

Registration number: 02388748

# SEGRO (Watchmoor) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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## **SEGRO (Watchmoor) Limited**

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## **SEGRO (Watchmoor) Limited**

### **Company Information**

<b>Directors</b>	A. M. Holland
	A. J. Pilsworth
	G. J. Osborn
	S.C. Pursey
	A. O. Peters
<b>Company secretary</b>	E. A. Blease
<b>Registered office</b>	Cunard House
	15 Regent Street
	London
	SW1Y 4LR
<b>Independent auditors</b>	PricewaterhouseCoopers LLP
	7 More London Riverside
	London
	SE1 2RT

## **SEGRO (Watchmoor) Limited**

### **Strategic Report for the Year Ended 31 December 2017**

The Directors present their Strategic Report for the year ended 31 December 2017.

#### **Principal activity**

The principal activity of the Company is property investment and development, specialising in the provision of modern buildings, mostly industrial, designed to meet the requirements of individual tenants. These developments are let on fully repairing and insuring leases and retained by the Company as investments. The investment property within this company has been disposed of. The Company holds a joint venture investment with Roxhill Developments Limited at 50% share.

This is a private company limited by shares incorporated in England and Wales. Details of the Company's registered office is set out in the Company information on page 1.

#### **Business review**

##### **Fair review of the business**

The Company has performed in line with expectations and the Directors are satisfied with the year end position.

The results for the Company show a pre-tax loss of £451k (2017: loss of £106k). The Company is in a net liability position at the year end. The Directors are satisfied that the financial statements have been prepared on a going concern basis. For further disclosure see the Directors' Report under going concern.

##### **Principal risks and uncertainties**

The Company, as a subsidiary of SEGRO plc Group, is managed on a unified basis as part of the SEGRO plc Group "The Group". The principal risks faced by the Company reflect those of the SEGRO plc Group and the table below outlines the principal risks and uncertainties faced by the SEGRO plc Group in delivering its strategic priorities for the forthcoming year.

##### **Economic risks**

- UK's decision to exit the EU;
- Changes in macro-economic conditions; and
- Changes in government policies

##### **Strategic risks**

- Portfolio shape and performance; and
- Pace of strategic change

##### **Financial risks**

- Solvency and covenant breach.

##### **Operational risks**

- Health and safety incidents;
- Environmental damage or failure to meet sustainability targets;
- Business or IT system disruption;
- Failure to attract, retain and motivate key employees; and
- Breach of anti-bribery and corruption legislation.

##### **Investment real estate risks**

- Market cycle
- Appropriateness of investment plans and development plans; and
- Portfolio strategy

These risks and uncertainties are described in greater detail together with mitigating factors on pages 54 to 60 of the SEGRO plc Annual Report and Accounts.

## SEGRO (Watchmoor) Limited

### Strategic Report for the Year Ended 31 December 2017 (continued)

#### Key Performance Indicator (KPI)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance, or position of the business. KPIs are disclosed within the SEGRO plc Annual Report and Accounts.

Approved by the Board on 27 June 2018 and signed on its behalf by:



A. J. Pilsworth  
Director

## **SEGRO (Watchmoor) Limited**

### **Directors' Report for the Year Ended 31 December 2017**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

#### **Going concern**

The financial statements have been prepared on a going concern basis, as the Directors intend the Company to maintain the same level of activity during the forthcoming year. The Company is in a net liability position. The Company is funded via an inter-company non-current account provided by the Company's ultimate parent, SEGRO plc, which has confirmed its continuing financial support and therefore the Directors consider the Company is in a position to meet its liabilities as they fall due. It is agreed that no inter-Group lender has any intention to require the loan to be repaid, in whole or in part, for at least 12 months from the date of signing of the financial statements. If the entity is unable to meet its liabilities as they fall due, it is the intention of SEGRO plc to provide financial support as necessary for at least 12 months from the signing of the financial statements.

#### **Future developments**

The Directors expect the general level of activity to remain consistent with the current year in the forthcoming years. This is due to the straightforward nature of the business in which the Company operates.

#### **Employees**

There were no employees directly employed by the Company during the year (2016: none).

#### **Dividends**

Dividends paid and dividends recommended in respect of the current and prior year are disclosed within the dividends note.

#### **Directors of the Company**

The directors of the Company who were in office during the year and up to the date of signing the financial statements, were as follows:

A. M. Holland  
A. J. Pilsworth  
G. J. Osborn  
S.C. Pursey  
A. O. Peters

#### **Directors' indemnity provision**

A qualifying third party indemnity provision (as defined in S234 of the Companies Act 2006) was in force for the benefit of the Directors of the Company during the financial year and at the date of the approval of the financial statements.

The contracts of employment of the Directors of the Company do not provide for compensation for the loss of office that occurs because of takeover.

#### **Subsequent events**

Details of the significant events affecting the Company since the year end, if any, are included in the subsequent events note.

## **SEGRO (Watchmoor) Limited**

### **Directors' Report for the Year Ended 31 December 2017 (continued)**

#### **Disclosure of information to the auditors**

In the case of each director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

#### **Independent auditors of the Company**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment as auditors was approved at the Annual General Meeting.

Approved by the Board on 27 June 2018 and signed on its behalf by:



.....  
A. J. Pilsworth  
Director

## **SEGRO (Watchmoor) Limited**

### **Statement of Directors' Responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

The Directors 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.



## **SEGRO (Watchmoor) Limited**

### **Independent Auditors' Report to the Members of SEGRO (Watchmoor) Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, SEGRO (Watchmoor) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2017; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Independence**

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

##### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## **SEGRO (Watchmoor) Limited**

### **Independent Auditors' Report to the Members of SEGRO (Watchmoor) Limited (continued)**

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## **SEGRO (Watchmoor) Limited**

### **Independent Auditors' Report to the Members of SEGRO (Watchmoor) Limited (continued)**

#### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

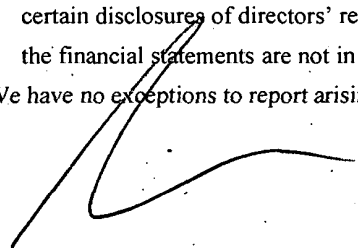
#### **Other required reporting**

##### ***Companies Act 2006 exception reporting***

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

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

We have no exceptions to report arising from this responsibility.



.....  
Craig Hughes (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 June 2018

# **SEGRO (Watchmoor) Limited**

## **Income Statement for the Year Ended 31 December 2017**

	Note	2017 £ 000	2016 £ 000
Revenue		-	-
Cost of sales		-	17
Gross profit		-	17
Administrative expenses	4	(434)	-
Realised and unrealised property gain		-	-
Operating (loss)/profit		(434)	17
Finance cost	5	(17)	(123)
Loss before tax		(451)	(106)
Income tax expense	6	-	-
Loss for the year		(451)	(106)

The above results were derived from continuing operations.

**SEGRO (Watchmoor) Limited**

**Statement of Comprehensive Income for the Year Ended 31 December 2017**

	<b>2017</b> <b>£ 000</b>	<b>2016</b> <b>£ 000</b>
Loss for the year	(451)	(106)
Other comprehensive expense for the year, net of tax	-	-
Total comprehensive loss for the year	<u>(451)</u>	<u>(106)</u>

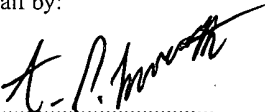
# SEGRO (Watchmoor) Limited

(Registration number: 02388748)

## Statement of Financial Position as at 31 December 2017

	Note	31 December 2017 £ 000	31 December 2016 £ 000
<b>Fixed assets</b>			
Amounts due from group undertakings	7	-	5,125
Investments in joint ventures	8	223	5,296
		<u>223</u>	<u>10,421</u>
<b>Total assets</b>		<u>223</u>	<u>10,421</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	13	-	(11,168)
<b>Total assets less current liabilities</b>		223	(747)
<b>Creditors: Amounts falling due after more than one year</b>	14	(1,421)	-
<b>Net liabilities</b>		<u>(1,198)</u>	<u>(747)</u>
<b>Equity</b>			
Called up share capital	15	7,327	7,327
Share premium reserve		19,901	19,901
Retained earnings		<u>(28,426)</u>	<u>(27,975)</u>
<b>Total shareholders' deficit</b>		<u>(1,198)</u>	<u>(747)</u>

The financial statements on pages 10 to 23 were approved by the Board on 27 June 2018 and signed on its behalf by:

  
 .....  
 A. J. Pilsworth  
 Director

# **SEGRO (Watchmoor) Limited**

## **Statement of Changes in Equity for the Year Ended 31 December 2017**

	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2017	7,327	19,901	(27,975)	(747)
Loss for the year	-	-	(451)	(451)
Total comprehensive loss	-	-	(451)	(451)
At 31 December 2017	<u>7,327</u>	<u>19,901</u>	<u>(28,426)</u>	<u>(1,198)</u>

	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2016	7,327	19,901	(27,869)	(641)
Loss for the year	-	-	(106)	(106)
Total comprehensive loss	-	-	(106)	(106)
At 31 December 2016	<u>7,327</u>	<u>19,901</u>	<u>(27,975)</u>	<u>(747)</u>

The notes on pages 14 to 23 form an integral part of these financial statements.

## **SEGRO (Watchmoor) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2017**

#### **1 General information**

##### **General**

SEGRO (Watchmoor) Limited ("the Company") is a private company limited by share capital incorporated and domiciled in England and Wales. Details of the Company's registered office is set out in the Company information on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 3.

These financial statements are presented in thousands and in sterling since that is the currency in which the majority of the Company's transactions are denominated and is the functional currency of the Company.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the financial statements of SEGRO plc. The Group financial statements of SEGRO plc are available to the public and can be obtained as set out in note 16.

#### **2 Significant accounting policies**

##### **Basis of preparation**

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard, for all periods presented, in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, share based payments, presentation of a cash-flow statement, related parties and disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities and standards not yet effective.

Where relevant, equivalent disclosures have been given in the Group financial statements of SEGRO plc. The Group financial statements of SEGRO plc are available to the public and can be obtained as set out in note 16.

As the Company is a subsidiary of the SEGRO plc Group, it is managed on a unified basis as part of the SEGRO plc Group.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

There are standard accounting policies followed by the Group and they are included within this note for standardised presentation across all financial statements as the Group has a significant number of subsidiaries.



## **SEGRO (Watchmoor) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **2 Significant accounting policies (continued)**

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at fair value through profit or loss, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

#### **Adoption of new and revised Standards**

The following standards and amendments have been adopted by the Company for the first time for the financial year beginning on 1 January 2017:

- Recognition of deferred tax assets for unrealised losses - amendments to IAS 12
- Disclosure initiative - amendments to IAS 7

The adoption of these amendments did not have any material impact on the Financial Statements of the Company for the current period or any prior period and is not likely to affect future periods.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Going concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 2 and 3.

The financial statements have been prepared on a going concern basis, as the Directors intend the Company to maintain the same level of activity during the forthcoming year. The Company is in a net liability position. The Company is funded via an inter-company non-current account provided by the Company's ultimate parent, SEGRO plc, which has confirmed its continuing financial support and therefore the Directors consider the Company is in a position to meet its liabilities as they fall due. It is agreed that no inter-Group lender has any intention to require the loan to be repaid, in whole or in part, for at least 12 months from the date of signing of the financial statements. If the entity is unable to meet its liabilities as they fall due, it is the intention of SEGRO plc to provide financial support as necessary for at least 12 months from the signing of the financial statements.

The Directors, having assessed the responses of the Directors of the Company's ultimate parent SEGRO plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the SEGRO plc Group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of SEGRO plc, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## **SEGRO (Watchmoor) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **2 Significant accounting policies (continued)**

##### **Investment property**

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 independent 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. An asset will be classified as held for sale within investment properties, in line with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, where there is Board approval at the year end date and the asset is expected to be disposed of within 12 months of the balance sheet date.

##### **Other interests in property**

Other interests in property include the cost and related fees in respect of land options, which are initially capitalised and regularly tested for impairment.

The impairment review includes consideration of the resale value of the option and likelihood of achieving planning consent.

##### **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.

Trading properties are transferred to investment properties when there is a change in use evidenced by the commencement of an operating lease to another party, together with the intention to hold the property to generate rent, or for capital appreciation, or for both.

##### **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. Any gains or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

##### **Investments**

Where the Company holds investments in subsidiaries, joint ventures and associates these are held at cost less accumulated impairment losses. The Company has taken advantage of the exemption under S400 Companies Act 2006 not to produce consolidated accounts.

## SEGRO (Watchmoor) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 2 Significant accounting policies (continued)

##### **Impairment**

The Company's assets, excluding investment properties, are reviewed at each reporting date to assess impairment. Where indication of impairment exists, the asset's recoverable amount is estimated, and if found to be lower than its carrying value, it is written down to the recoverable amount. The impairment loss is taken to the income statement. The recoverable amount is the higher of an asset's net selling price and its value-in-use (i.e. the net present value of its future cash flows, discounted at a pre-tax interest rate that reflects the borrowing costs and risks for the asset).

An impairment loss is reversed if estimates for the recoverable amount change, but only to the extent that its carrying amount after reversal does not exceed the net asset value that would arise had there been no impairment loss.

Where the Company has investments in subsidiaries which have been liquidated, the subsidiaries distributes its remaining net assets/(liabilities) up to the parent company via an intercompany dividend. The parent company will offset this dividend against its investment in the subsidiary and will write off/release any residual balance left over as an impairment charge to the Income Statement.

##### **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 in the period to which it relates.

##### **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'). 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. Where the Company acts as an agent, service charge income is netted against the relevant property operating expenses.

##### **Sale of trading properties**

Proceeds from the sale of trading properties are recognised when the risks and rewards of ownership have been transferred to the purchaser. This generally occurs on completion of the contract.

## **SEGRO (Watchmoor) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **2 Significant accounting policies (continued)**

##### **Loans**

Loans, other than bank overdrafts, are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans 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 loans, using the effective interest 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 weighted average cost of the loan. 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.

##### **Trade and other receivables**

Trade and other receivables are booked at fair value and subsequently measured at amortised cost using the effective interest method. An impairment provision is created for receivables where there is objective evidence that the Company will not be able to collect in full. Trade and other payables are initially measured at fair value, net of transaction costs and subsequently measured at amortised costs using the effective interest method.

##### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

##### **Income tax expense**

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on taxable income for the year and any adjustment in respect of previous years.

Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

No provision is made for temporary differences (i) arising on the initial recognition of assets or liabilities, other than a business combination, that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that suitable taxable profits will be available against which deductible temporary differences can be utilised.

## **SEGRO (Watchmoor) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

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

##### **Significant areas of estimation uncertainty**

###### *Property valuations*

Valuation of property is a central component of the business. In estimating the fair value, the Group engage a third party qualified valuer to perform the valuation. Information about the valuation techniques and inputs used in determining the fair value of the property portfolio is disclosed in the Investment Properties note of the SEGRO plc Annual Report and Accounts.

#### **4 Administrative expenses**

##### **Employees**

There were no employees directly employed by the Company during the year (2016: none).

##### **Audit fees**

A notional charge of £2,000 (2016: £2,000) per Company is deemed payable to PricewaterhouseCoopers LLP in respect of the audit of the financial statements. The actual amounts payable to PricewaterhouseCoopers LLP are paid at Group level by SEGRO plc.

There are no fees payable to PricewaterhouseCoopers LLP and their associates for non-audit services to the Company, as no non-audit services were provided to the Company. Fees for non-audit services provided to SEGRO plc are disclosed in the SEGRO plc Annual Report and Accounts.

##### **Directors' remuneration**

The Directors received no remuneration in respect of their services to the Company during the year (2016: £nil). Some of the Directors are also Directors of SEGRO plc, the Company's ultimate holding company, and the remuneration of these Directors is disclosed in the financial statements of that Company.

## SEGRO (Watchmoor) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 5 Net finance costs

	2017 £ 000	2016 £ 000
<b>Finance cost</b>		
Interest on bank overdrafts and borrowings	(17)	(123)
Total finance costs	(17)	(123)
Net finance costs	(17)	(123)

The interest capitalised rate for 2017 was 4.00% (2016: 5.30%). Interest is capitalised gross of tax relief.

#### 6 Income tax expense

Tax charged/(credited) in the Income Statement:

	2017 £ 000	2016 £ 000
Total current income tax	-	-

The tax on loss before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Loss before tax	(451)	(106)
Less: revaluation movement not taxable	-	-
Adjusted profit /(loss) on ordinary activities before tax	(451)	(106)
Corporation tax at standard rate	(87)	(21)
Group relief (claimed)/surrendered	87	21
Total tax charge/(credit)	-	-

The standard rate of UK corporation tax is due to fall in stages to 17% by April 2020. This is unlikely to significantly impact the Company's tax charge.

## SEGRO (Watchmoor) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 7 Amounts due from group undertakings

Amounts due from group undertakings are not interest bearing. However, where a Company is trading and its balance has moved in the year from a debtor to a creditor this may result in an interest charge. This is charged at the Group's average cost of sterling borrowings plus 0.5%. For the current year the rate charged was 3.8% (2016: 4.3%). The amounts due have no fixed repayment terms.

#### 8 Investments in joint ventures

	2017 £ 000	2016 £ 000
<b>Cost</b>		
At 1 January	5,296	5,098
Additions	-	198
Disposals	(5,073)	-
At 31 December	<u>223</u>	<u>5,296</u>

Details of the joint ventures as at 31 December 2017 are as follows:

- Roxhill - SEGRO (Rugby Gateway) LLP (direct) - 50% (2016: 50%) - Property Development. Incorporated in England and Wales with the registered address in Lumonics House, Valley Drive, Swift Valley, Rugby, Warwickshire CV21 1TQ
- Gateway Rugby Management Company (indirect) - 50% (2016: 50%) - Management Company. Incorporated in England and Wales with the registered address in Lumonics House, Valley Drive, Swift Valley, Rugby, Warwickshire CV21 1TQ

Unless otherwise stated, the Company's holding in the joint ventures comprises ordinary shares.

## SEGRO (Watchmoor) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 9 Financial instruments

##### Financial assets and liabilities

Financial assets in the Company comprise trade and other receivables (excluding prepayments), inter-company receivables and cash and cash equivalents, which are categorised as loans and receivables. Financial liabilities comprise inter-company debt, which is categorised as financial liabilities and measured at amortised cost, and trade and other payables (excluding deferred income, and tax balances) which are categorised as other financial liabilities. The carrying values of these financial assets and liabilities approximate their fair value.

The Company is funded via an inter-company non-current account ultimately provided by the Group's parent entity SEGRO plc. Where the Company is trading this is charged at the Group's average cost of sterling borrowings plus 0.5%. Where the Company is not trading the non-current account is not interest bearing. This advance has no set maturity date although the parent entity has undertaken to give 12 months notice of any demand for repayment of the balance. To date no such notice has been issued. The parent entity has also indicated its intention to provide the support necessary to ensure the Company remains a going concern.

The Company has no bank debt, is not party to any derivative instruments and has no foreign currency exposures as 100% of its business is UK based.

#### 10 Dividends

The Directors recommend a dividend for 2017 of £Nil (2016 - £Nil). The total dividend paid and proposed in respect of the year ended 31 December 2017 is £Nil (2016 - £Nil).

#### 11 Capital commitments

The Company had capital commitments contracted as at 31 December 2017 of £Nil (2016: £Nil).

#### 12 Contingent liabilities

The Company had contingent liabilities as at 31 December 2017 of £Nil (2016: £Nil).

#### 13 Trade and other payables

	31 December 2017 £ 000	31 December 2016 £ 000
Accrued expenses and deferred income	-	11,168

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.



## SEGRO (Watchmoor) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

#### 14 Creditors: Amounts falling due after more than one year

	31 December 2017 £ 000	31 December 2016 £ 000
Amounts owed to group undertakings	<u>1,421</u>	<u>-</u>

Where the Company is trading, its amounts owed to Group undertakings are charged at the Group's average cost of sterling borrowings plus 0.5%. Where the Company is not trading the non-current account is not interest bearing. For the current year the rate charged was 3.8% (2016: 4.3%). The amounts due have no fixed repayment terms.

#### 15 Called up share capital

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at the general meetings of the Company.

##### Allotted, called up and fully paid shares

	31 December 2017		31 December 2016	
	No.	£	No.	£
Ordinary of £1 each	<u>7,327,460</u>	<u>7,327,460</u>	<u>7,327,460</u>	<u>7,327,460</u>

The Company holds Share Premium of £19,901,000.00 (2016:£19,901,000.00).

#### 16 Parent and ultimate parent undertaking

The immediate parent undertaking is SEGRO Properties Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is SEGRO plc. Copies of the SEGRO plc consolidated financial statements can be obtained from Cunard House, 15 Regent Street, London, SW1Y 4LR, England.

The ultimate controlling party is SEGRO plc.

#### 17 Subsequent events

There have been no significant events since year end.