounts charged under other headings, is £3.5 million (2010: £3.2 million), and relates to assets owned by the Group. Other administration expenses include the cost of services of the Group's auditor, as described below.

#### 5(ii) – Fees in relation to audit and other services Services provided by the Group's auditor

	2011 £m	2010 £m
<b>Audit services:</b>		
Parent company	0.4	0.4
Subsidiary undertakings	0.3	0.3
<b>Total audit fees</b>	<b>0.7</b>	<b>0.7</b>
Audit related assurance services	0.1	0.1
<b>Audit and audited related assurance services</b>	<b>0.8</b>	<b>0.8</b>
<b>Other fees:</b>		
Taxation – compliance services	0.1	0.2
Taxation – advisory services	0.2	0.2
Other <sup>1</sup>	0.1	–
<b>Total other fees</b>	<b>0.4</b>	<b>0.4</b>
<b>Total fees in relation to audit and other services</b>	<b>1.2</b>	<b>1.2</b>

1 Other services principally relate to those earned by Drivers Jonas Deloitte; the largest individual component (£40,000) related to planning advice in respect of Park Royal properties.

In addition to the above, an audit fee of £45,000, together with other fees totalling £76,000, were due to the Group's auditor in respect of the Airport Property Partnership (APP) joint venture for the year ended 31 December 2011 (£45,000 audit fee and £nil other fees for the year ended 31 December 2010). Furthermore, an audit fee of £25,000 was due to the Group's auditor in respect of the Heathrow Big Box Industrial and Distribution Fund joint venture for the year ended 31 December 2011 (2010: £25,000).

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 5. ADMINISTRATION EXPENSES (CONTINUED)

##### 5(iii) – Staff costs

The table below presents staff costs which are recognised in both property operating expenses and administration expenses in the income statement.

	2011 £m	2010 £m
Wages and salaries	24.9	25.8
Social security costs	4.6	3.8
Pension costs	1.7	2.6
Share scheme costs	0.1	3.8
Termination benefits	1.8	1.9
<b>Total</b>	<b>33.1</b>	<b>37.9</b>
Average number of Group employees	276	294

Disclosures required by the Companies Act 2006 on Directors' remuneration, including salaries, share options, pension contributions and pension entitlement and those specified by the Financial Services Authority are included on pages 64 to 74 in the Remuneration Report and form part of these financial statements.

The aggregate remuneration of employees of the Company is £3.2 million (2010: £4.1 million). All the Executive Directors are employees of SEGRO plc.

#### 6. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

##### 6(i) – Share of profit from joint ventures after tax

The table below presents a summary income statement of the Group's largest joint ventures.

	Airport Property Partnership £m	Heathrow Big Box Industrial and Distribution Fund £m	Other £m	2011 £m	2010 £m
Gross rental income	23.8	7.2	2.0	33.0	23.8
Property operating expenses	(5.5)	(0.4)	(0.2)	(6.1)	(3.6)
<b>Net rental income</b>	<b>18.3</b>	<b>6.8</b>	<b>1.8</b>	<b>26.9</b>	<b>20.2</b>
Net finance costs	(6.9)	(2.3)	(1.3)	(10.5)	(9.6)
<b>EPRA profit before tax</b>	<b>11.4</b>	<b>4.5</b>	<b>0.5</b>	<b>16.4</b>	<b>10.6</b>
Tax on EPRA profits	–	–	0.2	0.2	0.2
<b>EPRA profit after tax</b>	<b>11.4</b>	<b>4.5</b>	<b>0.7</b>	<b>16.6</b>	<b>10.8</b>
<b>Adjustments:</b>					
Profit on sale of investment properties	0.7	–	–	0.7	0.5
Valuation surplus/(deficit) on investment properties	10.4	2.4	(1.5)	11.3	32.6
Profit on sale of trading properties	–	–	0.6	0.6	0.3
Increase in provision for impairment of trading properties	–	–	(0.9)	(0.9)	(2.3)
Net fair value (loss)/gain on interest rate swaps and other derivatives	(2.7)	0.8	–	(1.9)	0.5
Other investment loss	(0.2)	–	–	(0.2)	–
Tax in respect of adjustments	–	–	0.4	0.4	(0.5)
<b>Total adjustments</b>	<b>8.2</b>	<b>3.2</b>	<b>(1.4)</b>	<b>10.0</b>	<b>31.1</b>
<b>Profit/(loss) after tax</b>	<b>19.6</b>	<b>7.7</b>	<b>(0.7)</b>	<b>26.6</b>	<b>41.9</b>

Trading properties held by joint ventures were externally valued resulting in an increase in the provision for impairment of £0.9 million (2010: £2.3 million). Based on the fair value at 31 December 2011, the Group's share of joint ventures' trading property portfolio has an unrecognised surplus of £4.0 million (2010: £5.1 million).

## 6(ii) – Summarised balance sheet information in respect of the Group's share of joint ventures

	Airport Property Partnership £m	Heathrow Big Box Industrial and Distribution Fund £m	Other £m	2011 £m	2010 £m
Investment properties	368.7	104.6	2.9	476.2	463.8
Other investments	8.1	–	–	8.1	8.4
<b>Total non-current assets</b>	<b>376.8</b>	<b>104.6</b>	<b>2.9</b>	<b>484.3</b>	<b>472.2</b>
Trading properties	–	–	33.2	33.2	36.4
Other receivables	2.3	0.1	16.6	19.0	11.0
Cash	9.2	3.4	2.9	15.5	14.4
<b>Total current assets</b>	<b>11.5</b>	<b>3.5</b>	<b>52.7</b>	<b>67.7</b>	<b>61.8</b>
<b>Total assets</b>	<b>388.3</b>	<b>108.1</b>	<b>55.6</b>	<b>552.0</b>	<b>534.0</b>
Borrowings	157.6	45.0	6.3	208.9	206.2
Deferred tax	–	–	0.9	0.9	1.5
Other liabilities	–	–	8.4	8.4	15.2
<b>Total non-current liabilities</b>	<b>157.6</b>	<b>45.0</b>	<b>15.6</b>	<b>218.2</b>	<b>222.9</b>
Borrowings	–	–	12.3	12.3	11.4
Other liabilities	15.4	3.4	3.9	22.7	19.9
<b>Total current liabilities</b>	<b>15.4</b>	<b>3.4</b>	<b>16.2</b>	<b>35.0</b>	<b>31.3</b>
<b>Total liabilities</b>	<b>173.0</b>	<b>48.4</b>	<b>31.8</b>	<b>253.2</b>	<b>254.2</b>
<b>Group share of net assets</b>	<b>215.3</b>	<b>59.7</b>	<b>23.8</b>	<b>298.8</b>	<b>279.8</b>

In June 2010, the Group acquired a 50 per cent interest in the APP for £109.7 million and a further injection of £70.3 million, giving a total investment at 30 June 2010 of £180.0 million. In conjunction with the acquisition in 2010, the Group sold £237.1 million of property and joint venture investments to the APP joint venture.

## 6(iii) – Investments by the Group

	2011 £m	2010 £m
<b>Cost or valuation at 1 January</b>	<b>279.8</b>	<b>79.3</b>
Exchange movement	(0.8)	(1.0)
Acquisition	–	180.0
Disposals	(0.9)	(11.8)
Loan advances	0.7	–
Loan repayments	(0.4)	(1.9)
Dividends received	(8.3)	(8.8)
Share of profit after tax	26.6	41.9
Items taken directly to reserves	2.1	2.1
<b>Cost or valuation at 31 December</b>	<b>298.8</b>	<b>279.8</b>

The amount of loans advanced by the Group to joint ventures is £127.0 million (2010: £127.2 million). The Group's investment (50 per cent stake) in Colnbrook Industrial Limited Partnership was sold to APP in 2010 for net proceeds of £11.3 million, resulting in a loss on sale of £0.5 million.

## 6(iv) – Investments by the Company

	2011 £m	2010 £m
<b>Cost or valuation of subsidiaries at 1 January</b>	<b>5,626.2</b>	<b>4,990.3</b>
Exchange movement	(25.8)	(26.6)
Additions	365.1	125.2
Net loan movement	–	701.1
Increase in provision for investments and loans in the income statement	(714.3)	(163.8)
<b>Cost or valuation of subsidiaries at 31 December</b>	<b>5,251.2</b>	<b>5,626.2</b>

**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**7. REALISED AND UNREALISED PROPERTY (LOSS)/GAIN**

	2011 £m	2010 £m
Profit/(loss) on sale of investment properties	5.2	(2.8)
Valuation (deficit)/surplus on investment properties	(272.3)	32.4
Valuation deficit on owner occupied properties	(0.4)	–
Profit/(loss) on sale of trading properties	5.2	(0.1)
Increase in provision for impairment of trading properties	(9.1)	(3.6)
Total realised and unrealised property (loss)/gain – income statement	(271.4)	25.9
Valuation (deficit)/surplus on owner occupied properties – other comprehensive income	(0.4)	0.1
<b>Total realised and unrealised property (loss)/gain</b>	<b>(271.8)</b>	<b>26.0</b>

**8. OTHER INVESTMENT INCOME**

	2011 £m	2010 £m
Net profit on available-for-sale investments	0.3	2.5
Transfer of fair value surplus realised on sale of available-for-sale investments	2.1	3.3
<b>Total other investment income</b>	<b>2.4</b>	<b>5.8</b>

**9. AMOUNTS WRITTEN OFF ON ACQUISITIONS**

	2011 £m	2010 £m
Acquisition of APP	–	(13.8)
Amortisation of intangibles	(0.2)	(0.1)
<b>Total amounts written off on acquisitions</b>	<b>(0.2)</b>	<b>(13.9)</b>

**APP**

Amounts written off on acquisition in the prior period relate to the APP acquisition (further details are included in note 6). The total cost of acquisition exceeded the fair value of net assets acquired by £13.8 million, primarily due to stamp duty costs. Given that the underlying assets are carried at fair value, this excess has been written off to the income statement. The Group acquired a management contract for £1.8 million as part of the APP acquisition, which is being treated as an intangible asset and amortised over 10 years, the length of the contract. The amortisation charge in the current year is £0.2 million (2010: £0.1million).

## 10. NET FINANCE COSTS

	2011 £m	2010 £m
<b>Finance income</b>		
Interest received on bank deposits and related derivatives	24.9	23.8
Fair value gain on interest rate swaps and other derivatives	89.4	31.4
Return on pension assets less unwinding of discount on pension liabilities	1.0	0.6
<b>Total finance income</b>	<b>115.3</b>	<b>55.8</b>
<b>Finance costs</b>		
Interest on overdrafts, loans and related derivatives	(144.5)	(149.2)
Amortisation of issue costs	(5.3)	(6.1)
<b>Total borrowing costs</b>	<b>(149.8)</b>	<b>(155.3)</b>
Less amounts capitalised on the development of properties	2.2	2.9
<b>Net borrowing costs</b>	<b>(147.6)</b>	<b>(152.4)</b>
Fair value loss on interest rate swaps and other derivatives	(22.3)	(9.9)
Exchange differences	(1.4)	(0.3)
<b>Total finance costs</b>	<b>(171.3)</b>	<b>(162.6)</b>
<b>Net finance costs</b>	<b>(56.0)</b>	<b>(106.8)</b>

The interest capitalisation rates for 2011 were: UK 6.25 per cent (2010: 6.25 per cent) and in Continental Europe, rates ranging from 3.6 per cent to 4.2 per cent (2010: 1.7 per cent to 2.0 per cent). Interest is capitalised gross of tax relief.

## 11. TAX

### 11(i) – Tax on profit

	2011 £m	2010 £m
<b>Tax on:</b>		
EPRA profits	(2.1)	(4.3)
Adjustments	25.1	15.4
<b>Total tax credit</b>	<b>23.0</b>	<b>11.1</b>
<b>Current tax</b>		
<b>United Kingdom</b>		
Adjustments in respect of earlier years	0.1	9.8
	0.1	9.8
<b>Continental Europe</b>		
Current tax charge	(2.3)	(4.3)
Adjustments in respect of earlier years	2.0	(1.4)
	(0.3)	(5.7)
<b>Total current tax (charge)/credit</b>	<b>(0.2)</b>	<b>4.1</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(6.9)	(2.1)
Released in respect of property disposals in the year	1.0	2.3
On valuation movements	22.0	10.0
<b>Total deferred tax in respect of investment properties</b>	<b>16.1</b>	<b>10.2</b>
Other deferred tax	7.1	(3.2)
<b>Total deferred tax credit</b>	<b>23.2</b>	<b>7.0</b>
<b>Total tax credit on loss/profit on ordinary activities</b>	<b>23.0</b>	<b>11.1</b>

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 11. TAX (CONTINUED)

##### 11(ii) – Factors affecting tax charge for the year

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

	2011 £m	2010 £m
(Loss)/profit on ordinary activities before tax	(53.6)	197.2
Add back valuation deficit/(surplus) in respect of UK properties not taxable	158.4	(94.3)
	104.8	102.9
Multiplied by standard rate of UK corporation tax of 26.5 per cent (2010: 28 per cent)	(27.8)	(28.8)
<b>Effects of:</b>		
Exempt SIIC & REIT gains	55.1	39.8
Permanent differences	1.1	0.8
Profit on joint ventures already taxed	(0.5)	0.2
Higher tax rates on international earnings	(1.4)	(4.4)
Adjustments in respect of earlier years and assets not recognised	(3.5)	3.5
<b>Total tax credit on loss/profit on ordinary activities</b>	<b>23.0</b>	<b>11.1</b>

##### 11(iii) – Deferred tax provision

Movement in deferred tax was as follows:

	Balance 1 January £m	Exchange movement £m	Recognised in income £m	Balance 31 December £m
<b>Group – 2011</b>				
Valuation surpluses and deficits on properties	(7.0)	1.3	(23.0)	(28.7)
Accelerated tax allowances	54.1	(0.7)	6.9	60.3
Deferred tax asset on revenue losses	(5.0)	–	(0.7)	(5.7)
Others	5.8	(0.1)	(6.4)	(0.7)
<b>Total deferred tax provision</b>	<b>47.9</b>	<b>0.5</b>	<b>(23.2)</b>	<b>25.2</b>

The Group has recognised revenue tax losses of £21.9 million (2010: £20.0 million) available for offset against future profits. Further unrecognised tax losses of £369.6 million also exist at 31 December 2011 (2010: £496.0 million) of which £38.0 million (2010: £40.0 million) expires in 15 years.

##### 11(iv) – 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.

The standard rate of UK corporation tax is due to fall in stages to 23 per cent by 2014. This is unlikely to significantly impact the Group's tax charge.

#### 12. DIVIDENDS

	2011 £m	2010 £m
<b>Ordinary dividends paid</b>		
Interim dividend for 2011 @ 4.9 pence per share	36.3	–
Final dividend for 2010 @ 9.6 pence per share	71.1	–
Interim dividend for 2010 @ 4.7 pence per share	–	34.8
Final dividend for 2009 @ 9.4 pence per share	–	69.0
<b>Total dividends</b>	<b>107.4</b>	<b>103.8</b>

The Board recommends a final dividend for 2011 of 9.9 pence which will result in a distribution of £73.3 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2011 is 14.8 pence (2010: 14.3 pence).

The final dividend for 2009 was partially satisfied by an issue of 7.1 million shares (£0.7 million ordinary share capital and £21.8 million share premium) under the scrip dividend scheme.

### 13. EARNINGS AND NET ASSETS PER SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 1.2 million (2010: 1.3 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 1.1 million (2010: 1.3 million) being the actual number of shares held on trust for employee share schemes at year end.

#### 13(i) – Earnings per ordinary share (EPS)

	2011			2010		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
<b>Basic EPS</b>	<b>(30.4)</b>	<b>740.4</b>	<b>(4.1)</b>	210.3	737.9	28.5
Dilution adjustments:						
Share options and save as you earn schemes	–	0.2	–	–	0.1	–
<b>Diluted EPS</b>	<b>(30.4)</b>	<b>740.6</b>	<b>(4.1)</b>	210.3	738.0	28.5
Adjustments to profit before tax <sup>1</sup>	192.1		25.9	(69.9)		(9.4)
Tax adjustments:						
– deferred tax on investment property which does not crystallise unless sold	(16.1)		(2.2)	(8.5)		(1.2)
– other tax	(9.0)		(1.2)	(6.9)		(0.9)
Non-controlling interest on adjustments	–		–	1.0		0.1
<b>EPRA EPS</b>	<b>136.6</b>	<b>740.4</b>	<b>18.4</b>	126.0	737.9	17.1

<sup>1</sup> Details of adjustments are included in note 2.

#### 13(ii) – Net assets per share (NAV)

	2011			2010		
	Equity attributable to ordinary shareholders £m	Shares million	Pence per share	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
<b>Basic NAV</b>	<b>2,555.5</b>	<b>740.6</b>	<b>345</b>	2,710.3	740.2	366
Dilution adjustments:						
Share options and save as you earn schemes	–	0.2	–	–	0.1	–
<b>Diluted NAV</b>	<b>2,555.5</b>	<b>740.8</b>	<b>345</b>	2,710.3	740.3	366
Fair value of adjustment in respect of interest rate swap derivatives – Group	(81.1)		(11)	(13.2)		(2)
Fair value of adjustment in respect of interest rate swap derivatives – Joint ventures	4.1		1	6.8		1
Fair value adjustment in respect of trading properties – Group	7.4		1	25.1		4
Fair value adjustment in respect of trading properties – Joint ventures	4.0		–	5.1		1
Deferred tax in respect of depreciation	60.3		8	54.1		7
Deferred tax in respect of valuation surpluses	(28.7)		(4)	(7.0)		(1)
<b>EPRA NAV</b>	<b>2,521.5</b>	<b>740.6</b>	<b>340</b>	2,781.2	740.2	376
<b>Triple net NAV (NNNAV)</b>						
Fair value adjustment in respect of debt	(182.9)		(24)	(75.5)		(11)
Fair value adjustment in respect of interest rates swap derivatives – Group	81.1		11	13.2		2
Fair value adjustment in respect of interest rates swap derivatives – Joint ventures	(4.1)		(1)	(6.8)		(1)
Deferred tax in respect of depreciation	(60.3)		(8)	(54.1)		(7)
Deferred tax in respect of valuation surpluses	28.7		4	7.0		1
<b>EPRA triple net NAV (NNNAV)</b>	<b>2,384.0</b>	<b>740.6</b>	<b>322</b>	2,665.0	740.2	360

Previously EPRA NAV was calculated by excluding foreign exchange and currency swaps as well as interest rate swaps. Following clarification of EPRA best practice recommendations, foreign exchange and currency swaps are no longer excluded as they act as economic hedges of euro denominated assets that are included in EPRA NAV. The comparative has been restated accordingly.

The tax effect of the fair value adjustment in respect of debt is no longer included as an adjustment to calculate EPRA triple net NAV as the Group does not believe that it will receive the economic benefit for that adjustment. The comparative has been restated accordingly.

## 14. PROPERTIES

### 14(i) – Investment properties

	Completed £m	Development £m	Total £m
<b>At 1 January 2010</b>	<b>4,383.7</b>	<b>394.7</b>	<b>4,778.4</b>
Exchange movement	(44.2)	(6.0)	(50.2)
Property acquisitions	2.8	11.8	14.6
Additions to existing investment properties	9.5	38.5	48.0
Disposals	(369.5)	(21.2)	(390.7)
Transfers on completion of development	70.6	(70.6)	–
Revaluation surplus/(deficit) during the year	32.6	(0.2)	32.4
<b>At 31 December 2010</b>	<b>4,085.5</b>	<b>347.0</b>	<b>4,432.5</b>
Add tenant lease incentives, letting fees and rental guarantees	65.8	–	65.8
<b>Total investment properties</b>	<b>4,151.3</b>	<b>347.0</b>	<b>4,498.3</b>
<b>At 1 January 2011</b>			
	<b>4,085.5</b>	<b>347.0</b>	<b>4,432.5</b>
Exchange movement	(28.0)	(4.6)	(32.6)
Property acquisitions	34.5	10.8	45.3
Additions to existing investment properties	22.7	114.2	136.9
Disposals	(71.2)	(6.4)	(77.6)
Transfers on completion of development	82.0	(82.0)	–
Revaluation deficit during the year	(227.3)	(45.0)	(272.3)
<b>At 31 December 2011</b>	<b>3,898.2</b>	<b>334.0</b>	<b>4,232.2</b>
Add tenant lease incentives, letting fees and rental guarantees	84.4	–	84.4
<b>Total investment properties</b>	<b>3,982.6</b>	<b>334.0</b>	<b>4,316.6</b>

Investment properties are stated at market value as at 31 December 2011 based on external valuations performed by professionally qualified valuers. The Group's wholly owned property portfolio is valued by DTZ Debenham Tie Leung (DTZ). Valuations for the joint venture properties within the UK portfolio are performed by Jones Lang La Salle, formerly King Sturge (APP) and CBRE (Big Box). The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties.

DTZ, Jones Lang La Salle and CBRE 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 three firms have advised us that the total fees paid by the Group represent less than five per cent of their total revenue in any year.

Development properties include land available for development, land under development and construction in progress.

The historical cost of investment and development properties was £4,311.9 million (2010: £4,222.2 million) and the cumulative valuation surplus at 31 December 2011 amounted to £4.7 million (2010: £276.1 million).

Long-term leasehold values within investment properties amount to £9.2 million (2010: £10.1 million). All other properties are freehold.

Prepaid operating lease incentives at 31 December 2011 were £50.1 million (2010: £42.5 million).

While a number of the Group's property assets were identified as non-core during 2011, as at 31 December 2011 none of these was considered to meet the requirements of IFRS 5 to be presented as held for sale. This reflects the fact that, whilst sales processes had been initiated for a number of assets, disposals were not sufficiently advanced to be considered highly probable of completing within 12 months, at 31 December 2011.

## 14(ii) – Trading properties

	Completed £m	Development £m	Total £m
<b>At 1 January 2010</b>	249.3	88.5	337.8
Exchange movement	(8.2)	(2.5)	(10.7)
Additions	4.1	16.8	20.9
Disposals	(33.5)	(21.5)	(55.0)
Revaluation (deficit)/deficit reversal during the year	(4.1)	0.5	(3.6)
<b>At 31 December 2010</b>	207.6	81.8	289.4
Add tenant lease incentives, letting fees and rental guarantees	0.5	–	0.5
<b>Total trading properties</b>	208.1	81.8	289.9

	Completed £m	Development £m	Total £m
<b>At 1 January 2011</b>	207.6	81.8	289.4
Exchange movement	(4.1)	(1.5)	(5.6)
Property acquisitions	–	3.6	3.6
Additions	2.2	6.2	8.4
Disposals	(20.0)	(5.8)	(25.8)
Transfers on completion of development	14.6	(14.6)	–
Revaluation deficit during the year	(6.6)	(2.5)	(9.1)
<b>At 31 December 2011</b>	193.7	67.2	260.9
Add tenant lease incentives, letting fees and rental guarantees	0.5	–	0.5
<b>Total trading properties</b>	194.2	67.2	261.4

Development properties include land available for development, land under development and construction in progress.

Trading properties were externally valued, resulting in an increase in the provision for impairment of £9.1 million (2010: £3.6 million). Based on the fair value at 31 December 2011, the portfolio has an unrecognised surplus of £7.4 million (2010: £25.1 million).

## 15. 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	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Amounts receivable under finance leases:</b>				
Within one year	0.6	0.6	–	–
In the second to fifth years inclusive	2.9	3.1	0.3	0.4
Later than five years	19.8	20.4	7.9	8.1
	23.3	24.1	8.2	8.5
Less unearned finance income	(15.1)	(15.6)	n/a	n/a
<b>Present value of minimum lease payments receivable</b>	8.2	8.5	8.2	8.5
<b>Analysed as :</b>				
Non-current finance lease receivables	22.7	23.5	8.2	8.5
Current finance lease receivables	0.6	0.6	–	–
<b>Total finance lease receivables</b>	23.3	24.1	8.2	8.5

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 2011 is 6.7 per cent (2010: 6.9 per cent).

At 31 December 2011, the fair value of the Group's finance lease receivables is £8.2 million (2010: £8.5 million), while the unguaranteed residual values of assets leased under finance leases are estimated at £1.4 million (2010: £1.7 million).

## 16. AVAILABLE-FOR-SALE INVESTMENTS

	2011 £m	2010 £m
<b>Valuation at 1 January</b>	<b>26.8</b>	25.9
Exchange movement	–	0.7
Additions	1.6	6.3
Fair value movement – other comprehensive income	1.4	4.5
Disposals and return of capital	(11.5)	(10.6)
<b>Valuation at 31 December</b>	<b>18.3</b>	26.8

Available-for-sale investments comprise holdings in private equity funds investing in UK, Continental Europe and USA. During the year a UK gilt held by the Company was sold, the carrying value of which was £3.4 million at 31 December 2010.

## 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Current</b>				
Trade receivables	30.9	30.2	–	0.1
Other receivables	62.0	38.3	18.5	–
Prepayments and accrued income	15.9	25.5	4.5	0.2
Fair value of forward foreign exchange and currency swap contracts – non hedge	18.7	0.9	29.4	1.0
Fair value of forward foreign exchange and currency swap contracts – hedge	10.7	0.1	–	–
Amounts due from subsidiaries	–	–	–	3.6
Amounts due from related parties	2.4	7.0	–	14.0
<b>Total current trade and other receivables</b>	<b>140.6</b>	102.0	<b>52.4</b>	18.9
<b>Non-current</b>				
Other receivables	0.3	0.2	–	–
Fair value of interest rate swaps – non hedge	114.5	30.6	114.5	30.6
<b>Total non-current trade and other receivables</b>	<b>114.8</b>	30.8	<b>114.5</b>	30.6

As discussed further in note 1, derivatives with a maturity or an expected settlement date of greater than twelve months are classified as non-current. Comparative balances have been re-presented for consistency.

Other receivables include tax recoverable of £0.8 million (2010: £2.1 million) which was previously presented separately.

Group trade receivables are net of provisions for doubtful debts of £5.8 million (2010: £5.4 million).

Amounts due from subsidiaries are unsecured and attract interest at market rates.

## 18. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Due within one year</b>				
Trade payables	3.3	8.9	–	–
Non-trade payables and accrued expenses	214.4	215.5	35.9	35.4
Fair value of interest rate swaps – non hedge	5.2	–	–	–
Fair value of forward foreign exchange and currency swap contracts – non hedge	0.8	2.8	0.9	3.1
Fair value of forward foreign exchange and currency swap contracts – hedge	0.1	0.3	–	–
<b>Total trade and other payables due within one year</b>	<b>223.8</b>	<b>227.5</b>	<b>36.8</b>	<b>38.5</b>
<b>Due after one year</b>				
Obligations under finance leases	0.4	0.6	–	–
Other payables	0.8	4.0	–	–
Fair value of interest rate swaps – non hedge	28.2	17.4	26.1	9.3
Loans from subsidiaries	–	–	905.9	835.4
<b>Total other payables due after one year</b>	<b>29.4</b>	<b>22.0</b>	<b>932.0</b>	<b>844.7</b>

Loans from subsidiaries are unsecured and incur interest at market rates.

As discussed further in note 1, derivatives with a maturity or an expected settlement date of greater than twelve months are classified as due after one year. Further, following a review of the classification of creditors, certain balances have been reclassified between trade, non-trade payables and other payables. Comparative balances have been re-presented for consistency. Comparative trade payables due within one year as previously stated were £52.4 million, non-trade payables and accrued expenses were £156.5 million and other payables due after one year were £19.5 million. In total, trade and other payables have not changed.

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

	Minimum lease payments		Present value of minimum lease payments	
	2011 £m	2010 £m	2011 £m	2010 £m
Payable between second to fifth years	0.1	0.1	–	–
Payable after five years	2.0	2.3	0.4	0.6
	2.1	2.4	0.4	0.6
Less future finance charges	(1.7)	(1.8)	n/a	n/a
<b>Present value of lease obligations</b>	<b>0.4</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>

These are non-current finance lease liabilities on investment properties with a carrying value of £9.2 million (2010: £10.1 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.

## 19. NET BORROWINGS

### 19(i) – Net borrowings by type

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Secured borrowings:</b>				
Euro mortgages (repayable within 1 year)	10.4	5.9	–	–
Euro mortgages (repayable within 1 to 4 years)	22.1	33.8	–	–
Euro mortgages (repayable within 4 to 16 years)	19.9	21.6	–	–
<b>Total secured (on land, buildings and other assets)</b>	<b>52.4</b>	<b>61.3</b>	<b>–</b>	<b>–</b>
<b>Unsecured borrowings:</b>				
<b>Bonds</b>				
5.25% bonds 2015	135.9	135.1	143.9	145.2
6.25% bonds 2015	149.2	148.9	149.2	148.9
5.5% bonds 2018	198.7	198.5	198.7	198.5
6.0% bonds 2019	200.2	199.3	215.3	216.1
5.625% bonds 2020	247.7	247.4	247.7	247.4
6.75% bonds 2021	296.6	296.4	296.6	296.4
7.0% bonds 2022	149.0	149.0	149.0	149.0
6.75% bonds 2024	221.5	221.4	221.5	221.4
5.75% bonds 2035	198.1	198.1	198.1	198.1
<b>Notes</b>				
7.417% euro notes 2011	–	42.7	–	–
	<b>1,796.9</b>	<b>1,836.8</b>	<b>1,820.0</b>	<b>1,821.0</b>
Bank loans and overdrafts	475.0	349.4	436.2	314.5
Preference shares held by subsidiary	0.3	0.3	–	–
<b>Total unsecured</b>	<b>2,272.2</b>	<b>2,186.5</b>	<b>2,256.2</b>	<b>2,135.5</b>
<b>Total borrowings</b>	<b>2,324.6</b>	<b>2,247.8</b>	<b>2,256.2</b>	<b>2,135.5</b>
Cash and cash equivalents	(21.2)	(44.6)	(0.9)	(7.3)
<b>Net borrowings</b>	<b>2,303.4</b>	<b>2,203.2</b>	<b>2,255.3</b>	<b>2,128.2</b>

The maturity profile of borrowings is as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Maturity profile of borrowings</b>				
In one year or less	27.7	69.9	11.8	11.9
In more than one year but less than two	43.0	39.7	41.5	–
In more than two years but less than five	741.8	606.2	676.0	596.8
In more than five years but less than ten	943.1	665.8	958.2	662.0
In more than ten years	569.0	866.2	568.7	864.8
In more than one year	<b>2,296.9</b>	<b>2,177.9</b>	<b>2,244.4</b>	<b>2,123.6</b>
<b>Total borrowings</b>	<b>2,324.6</b>	<b>2,247.8</b>	<b>2,256.2</b>	<b>2,135.5</b>
Cash and cash equivalents	(21.2)	(44.6)	(0.9)	(7.3)
<b>Net borrowings</b>	<b>2,303.4</b>	<b>2,203.2</b>	<b>2,255.3</b>	<b>2,128.2</b>

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.

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 Gearing and Financial Covenants section in the Financial Review on page 48.

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Maturity profile of undrawn borrowing facilities</b>				
In one year or less	9.9	20.4	0.8	1.0
In more than one year but less than two	29.2	–	16.7	–
In more than two years	395.8	462.1	395.8	449.3
<b>Total available undrawn borrowing facilities</b>	<b>434.9</b>	<b>482.5</b>	<b>413.3</b>	<b>450.3</b>

### 19(ii) – Net borrowings by interest rates

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

Interest rate profile – Group	31 December 2011					31 December 2010				
	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
<b>Borrowings</b>	Weighted average after derivative instruments					Weighted average after derivative instruments				
Sterling	6.41	13.8	848.9	183.5	1,032.4	6.43	14.8	846.3	103.7	950.0
Euros	4.19	3.4	854.1	435.2	1,289.3	4.88	4.3	943.8	334.5	1,278.3
US dollars	–	–	–	2.6	2.6	–	–	–	19.2	19.2
Subsidiary preference shares	–	–	0.3	–	0.3	–	–	0.3	–	0.3
<b>Total borrowings</b>	<b>5.29</b>	<b>8.6</b>	<b>1,703.3</b>	<b>621.3</b>	<b>2,324.6</b>	<b>5.61</b>	<b>9.3</b>	<b>1,790.4</b>	<b>457.4</b>	<b>2,247.8</b>
<b>Cash and cash equivalents</b>										
Sterling				(4.1)	(4.1)				(9.5)	(9.5)
Euros				(16.2)	(16.2)				(33.7)	(33.7)
US dollars				(0.1)	(0.1)				(0.2)	(0.2)
Canadian dollars				–	–				(0.2)	(0.2)
Polish zloty				(0.8)	(0.8)				(1.0)	(1.0)
<b>Total cash and cash equivalents</b>				<b>(21.2)</b>	<b>(21.2)</b>				<b>(44.6)</b>	<b>(44.6)</b>
<b>Net borrowings</b>			<b>1,703.3</b>	<b>600.1</b>	<b>2,303.4</b>			<b>1,790.4</b>	<b>412.8</b>	<b>2,203.2</b>

Interest rate profile – Company	31 December 2011					31 December 2010				
	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
<b>Borrowings</b>	Weighted average after derivative instruments					Weighted average after derivative instruments				
Sterling	6.24	13.4	872.1	178.3	1,050.4	6.23	14.4	873.0	102.8	975.8
Euros	4.08	3.9	650.0	553.2	1,203.2	4.86	5.0	664.6	475.9	1,140.5
US dollars	–	–	–	2.6	2.6	–	–	–	19.2	19.2
<b>Total borrowings</b>	<b>5.32</b>	<b>9.4</b>	<b>1,522.1</b>	<b>734.1</b>	<b>2,256.2</b>	<b>5.64</b>	<b>10.5</b>	<b>1,537.6</b>	<b>597.9</b>	<b>2,135.5</b>
<b>Cash and cash equivalents</b>										
Sterling				–	–				(4.8)	(4.8)
Euros				(0.1)	(0.1)				(2.3)	(2.3)
Canadian dollars				–	–				(0.2)	(0.2)
Polish zloty				(0.8)	(0.8)				–	–
<b>Total cash and cash equivalents</b>				<b>(0.9)</b>	<b>(0.9)</b>				<b>(7.3)</b>	<b>(7.3)</b>
<b>Net borrowings</b>			<b>1,522.1</b>	<b>733.2</b>	<b>2,255.3</b>			<b>1,537.6</b>	<b>590.6</b>	<b>2,128.2</b>

## 20. FINANCIAL INSTRUMENTS AND FAIR VALUES

### Categories of financial instruments

Financial assets in the Group comprise forward foreign exchange contracts and interest rate swaps and cross currency swap contracts which are categorised as derivatives designated as fair value through the income statement (non hedge) and foreign exchange contracts and cross currency swap contracts designated as net investment hedges. Financial assets also include trade and other receivables, finance lease 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 which are categorised as fair value through the income statement (non hedge) and forward foreign exchange contracts designated as net investment hedges. Financial liabilities also include secured bank loans, unsecured bond issues, bank loans and overdrafts and preference shares, all of which are categorised as debt and initially recognised at fair value less costs and subsequently 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 and secured bank loans. At 31 December 2011 the fair value of £1,796.9 million of unsecured bond issues was £1,980.0 million (2010: £1,794.1 million compared to £1,869.6 million fair value) and the fair value of £52.4 million of secured bank loans was £52.2 million (2010: £61.3 million compared to £59.9 million fair value). In addition, at 31 December 2010 the fair value of £42.7 million unsecured loan notes was £44.1 million.

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 and currency swap contracts are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and the appropriate exchange rate at the balance sheet date.
- 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. Unlisted investments, such as those classified as available-for-sale investments, are typically valued by the Fund Manager based on the amount at which the asset would be exchanged between knowledgeable, willing parties in an arm's length transaction. The methodology used to estimate fair value will depend on the nature and facts and circumstances of the investment but use one of the following bases: transaction value, earnings multiple, net assets, price of recent investment and sale price, where appropriate a marketability discount will be applied.
- Financial guarantees are issued by the Company 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.

### Fair value measurements recognised in the balance sheet

The Group and Company financial instruments that are measured subsequent to initial recognition at fair value are available-for-sale assets, forward exchange and currency swap contracts and interest rate swaps as detailed in notes 16, 17 and 18. All of these financial instruments would be classified as Level 2 fair value measurements, as defined by IFRS 7, being those derived from inputs other than quoted prices (included within Level 1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There were no transfers between categories in the current or prior year.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern 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 the statement of changes in equity and notes 22 to 24. Debt primarily comprises long-term debt issues and drawings against medium-term committed revolving credit facilities from banks as disclosed in note 19.

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 49.

The Group's balance sheet translation exposure (including the impact of derivative financial instruments) is summarised below:

Group	2011			2010		
	Euros £m	US dollars £m	Total £m	Euros £m	US dollars £m	Total £m
Gross currency assets	1,670.0	26.6	1,696.6	1,726.6	32.8	1,759.4
Gross currency liabilities	(1,418.2)	(12.5)	(1,430.7)	(1,398.0)	(19.4)	(1,417.4)
<b>Net exposure</b>	<b>251.8</b>	<b>14.1</b>	<b>265.9</b>	<b>328.6</b>	<b>13.4</b>	<b>342.0</b>
<b>Company</b>						
Gross currency assets	1,127.3	9.9	1,137.2	938.9	12.7	951.6
Gross currency liabilities	(1,333.3)	(22.3)	(1,355.6)	(1,145.7)	(31.9)	(1,177.6)
<b>Net exposure</b>	<b>(206.0)</b>	<b>(12.4)</b>	<b>(218.4)</b>	<b>(206.8)</b>	<b>(19.2)</b>	<b>(226.0)</b>

2011 gross currency liabilities include EUR247.2 million (£206.0 million) and USD19.3 million (£12.5 million) designated as net investment hedges.

2010 gross currency liabilities include EUR244.2 million (£208.7 million) and USD30.3 million (£19.4 million) designated as net investment hedges.

The remaining gross currency liabilities of the Group shown in the table above that are not designated as net investment hedges are either held directly in a euro or US dollar functional currency entity or passed down to such an entity from a sterling functional currency company through inter-company funding arrangements.

#### 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 £24.2 million (2010: £31.8 million), with a sensitivity of £22.9 million against the euro (2010: £30.6 million) and £1.3 million against the US dollar (2010: £1.2 million).

For the Company, the blended sensitivity is £19.9 million (2010: £21.4 million) with a sensitivity of £18.7 million against the euro (2010: £19.6 million) and £1.1 million against the US dollar (2010: £1.8 million).

#### Forward foreign exchange and currency swap contracts

Some of the forward foreign exchange and currency swap contracts held by the Group are designated as net investment hedges of euro and US dollar denominated subsidiaries, where exchange differences are booked in reserves and recognised in the income statement when the operation is sold. The remaining forward foreign exchange and currency swap contracts are effectively economic cash flow hedges, using the surplus cash in one currency to 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 and currency swap contracts outstanding as at the year end:

	Average exchange rates		Currency contract (local currency)		Contract value		Fair value	
	2011 rate	2010 rate	2011 m	2010 m	2011 £m	2010 £m	2011 £m	2010 £m
<b>Group</b>								
<b>Economic cash flow hedges</b>								
Sell euros (buy sterling)	1.17	1.17	782.2	735.5	651.8	628.6	18.7	(1.9)
Buy euros (sell sterling)	1.17	–	49.1	–	40.9	–	(0.8)	–
Buy US dollars (sell sterling)	1.56	1.56	15.3	19.5	9.9	12.5	–	–
<b>Net investment hedges</b>								
Sell euros (buy sterling)	1.15	1.17	247.2	244.2	206.0	208.7	10.7	0.1
Sell US dollars (buy sterling)	1.56	1.58	19.3	30.3	12.5	19.4	(0.1)	(0.3)
<b>Total</b>							<b>28.5</b>	<b>(2.1)</b>
<b>Company</b>								
<b>Economic cash flow hedges</b>								
Sell euros (buy sterling)	1.16	1.17	1,029.4	979.7	857.9	837.3	29.4	(1.8)
Buy euros (sell sterling)	1.17	–	49.1	–	40.9	–	(0.8)	–
Buy US dollars (sell sterling)	1.56	1.56	15.3	19.5	9.9	12.5	–	–
Sell US dollars (buy sterling)	1.56	1.58	19.3	30.3	12.5	19.4	(0.1)	(0.3)
<b>Total</b>							<b>28.5</b>	<b>(2.1)</b>

## 20. 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 maintaining an appropriate mix between fixed and floating rate borrowings. The current Group policy states that around 60 to 100 per cent of net 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 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 2011 would decrease/increase by £4.9 million (2010: decrease/increase by £4.3 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 manage the interest rate risk of the Group's borrowings. 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, based on their contracted maturities, as at the reporting date:

Pay fixed, receive floating contracts:

	Average contract – fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	2011 £m	2010 £m	2011 £m	2010 £m
<b>Group</b>						
In one year or less	–	–	–	–	–	–
In more than one year but less than two	<b>2.97</b>	–	<b>125.0</b>	–	<b>(3.4)</b>	–
In more than two years but less than five	<b>2.45</b>	2.53	<b>712.5</b>	474.4	<b>(30.0)</b>	(9.1)
In more than five years	–	2.52	–	384.6	–	(4.5)
<b>Total</b>			<b>837.5</b>	<b>859.0</b>	<b>(33.4)</b>	<b>(13.6)</b>

	Average contract – fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	2011 £m	2010 £m	2011 £m	2010 £m
<b>Company</b>						
In one year or less	–	–	–	–	–	–
In more than one year but less than two	–	–	–	–	–	–
In more than two years but less than five	2.37	2.15	650.0	282.1	(26.1)	(1.0)
In more than five years	–	2.52	–	384.6	–	(4.5)
<b>Total</b>			<b>650.0</b>	<b>666.7</b>	<b>(26.1)</b>	<b>(5.5)</b>

Receive fixed, pay floating contracts:

<b>Group</b>						
In one year or less	–	–	–	–	–	–
In more than one year but less than two	–	–	–	–	–	–
In more than two years but less than five	5.67	5.67	239.0	239.0	9.4	(1.9)
More than five years	6.18	6.18	709.0	709.0	105.1	28.7
<b>Total</b>			<b>948.0</b>	<b>948.0</b>	<b>114.5</b>	<b>26.8</b>

<b>Company</b>						
In one year or less	–	–	–	–	–	–
In more than one year but less than two	–	–	–	–	–	–
In more than two years but less than five	5.67	5.67	239.0	239.0	9.4	(1.9)
More than five years	6.18	6.18	709.0	709.0	105.1	28.7
<b>Total</b>			<b>948.0</b>	<b>948.0</b>	<b>114.5</b>	<b>26.8</b>

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.

The interest rate swaps settle on either a three-month or six-month basis with the floating rate side based on the EURIBOR or Sterling LIBOR rate for the relevant period. The Group will settle or receive the difference between the fixed and floating interest rate on a net basis.

### 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 diverse customer base with no one customer accounting for more than five per cent of rental income. Trade receivables (which include unpaid rent and amounts receivable in respect of property disposals) were approximately one per cent of total assets at 31 December 2011 and at 31 December 2010. 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.

Ageing of past due but not impaired receivables were as follows:	2011 £m	2010 £m
0-30 days	7.1	9.7
30-60 days	0.3	0.1
60-90 days	0.3	0.4
90-180 days	0.1	0.2
180+ days	1.9	0.6
Past due but not impaired	9.7	11.0
Not due	21.2	19.2
<b>Total trade receivables</b>	<b>30.9</b>	<b>30.2</b>

No other receivables were considered impaired or overdue.

Investment in financial instruments is restricted to banks and short-term liquidity 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, 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 18-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 page 49.

**FINANCIAL STATEMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**20. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)**

**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.

	2011						2010					
	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 and other payables		132.9	0.9	0.1	2.0	135.9		124.9	19.5	0.1	2.3	146.8
Non-interest bearing liabilities		21.9	–	–	25.2	47.1		28.1	–	–	47.9	76.0
Variable rate debt instruments	3.5	46.3	53.7	474.0	–	574.0	4.2	37.2	51.2	331.0	–	419.4
Fixed rate debt instruments	6.1	112.7	112.7	623.8	2,141.3	2,990.5	6.1	160.4	115.2	649.1	2,259.6	3,184.3
Derivative financial instruments:												
Net settled interest rate swaps		5.5	12.6	8.2	–	26.3		6.3	2.6	(4.9)	(1.4)	2.6
Gross settled foreign exchange – Forward contracts												
– Inflowing		(53.3)	–	–	–	(53.3)		(653.9)	–	–	–	(653.9)
– Outflowing		54.3	–	–	–	54.3		656.4	–	–	–	656.4
Total		320.3	179.9	1,106.1	2,168.5	3,774.8		359.4	188.5	975.3	2,308.4	3,831.6

	2011						2010					
	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 and other payables		4.3	905.9	–	–	910.2		3.8	835.4	–	–	839.2
Non-interest bearing liabilities		4.9	–	–	–	4.9		6.5	–	–	–	6.5
Variable rate debt instruments	3.3	29.3	51.5	413.0	–	493.8	4.2	21.7	11.8	331.0	–	364.5
Fixed rate debt instruments	6.1	111.7	111.7	607.8	2,141.3	2,972.5	6.1	111.7	111.7	624.4	2,236.3	3,084.1
Derivative financial instruments:												
Net settled interest rate swaps		3.2	9.6	7.2	–	20.0		3.5	1.0	(5.1)	(1.4)	(2.0)
Gross settled foreign exchange – Forward contracts												
– Inflowing		(53.3)	–	–	–	(53.3)		(653.9)	–	–	–	(653.9)
– Outflowing		54.3	–	–	–	54.3		656.4	–	–	–	656.4
Total		154.4	1,078.7	1,028.0	2,141.3	4,402.4		149.7	959.9	950.3	2,234.9	4,294.8

## 21. RETIREMENT BENEFIT SCHEMES

### Background

The Group has four defined benefit schemes in the UK, the SEGRO Pension Scheme (the 'SEGRO scheme'), the Bilton Group Pension Scheme (the 'Bilton scheme') and two additional schemes following the acquisition of Brixton, the Brixton plc Pension Plan (the 'Brixton scheme') and the J Saville Gordon Group plc and Subsidiary Companies Retirement and Death Benefit Scheme (the 'JSG scheme'). The assets of the schemes are held by Trustees separately from the assets of the employer. The Group also has a number of defined contribution schemes in the UK and Continental Europe for which £1.2 million has been recognised as an expense (2010: £1.3 million).

All four defined benefit schemes are closed to new members. Valuation of the schemes has been based on the most recent actuarial valuations: 31 March 2010 for the SEGRO scheme, 5 April 2010 for the Bilton scheme, 31 December 2008 for the Brixton scheme and 30 June 2010 for the JSG scheme and updated by the independent actuaries in order to assess the liabilities of the schemes at 31 December 2011. The actuarial valuation for the Brixton scheme at 31 December 2011 is expected to be finalised during 2012.

At the start of the year the Company had an unfunded, unapproved, retirement benefit scheme ('UURBS') for one employee, the former Chief Executive Ian Coull. This arrangement was a defined benefit scheme in nature. On his retirement from the Company on 29 April 2011, Mr Coull elected to take a cash lump sum in respect of his UURBS benefit and has no further or additional benefits under the scheme. The calculation used to value this unapproved benefit was based on assumptions which were consistent with those used in the SEGRO scheme.

The major assumptions used were as follows:	2011 %	2010 %
Discount rate for scheme liabilities	4.8	5.4
Rate of inflation (RPI/CPI)	3.1/2.3	3.6/–
Rate of increase to pensions in payment in excess of GMP		
Before April 2003 (SEGRO/Bilton)	4.2/3.0	4.3/3.4
From April 2003 to October 2005	3.0	3.4
After October 2005	2.1	2.2
Rate of general long-term increase in salaries	5.1	5.6

	Expected return 2011 %	Analysis of assets 2011 £m	Expected return 2010 %	Analysis of assets 2010 £m
Equities	7.5	62.5	8.2	71.3
Gilts	2.9	54.7	4.2	56.9
Bonds	4.6	58.7	5.2	37.6
Insured pensions	4.8	1.7	5.4	1.9
Other assets	1.0	1.2	1.0	1.6
Overall – SEGRO scheme	5.0	120.5	6.2	110.7
Overall – Bilton scheme	4.5	23.6	5.6	23.1
Overall – Brixton and JSG scheme	5.7	34.7	6.2	35.5

The life expectancies at age 65 are as follows:

	Male	Female
Current pensioners	23.8	23.9
Future pensioners	24.9	25.2

Both life expectancy estimates use the standard S1PA base tables with a scaling factor of 80 per cent for males and 100 per cent for females. Future improvements to the life expectancy are in line with CMI 2009 projections with an assumed long-term rate of improvement of one per cent p.a.

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. Bond and gilt 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:	2011 £m	2010 £m
<b>Credit/(charge) to Group income statement</b>		
Operating profit:		
Current service cost	(0.8)	(1.3)
Past service cost	0.9	–
Settlement cost	(0.6)	–
Net finance costs:		
Interest on pension liabilities	(9.5)	(9.7)
Expected return on scheme assets	10.5	10.3
<b>Net credit/(charge) to the Group income statement</b>	<b>0.5</b>	<b>(0.7)</b>
<b>Charge to Group statement of comprehensive income</b>	<b>(8.4)</b>	<b>(0.1)</b>

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 21. RETIREMENT BENEFIT SCHEMES (CONTINUED)

All actuarial gains and losses are recognised immediately and relate to continuing operations. The cumulative recognised actuarial losses are £27.2 million (2010: £18.8 million).

##### 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:

	2011 £m	2010 £m
<b>Movement in assets</b>		
1 January	169.3	157.6
Expected return on scheme assets	10.5	10.3
Actuarial (losses)/gains	(0.8)	6.1
Employer cash contributions	7.6	1.7
Member cash contributions	0.2	0.3
Benefits paid	(8.0)	(6.7)
31 December	178.8	169.3
<b>Movement in liabilities</b>		
1 January	184.0	173.3
Service cost	0.8	1.3
Past service cost	(0.9)	–
Interest cost	9.5	9.7
Actuarial losses	7.6	6.2
Benefits paid	(12.2)	(6.7)
Other	0.8	0.2
31 December	189.6	184.0
<b>Analysis of net liabilities:</b>		
Market value of schemes' assets	178.8	169.3
Present value of funded schemes' liabilities	(189.6)	(180.4)
Net liabilities for funded schemes	(10.8)	(11.1)
Present value of UURBS' liabilities	–	(3.6)
<b>Retirement benefit obligation recognised in other provisions in the balance sheet</b>	<b>(10.8)</b>	<b>(14.7)</b>

There is also an unrecognised surplus on the Bilton scheme of £2.5 million (2010: £2.0 million). The actual return on the scheme assets in the period was a gain of £9.7 million (2010: £16.4 million).

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>History of experience adjustments</b>					
Present value of defined benefit obligations	(189.6)	(184.0)	(173.3)	(116.5)	(121.0)
Fair value of schemes' assets	178.8	169.3	157.6	110.2	117.0
Deficit in schemes	(10.8)	(14.7)	(15.7)	(6.3)	(4.0)
<b>Experience adjustments on schemes' assets</b>					
Amounts	(0.8)	6.1	11.4	(21.4)	(2.9)
Percentage of schemes' assets	(0.4%)	3.6%	7.2%	(19.4%)	(2.5%)
<b>Experience adjustments on schemes' liabilities</b>					
Amounts	(0.1)	(2.9)	(1.2)	(0.7)	1.7
Percentage of present value of schemes' liabilities	0.1%	1.6%	0.7%	0.6%	(1.4%)
<b>Effect of changes in assumptions underlying the present value of the schemes' liabilities</b>					
	(7.5)	(3.3)	(15.2)	6.3	7.9
<b>Total amount recognised in the statement of other comprehensive income</b>					
Amounts	(8.4)	(0.1)	(3.8)	(17.2)	6.8
Percentage of present value of schemes' liabilities	4.4%	0.1%	2.2%	14.8%	(5.6%)

The expected employer's contributions to be paid in the year ending 31 December 2012 is £6.0 million (2011: £1.8 million).

## 22. SHARE CAPITAL AND SHARE-BASED PAYMENTS

### Share capital

	Number of shares Shares m	Par value of shares £m
<b>Issued and fully paid</b>		
Ordinary shares of 10p each at 1 January 2011	741.5	74.2
Shares issued	0.2	–
<b>Ordinary shares of 10p each at 31 December 2011</b>	<b>741.7</b>	<b>74.2</b>

### Share-based payments

There are six employee share schemes in the Group: the Long Term Incentive Plan (LTIP), the Share Incentive Plan (SIP), the Global Share Incentive Plan (GSIP), the Brixton Share Incentive Plan (Brixton SIP), Sharesave and the Executive Share Option Plan (ESOP). There is also a Deferred Share Bonus Plan (DSBP) for senior employees whereby 25 per cent of any payment under the Bonus Scheme is deferred in shares. The DSBP is described on pages 66 and 68. On 1 April 2011 awards were made over 270,246 shares based on a share price of 321.5 pence. There have been no further awards, lapsings or vestings to the date of this report.

#### 22(i) – LTIP

The LTIP is a discretionary employee share scheme. Shares are conditionally awarded based on individual performance. Vesting of awards is subject to three-year performance conditions and is at the discretion of the Remuneration Committee. The performance conditions of the LTIP are detailed in the Remuneration Report on pages 66 to 68. In respect of the 2010 LTIP award onwards, UK participants will have an 18 month period from the release date in which to elect to receive their shares, subject to Remuneration Committee approval. If a participant ceases to be employed by the Group, the award will lapse, unless the participant is deemed to be entitled to the award, in which case the award will be pro-rated on length of employment in relation to the award date.

	2011 Number	2010 Number
<b>At 1 January</b>	<b>6,087,828</b>	4,390,723
Shares granted LTIP	2,180,342	2,461,756
Shares vested	(300,487)	–
Shares expired/lapsed	(1,166,209)	(764,651)
<b>At 31 December</b>	<b>6,801,474</b>	6,087,828

The 2011 LTIP award was made on 29 March 2011. The calculation of the award was based on a share price of 331.3 pence, the closing mid-market share price on 28 March 2011. No consideration was paid for the grant of any award.

The Black-Scholes model has been used to fair value the shares granted currently under award. The assumptions used are as follows:

Date of grant	20-Oct-09	28-Apr-10	29-Mar-11
Exercise price / market price	385.0p	314.7p	331.3p
Risk-free interest rate	1.8%	1.8%	1.8%
Dividend yield	2.6%	4.4%	4.5%
Volatility	56.0%	57.0%	54.0%
Term of option	3 years	3 years	3 years
Fair value per share	356.0p	275.7p	289.0p

#### 22(ii) – SIP

The SIP is an HMRC approved all-employee share plan. UK employees, who have been employed by the Group since 1 October of the preceding year, may be awarded shares in relation to the Company's prior year performance and their salary. Participating employees may be awarded shares annually up to a maximum of seven per cent of their salary or £3,000, whichever is lower. The award for 2011 was five per cent of salary. If a participant ceases to be employed by the Group within three years from date of award the shares will be forfeited, unless the employee is entitled to the shares due to certain leaver circumstances, in which case the shares will be transferred out of the trust to the participant.

	2011 Number	2010 Number
<b>At 1 January</b>	<b>111,012</b>	39,222
Shares granted	113,191	93,143
Shares forfeited	(4,029)	(1,576)
Shares released	(13,704)	(19,777)
<b>At 31 December</b>	<b>206,470</b>	111,012

As at 31 December 2011, 212,792 shares (2010: 113,304) are held in the SIP trust.

## 22. SHARE CAPITAL AND SHARE-BASED PAYMENTS (CONTINUED)

### 22(iii) – GSIP

The GSIP was launched in 2008 as an all-employee share scheme for non-UK based employees. It is not HMRC approved but the eligibility and performance conditions of the award are designed to replicate SIP. Employees are granted awards which are released by the Trustees at conclusion of a three-year holding period. If a participant ceases to be employed by the Group by the end of the three-year period then the award will lapse unless the participant is entitled to the award due to the terms of leaving.

	2011 Number	2010 Number
<b>At 1 January</b>	<b>65,453</b>	19,944
Shares granted	63,975	51,749
Shares released	(22,488)	(2,649)
Shares forfeited	(6,475)	(3,591)
<b>At 31 December</b>	<b>100,465</b>	65,453

### 22(iv) – Brixton SIP

Prior to acquisition in 2009, Brixton operated a share incentive plan. Brixton shares in the Brixton SIP were converted to SEGRO shares under the scheme of arrangement. As at 31 December 2011, 5,673 shares (2010: 7,490 shares) were held in trust for the Brixton SIP.

### 22(v) – Sharesave

The Group operates an HMRC approved all-employee savings related share option plan. UK employees can save on a monthly basis, over a three, five or seven-year period and if they remain in employment can purchase shares in the Company at a price which is fixed at the start of the saving period. The price is usually set at a 20 per cent discount to the market. If a participant ceases to be employed by the Group, in certain circumstances the participant may be able to exercise their options within a fixed period from date of leaving. During 2011, the movements in Sharesave options were as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>At 1 January</b>	<b>429,900</b>	<b>202.8p</b>	494,560	205.8p
Options granted	50,825	257.4p	79,118	255.7p
Options exercised	(27,850)	182.0p	(24,615)	182.0p
Options expired/lapsed	(46,945)	250.6p	(119,163)	254.1p
<b>At 31 December</b>	<b>405,930</b>	<b>205.6p</b>	429,900	202.8p

The consideration received by the Company from options exercised during the year was £50,687 (2010: £44,799). The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The assumptions are as follows:

Date of Grant	Number of options outstanding	Market price	Exercise price	Risk-free interest rate	Dividend yield	Volatility	Exercisable between	Fair value per share three years	Fair value per share five years	Fair value per share seven years
04 April 2008	3,257	703.2p	562.6p	4.1%	4.8%	46.5%	2011-2015	234p	252p	256p
19 May 2009	290,843	227.5p	182.0p	0.5%	8.7%	53.0%	2012-2014	61p	59p	n/a <sup>1</sup>
29 April 2010	61,706	319.6p	255.7p	1.8%	5.5%	57.0%	2013-2015	112p	118p	n/a <sup>1</sup>
28 April 2011	50,124	321.7p	257.4p	1.8%	4.5%	57.0%	2014-2016	119p	128p	n/a <sup>1</sup>
<b>Total</b>	<b>405,930</b>									

<sup>1</sup> The seven year option was not offered in 2009, 2010 or 2011.

### 22(vi) – ESOP

Under the ESOP, senior employees of the Group were granted options to purchase shares in the Company at a stated exercise price. If the performance conditions were not met by the third anniversary of the date of grant the options lapsed. Participants were able to exercise their options after a three-year holding period subject to continuous employment. Options expire ten years after grant. In certain circumstances a participant may exercise their options up to a year after leaving the Group. The last grant under ESOP was made in 2005 and the Company has no current intention of making further grants under this scheme.

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>At 1 January</b>	<b>164,319</b>	<b>667.8p</b>	227,380	685.0p
Options expired/lapsed	(49,793)	676.1p	(63,061)	665.5p
<b>At 31 December</b>	<b>114,526</b>	<b>664.2p</b>	164,319	667.8p

The options outstanding at 31 December 2011 were exercisable between 419.2 pence and 689.2 pence 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
Option price	419.2p	689.2p
Risk-free interest rate	5.1%	4.8%
Dividend yield	4.8%	4.0%
Volatility	21.3%	21.0%
Exercisable between	2006-2013	2008-2015
Fair value per share	61p	106p
Options exercisable	10,591	103,935

A total of 520,456 (2010: 594,219) options exist at 31 December 2011 in relation to the ESOP and Sharesave scheme, with a weighted average remaining contractual life of 2.0 years (2010: 2.6 years).

### 23. SHARE PREMIUM ACCOUNT

Group and Company	2011 £m	2010 £m
Balance at 1 January	1,069.5	1,047.6
Premium arising on the issue of shares – scrip dividend	–	21.8
– other	–	0.1
Balance at 31 December	1,069.5	1,069.5

### 24. OWN SHARES HELD

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Balance at 1 January	13.3	13.5	13.3	13.5
Disposed of on exercise of options	(3.1)	(0.2)	(3.1)	(0.2)
Balance at 31 December	10.2	13.3	10.2	13.3

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

### 25. COMMITMENTS

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

Group	UK		Continental Europe		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Properties	16.9	35.0	33.8	34.2	50.7	69.2
Joint ventures	50.0	–	–	–	50.0	–
Available-for-sale investments	–	–	–	1.0	–	1.0
Total capital commitments	66.9	35.0	33.8	35.2	100.7	70.2

Commitments in the Group's joint ventures at 31 December 2011 (at share) amounted to £6.8 million (2010: £nil).

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 26. CONTINGENT LIABILITIES

The Group has given performance guarantees to third parties amounting to £14.8 million (2010: £15.9 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 £33.3 million (2010: £82.7 million) and has indicated its intention to provide the necessary support required by its subsidiaries.

The Group has provided certain representations and warranties in relation to disposals which are usual for transactions of this nature, including representations and warranties relating to financial, regulatory and tax matters. No provision has been made at 31 December 2011 in relation to the representations and warranties provided.

#### 27. OPERATING LEASES

##### The Group as lessor

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

	Group £m	Joint ventures at share £m	2011 £m	2010 £m
Not later than one year	287.5	26.0	313.5	317.2
Later than one year but not later than five years	759.4	71.5	830.9	847.2
Later than five years	669.0	137.0	806.0	741.6
<b>Balance at 31 December</b>	<b>1,715.9</b>	<b>234.5</b>	<b>1,950.4</b>	<b>1,906.0</b>

##### The Group as lessee

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

	2011 £m	2010 £m
Not later than one year	2.1	2.2
Later than one year but not later than five years	4.8	6.7
Later than five years	0.2	0.4
<b>Total</b>	<b>7.1</b>	<b>9.3</b>

#### 28. RELATED PARTY TRANSACTIONS

##### Group

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

	2011 £m	2010 £m
New loans during the year	0.7	5.1
Loans repaid during the year	(0.4)	(29.3)
Loans outstanding at the year end	127.0	127.2
Dividends received	8.3	8.8
Management fee income	5.9	1.9

As disclosed in note 6, in 2010 the Group sold £237.1 million of property and joint venture investments into APP on an arm's length basis.

##### Company

Balances outstanding between the Company and external related parties at balance sheet date are £nil (2010: £14.0 million).

Transactions between the Company and its subsidiaries eliminate on consolidation and are not disclosed in this note. Amounts due from subsidiaries are disclosed in note 17 and amounts due to subsidiaries are disclosed in note 18.

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 arm's length transactions.

##### Remuneration of key management personnel

Key management personnel comprise Executive and Non-Executive Directors and any other members of the Executive Committee, as outlined in the Corporate Governance Report on page 58. Key management personnel compensation is shown in the table below:

	2011 £m	2010 £m
Salaries and short-term benefits	4.4	3.9
Termination benefits	0.6	0.2
Post employment benefits	0.2	0.9
Share-based payments	0.1	1.2
<b>Total remuneration</b>	<b>5.3</b>	<b>6.2</b>

More detailed information concerning directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans, as required by the Companies Act 2006, is shown in the audited part of the Report on Directors' Remuneration on pages 64 to 74.

## 29. NOTES TO THE CASH FLOW STATEMENTS

### 29(i) – Reconciliation of cash generated from operations

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Operating profit/(loss)	2.4	304.0	(452.9)	(4.9)
Adjustments for:				
Depreciation of property, plant and equipment	3.5	3.2	–	–
Share of profit from joint ventures after tax	(26.6)	(41.9)	–	–
(Gain)/loss on sale of investment properties	(5.2)	2.8	–	–
Loss/(gain) on sale of investment in joint ventures	–	0.5	–	(0.2)
Amounts written off on acquisitions	0.2	13.9	–	–
Revaluation deficit/(surplus) on investment and owner occupied properties	272.7	(32.4)	–	–
Gain on sale of available-for-sale investments	(2.4)	(5.8)	–	–
Other income reallocated	–	–	(258.1)	(182.3)
Pensions and other provisions	(11.8)	2.1	704.0	165.8
	232.8	246.4	(7.0)	(21.6)
<b>Changes in working capital:</b>				
Decrease in trading properties	22.9	22.4	–	–
(Increase)/decrease in debtors and tenant incentives	(11.4)	(18.4)	0.1	(5.8)
(Decrease)/increase in creditors	(5.3)	(5.5)	–	0.9
<b>Net cash inflow/(outflow) generated from operations</b>	<b>239.0</b>	<b>244.9</b>	<b>(6.9)</b>	<b>(26.5)</b>

### 29(ii) – Deposits

Term deposits for a period of three months or less are included within cash and cash equivalents.

### 29(iii) – Analysis of net debt

	At 1 January 2011 £m	Exchange movement £m	Cash flow £m	Non-cash adjustment <sup>1</sup> £m	At 31 December 2011 £m
<b>Group</b>					
Bank loans and loan capital	2,280.7	(12.0)	82.0	–	2,350.7
Capitalised finance costs <sup>2</sup>	(32.9)	–	(3.7)	5.3	(31.3)
Bank overdrafts	–	–	5.2	–	5.2
<b>Total borrowings</b>	<b>2,247.8</b>	<b>(12.0)</b>	<b>83.5</b>	<b>5.3</b>	<b>2,324.6</b>
Cash in hand and at bank	(44.6)	0.4	23.0	–	(21.2)
<b>Net debt</b>	<b>2,203.2</b>	<b>(11.6)</b>	<b>106.5</b>	<b>5.3</b>	<b>2,303.4</b>
<b>Company</b>					
Bank loans and loan capital	2,141.7	(10.7)	133.2	–	2,264.2
Capitalised finance costs <sup>2</sup>	(6.2)	–	(3.1)	1.3	(8.0)
<b>Total borrowings</b>	<b>2,135.5</b>	<b>(10.7)</b>	<b>130.1</b>	<b>1.3</b>	<b>2,256.2</b>
Cash in hand and at bank	(7.3)	–	6.4	–	(0.9)
<b>Net debt</b>	<b>2,128.2</b>	<b>(10.7)</b>	<b>136.5</b>	<b>1.3</b>	<b>2,255.3</b>

1 The non-cash adjustment relates to the amortisation of issue costs offset against borrowings.

2 Capitalised finance costs (which includes fair value adjustments) cash flows are recognised in interest paid in the cash flow statement.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS CONTINUED

#### 30. GROUP ENTITIES

The principal entities at 31 December 2011 are listed below (all equity holdings unless otherwise stated).

	Country of incorporation/operation	Subsidiaries % holding	Joint ventures % holding
<b>Property</b>			
Airport Property Partnership	Great Britain		50
Allnatt London Properties plc *	Great Britain	100	
Bilton plc *	Great Britain	100	
Brixton Limited *	Great Britain	100	
Brixton Greenford Park Limited	Great Britain	100	
Brixton (Jersey) Limited	Great Britain	100	
Brixton (Metropolitan Park) 1 Limited	Great Britain	100	
Brixton Premier Park Limited	Great Britain	100	
Brixton Properties Limited	Great Britain	100	
Brixton (West Cross) Limited	Great Britain	100	
Farnborough Business Park Limited	Great Britain	100	
SEGRO (Blanc Mesnil) Sàrl	France	100	
SEGRO Belgium NV	Belgium	100	
SEGRO BV (operating in Netherlands, Italy and Central Europe)	Netherlands	100	
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) SASU	France	100	
SEGRO Properties Limited *	Great Britain	100	
SEGRO (Winnersh) Limited	Great Britain	100	
SEGRO Zwölfte Grundbesitz GmbH	Germany	100	
SEGRO Dreiundzwanzigste Grundbesitz GmbH	Germany	100	
Slough Trading Estate Limited *	Great Britain	100	
Quendis Polska I Sp z o.o.	Poland	100	
The Heathrow Big Box Industrial and Distribution Fund	Great Britain		50
<b>Service</b>			
Followcastle Limited	Great Britain	100	
SEGRO Administration Limited *	Great Britain	100	
SEGRO Finance plc *	Great Britain	100	
<b>Other</b>			
SEGRO Overseas Holdings Limited *	Great Britain	100	
SEGRO Holdings France SAS *	France	100	

\* Held directly by SEGRO plc, a company incorporated in Great Britain.

#### 31. SUBSEQUENT EVENTS

On 31 January 2012, the Group completed the acquisition of the UK Logistics Fund for £314.7 million in a 50 per cent joint venture with Moorfield Real Estate Fund. The Group has made an equity contribution of approximately £65 million (of which £15.6 million was prior to the year end) and the joint venture has secured a five year bank facility amounting to £186.6 million.

On 17 February 2012, the Group sold five non-core industrial estates in the UK for £80.2 million. The disposal of four estates have completed (£71.2 million), with one estate conditionally exchanged and completion expected shortly (£9.0 million).

## FIVE-YEAR FINANCIAL RESULTS

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Group income statement</b>					
Net rental income	271.2	282.1	269.4	244.9	246.3
Administration expenses, excluding exceptional items	(32.1)	(39.2)	(40.3)	(40.0)	(39.7)
Share of joint ventures' EPRA profit after tax	16.6	10.8	2.8	0.9	1.2
Joint venture management fee income	5.9	1.9	–	–	–
Net finance cost including notional preference share interest	(123.1)	(128.3)	(127.6)	(116.5)	(100.4)
Net income from utilities	–	–	–	–	2.4
<b>EPRA profit before tax</b>	<b>138.5</b>	<b>127.3</b>	<b>104.3</b>	<b>89.3</b>	<b>109.8</b>
Exceptional administration expenses	–	–	(7.8)	(2.6)	–
Adjustments to the share of profit/(loss) from joint ventures after tax	10.0	31.1	1.8	(8.3)	6.2
Profit/(loss) on sale of investment properties	5.2	(2.8)	(54.7)	(34.8)	3.0
Valuation (deficit)/surplus on investment and owner-occupied properties	(272.7)	32.4	(271.8)	(975.6)	(349.1)
Profit/(loss) on sale of trading properties	5.2	(0.1)	0.6	27.9	23.3
Increase in provision for impairment of trading properties	(9.1)	(3.6)	(16.1)	(4.0)	(1.3)
(Loss)/gain on sale of investment in joint ventures	–	(0.5)	12.9	–	–
Other investment income/(loss)	2.4	5.8	(8.0)	1.7	18.4
(Amounts written off)/gain arising on acquisitions	(0.2)	(13.9)	8.6	–	0.9
Net fair value gain/(loss) on interest rate swaps and other derivatives	67.1	21.5	(17.9)	(32.8)	3.1
Profits from the sale of Slough Heat & Power and US property business	–	–	–	–	445.0
Exceptional cost of debt repayment	–	–	–	–	(16.4)
<b>(Loss)/profit before tax</b>	<b>(53.6)</b>	<b>197.2</b>	<b>(248.1)</b>	<b>(939.2)</b>	<b>242.9</b>
<b>Group balance sheet</b>					
Investment properties	4,316.6	4,498.3	4,825.3	4,311.1	4,761.9
Owner occupied properties	6.5	7.8	8.1	11.1	13.1
Trading properties	261.4	289.9	337.8	357.8	236.0
<b>Total directly owned properties</b>	<b>4,584.5</b>	<b>4,796.0</b>	<b>5,171.2</b>	<b>4,680.0</b>	<b>5,011.0</b>
Plant and equipment	5.8	7.3	7.5	9.1	5.8
Investments in joint ventures	298.8	279.8	79.3	67.5	73.4
Other assets	283.4	169.8	148.6	190.7	186.0
Cash and cash equivalents	21.2	44.6	112.7	165.8	348.3
<b>Total assets</b>	<b>5,193.7</b>	<b>5,297.5</b>	<b>5,519.3</b>	<b>5,113.1</b>	<b>5,624.5</b>
Borrowings	(2,324.6)	(2,247.8)	(2,532.8)	(2,661.6)	(2,039.1)
Deferred tax provision	(25.2)	(47.9)	(56.9)	(78.2)	(65.4)
Other liabilities and non-controlling interests	(288.4)	(291.5)	(337.1)	(365.8)	(531.0)
<b>Total shareholders' equity</b>	<b>2,555.5</b>	<b>2,710.3</b>	<b>2,592.5</b>	<b>2,007.5</b>	<b>2,989.0</b>
<b>Total movement in shareholders' equity</b>					
(Loss)/profit attributable to ordinary shareholders	(30.4)	210.3	(233.1)	(938.1)	(74.9)
Other equity movements	(124.4)	(92.5)	818.1	(43.4)	(308.8)
	(154.8)	117.8	585.0	(981.5)	(383.7)
<b>Data per ordinary share<sup>1</sup>:</b>					
<b>Earnings per share:</b>					
Basic (loss)/earnings per share	(4.1p)	28.5p	(41.3p)	(312.2p)	(23.7p)
EPRA earnings per share	18.4p	17.1p	18.3p	29.1p	33.2p
<b>Net assets per share basic:</b>					
Basic net assets per share	345p	366p	354p	668p	997p
EPRA net assets per share <sup>2</sup>	340p	376p	368p	725p	1,041p
Diluted net assets per share	345p	366p	354p	668p	996p

1 Data for ordinary share for the 2008 and earlier periods has been restated for the rights issue and share consolidation, as previously reported.

2 EPRA NAV has been restated for fair value of foreign exchange derivatives, as discussed further in note 13.

## FINANCIAL CALENDAR

### February 2012

Announcement of year end results		21 February
Payment:	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024 interest	23 February

### March 2012

Payment:	7 per cent bonds 2022 interest	14 March
Ex-dividend date for final dividend	Property Income Distribution & Dividend	21 March
Record date	Property Income Distribution & Dividend	23 March
Payment:	6 per cent bonds 2019 interest	30 March

### April 2012

Final date for DRIP election	Property Income Distribution & Dividend	13 April
Payment:	5 <sup>1</sup> / <sub>4</sub> per cent bonds 2015 interest	23 April
Annual General Meeting		26 April

### May 2012

Payment:	Property Income Distribution & Dividend	4 May
Payment:	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2021 interest	23 May

### June 2012

Payment:	5 <sup>1</sup> / <sub>2</sub> per cent bonds 2018 interest	20 June
Payment:	5 <sup>3</sup> / <sub>4</sub> per cent bonds 2035 interest	20 June

### August 2012

Announcement of half year results		2 August
Payment:	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024 interest	23 August

### September 2012

Payment:	7 per cent bonds 2022 interest	14 September
Payment:	6 <sup>1</sup> / <sub>4</sub> per cent bonds 2015 interest	28 September
Payment:	6 per cent bonds 2019 interest	28 September

### October 2012

Payment:	Property Income Distribution &/or Dividend	October
Payment:	5 <sup>1</sup> / <sub>4</sub> per cent bonds 2015 interest	22 October

### November 2012

Payment:	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2021 interest	23 November
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### December 2012

Payment:	5 <sup>5</sup> / <sub>8</sub> per cent bonds 2020 interest	7 December
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## ANALYSIS OF SHAREHOLDERS – 31 DECEMBER 2011

### Shareholder Analysis

Number of shares owned	Holders	% of Holders	Shares	% of Shares
1 – 1,000	6,387	65.45	1,578,754	0.21
1,001 – 10,000	2,562	26.26	7,698,681	1.04
10,001 – 100,000	487	4.99	16,870,706	2.28
100,001 – 1,000,000	231	2.37	86,285,333	11.63
1,000,001 +	91	0.93	629,244,021	84.84
<b>Totals</b>	<b>9,758</b>	<b>100.00</b>	<b>741,677,495</b>	<b>100.00</b>

### Category Analysis

Category	Holders	% of Holders	Shares	% of Shares
Individual (certificated)	7,225	74.04	10,600,565	1.43
Individual (uncertificated)	233	2.39	1,707,376	0.23
Nominee and Institutional Investors	2,300	23.57	729,369,554	98.34
<b>Totals</b>	<b>9,758</b>	<b>100.00</b>	<b>741,677,495</b>	<b>100.00</b>

## SHAREHOLDER INFORMATION

### USEFUL HISTORICAL INFORMATION

#### Share history of the Company

- On 20 August 2007, the ordinary share capital was consolidated on the basis of 12 new ordinary shares of 27<sup>1</sup>/<sub>12</sub> pence for every 13 ordinary shares of 25 pence held on the 17 August 2007. A special dividend of 53 pence per share was paid in connection with the consolidation on 31 August 2007.
- On 4 March 2009 a Rights Issue was announced on the basis of 12 new ordinary shares for every existing share held on 17 March 2009 at a subscription price of 10 pence per share. Each 27<sup>1</sup>/<sub>12</sub> pence ordinary share in issue was sub-divided and re-classified into one ordinary share of one pence each and one deferred share of 26<sup>1</sup>/<sub>12</sub> pence each. The deferred shares were created for technical reasons in order to maintain the aggregate nominal value of the Company's share capital upon sub-division of its ordinary shares. The very limited rights attached to the deferred shares rendered them effectively valueless and they were cancelled on 8 May 2009.
- In relation to the acquisition of Brixton on 24 August 2009, SEGRO plc undertook a share consolidation, open offer and private placing. On 31 July 2009, every 10 ordinary shares of one pence each were consolidated into one ordinary share of ten pence each and 0.10484 open offer shares of ten pence each were offered to every shareholder of SEGRO plc who, on 13 July 2009, held ten ordinary shares of one pence each. The acquisition of Brixton was conducted by a scheme of arrangement. Brixton shareholders were offered 0.175 consideration shares of ten pence each in SEGRO plc for each Brixton share held.

### 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 +44 (0)870 707 1296. Alternatively you can send your query via the web by accessing [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus). You can also check your shareholding by registering at [www.investorcentre.co.uk](http://www.investorcentre.co.uk).

### ELECTRONIC COMMUNICATIONS

Shareholders can elect to receive shareholder communications electronically e.g. Annual Reports, Interim Reports, Notice of the Annual General Meeting and Proxy Forms. For every shareholder that signs up to electronic communications eTree will make a donation to the Woodland Trust. To register you will need to provide your SRN number (which is on your share certificate). Once registered you will receive a confirmation email. You can register at [www.etreeuk.com/SEGRO](http://www.etreeuk.com/SEGRO).

### AGM

The 2012 AGM will be held at 11.00am on 26 April 2012 at Congress Centre, 23-28 Great Russell Street, London, W1B 3LS.

### SHAREGIFT

ShareGift is a charity (registered under the name The Orr Mackintosh Foundation, 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. ShareGift can also help with larger donations of shares. Further details about ShareGift can be obtained from its website at [www.sharegift.org](http://www.sharegift.org) or by writing to ShareGift at 17 Carlton House Terrace, London, SW19 5AH, telephone: +44 (0)207 930 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 UK property rental 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 paid as ordinary dividends or PIDs, which are derived from profits earned by its UK, non-REIT taxable business, as well as the Group's overseas operations.

### DIVIDEND REINVESTMENT PLAN

SEGRO will implement a Dividend Reinvestment Plan (DRIP) for the 2011 final year dividend payment onwards. For the 2011 final dividend payment, the DRIP will apply to the PID element only and will not be available for the ordinary cash dividend. The terms of the DRIP permit SEGRO to apply the DRIP in respect of PIDs and ordinary cash dividends. It is intended that the DRIP will apply to both PIDs and ordinary cash dividends for all such payments following the 2011 final dividend payment. You can join the DRIP online at [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus) (where you can also view the DRIP terms and conditions) or by completing a DRIP mandate form. If you wish to receive a hard copy of the DRIP terms and conditions or the DRIP mandate form please contact Computershare (see shareholders enquiries). The DRIP costs and charges are detailed in the DRIP terms and conditions.

### WITHHOLDING TAX

SEGRO is required to withhold tax at source from its PIDs at the basic tax rate (20 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, to Computershare. (The Exemption Declaration form is available at [www.SEGRO.com](http://www.SEGRO.com) under Investors/Shareholder Information/REIT). 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 of withholding tax (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.

## GLOSSARY OF TERMS

### BASIS POINTS

A unit that is equal to 1/100th of 1 per cent.

### 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.

### EPRA

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

### 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. True equivalent yield assumes rent is received quarterly in advance.

### ESTIMATED COST TO COMPLETION

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

### 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.

### GEARING

Net borrowings divided by total shareholders' equity excluding intangible assets and deferred tax provision.

### GROSS RENTAL INCOME

Contracted rental income recognised in the period, including surrender premiums and interest receivable on finance leases. 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.

### JOINT VENTURE

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

### LOAN TO VALUE (LTV)

The proportion of property assets that are funded by borrowing and is calculated as net borrowings expressed as a percentage of our wholly-owned property assets (investment, owner-occupied and trading properties).

### NET INITIAL YIELD

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

### NET RENTAL INCOME

Gross Rental Income less ground rents paid, 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). Excludes rental income where a rent free period is in operation. Excludes service charge income (which is netted off service charge expenses).

### 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 achieved REIT status with effect from 1 January 2007.

### RENT ROLL

See Passing Rent.

### 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.

### TAKEBACK

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

### TOPPED UP NET INITIAL YIELD

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

### TOTAL PROPERTY RETURN (TPR)

A measure of the ungeared combined income and capital return for the portfolio and is calculated as the total realised and unrealised property gains and losses plus net rental income, expressed as a percentage of capital employed.

### TOTAL SHAREHOLDER RETURN (TSR)

A measure of the ability to generate income and capital returns for our shareholders. This is measured based on change in share price (measured on a three month average basis) during the period and assuming the reinvestment of dividends.

\* For full Glossary of Terms go to [www.segro.com](http://www.segro.com)

## GO ONLINE



To keep up to date with SEGRO, you can source facts and figures about the Group through the various sections on our website and sign up for email alerts for fast communication of breaking news.

Financial reports, shareholder information and property analysis are frequently updated and our current share price is always displayed on the Home Page.

As well as featuring detailed information about available property throughout the portfolio, segro.com now also includes a dedicated property search function making it easy for potential customers, or their agents, to find business space that fits their requirement exactly. SEGRO's performance in areas such as sustainability and customer care are also featured on the site. [www.segro.com](http://www.segro.com)

### OTHER PUBLICATIONS

Additional disclosures on our property portfolio can be found in the 2011 Property Analysis Booklet. Simply visit [www.segro.com](http://www.segro.com) for this document and further information on Sustainability.



The printer and paper manufacturing mill are both accredited with ISO 14001 Environmental Management Systems and are both Forestry Stewardship Council certified. Royle Print is a Carbon Neutral Printing Company.

Designed and produced by Black Sun Plc

### Forward looking statements

This Annual Report contains certain forward looking statements with respect to SEGRO's expectations and plans, strategy, management objectives, future developments and performance, costs, revenues and other trend information. These statements 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 process 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.

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