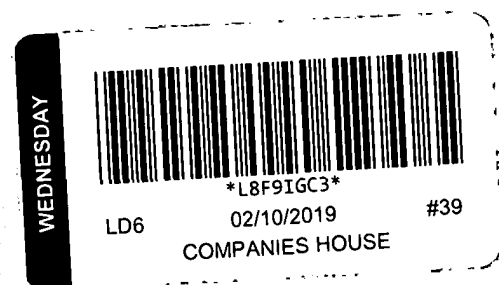


# **Global Switch Estates 2 Limited**

**Annual Report and Financial Statements**

**Year Ended 31 December 2018**

**Company Number 04729738**



# **Global Switch Estates 2 Limited**

**Annual Report and financial statements  
for the year ended 31 December 2018**

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## **Directors**

**J A Corcoran  
J W Stevenson**

## **Registered office**

**4<sup>th</sup> Floor, Millbank Tower, 21-24 Millbank, London SW1P 4QP**

## **Company number**

**04729738**

## **Auditor**

**Deloitte LLP,  
Statutory Auditor  
London  
United Kingdom**

# Global Switch Estates 2 Limited

## Strategic Report

for the year ended 31 December 2018

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

The directors present their annual report on the affairs of Global Switch Estates 2 Limited ("the Company"), together with the audited financial statements and auditor's report, for the year ended 31 December 2018.

### Review of the business

The principal activities of the Company are the provision of data centre technical and office space and facilities management services.

The profit and loss account is set out on page 8 and shows the result for the year. The Company made a profit of £39,335,000 for the year ended 31 December 2018 (2017: £44,494,000).

### Key performance indicators

A range of performance indicators is used to monitor and manage the business. Those that are particularly important in monitoring the Company's progress in generating value for the shareholders are considered to be key performance indicators (KPIs). These KPIs measure past performance and also provide management with information to allow them to manage the business into the future. Turnover and operating profit indicate the volume of sales and its profitability. Investment property valuation indicates the value of the business.

	Dec 2018	Dec 2017
	£'000	£'000
Turnover	77,789	88,836
Operating profit before other gains	49,706	64,298
Investment property valuation	1,188,040	1,146,820

The increase in the market value of the data centre from £1,146,820,000 to £1,188,040,000 or 4%, reflects the Company's continued ability to attract customers and achieve high occupancy rates as well as positive movements in the London data centre property market over the year.

### Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to be fluctuation in the movement in the value of investment properties, fluctuation in the cost of utilities, inflation and demand/ supply dynamics in the London data centre market in the lead up to Brexit. Management monitor the property market and the performance of the assets and cost of utilities against budget. Fluctuations in foreign exchange are also kept under review. The latest cooling technologies are used to maximise energy efficiency.

### Future Developments

The business is stable and the Company has maintained a high level of occupancy to the end of December 2018. The Company believes that it is extremely well positioned to maximise the imbalance between moderate supply of, and strong demand for, quality data centre space. With significant barriers to entry of the market, it is difficult to see new developers entering the market, particularly given the capital intensive nature of the data centre industry and the strong customer demand for a proven operational track record. The Company has a full customer pipeline over the medium term.

### Subsidiary of a larger group

The Company is an indirect subsidiary of Global Switch Holdings Limited, which prepares group accounts, further details of which can be found in note 1 to the financial statements.

Approved by the Board and signed on its behalf by:

J A Corcoran

Director

1 October 2019

## **Global Switch Estates 2 Limited**

### **Directors' Report for the year ended 31 December 2018**

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Principal activities, and an indication of likely future developments in the business have been included in the Strategic report and form part of this Directors' report by reference.

#### **Going concern**

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

#### **Financial risk management objectives and policies**

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk.

##### *Cash flow risk*

The Company's activities expose it primarily to the financial risks of changes in interest rates. Interest bearing assets and liabilities are held at fixed rates, where possible, to ensure certainty of cash flows.

##### *Credit risk*

The Company's principal financial assets are bank balances and cash and debtors. The Company's credit risk is primarily attributable to its debtors. The amounts presented in the Balance Sheet are net of allowances for doubtful debtors. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Company has no significant concentration of credit risk.

##### *Liquidity risk*

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of intra-group and short-term debt finance.

#### **Dividends**

The directors propose dividends of £9,000,000 for the year ended 31 December 2018 (2017: £25,800,000).

#### **Directors and directors' indemnity**

The directors of the Company during the year and up to the date of signing these financial statements were:

J A Corcoran  
J W Stevenson

None of the Directors who held office at the end of the financial period had an interest in the equity of the Company or of any other Group company.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial period and at the date of this report. The Company provided qualifying third party indemnity provisions to certain directors of associated companies during the financial period and at the date of this report.

**Global Switch Estates 2 Limited**  
**Directors' Report**  
**for the year ended 31 December 2018 (continued)**

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**Auditor**

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

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

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

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

**Approval of reduced disclosures**

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12.

The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year.

**Post balance sheet events**

Note 11 to the financial statements details changes to the controlling party subsequent to 31 December 2018. At the date of this report, the Company is not aware of any further events that would affect the financial statements for the year ended 31 December 2018.

**Approved by the Board and signed on its behalf by:**



J A Corcoran  
Director

1 October 2019

## **Global Switch Estates 2 Limited**

### **Directors' Responsibilities Statement for the year ended 31 December 2018**

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

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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. 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.

# **Global Switch Estates 2 Limited**

## **Independent auditor's report for the year ended 31 December 2018**

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

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31/12/2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Global Switch Estates 2 Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 12

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## **Global Switch Estates 2 Limited**

### **Independent auditor's report (*Continued*) for the year ended 31 December 2018**

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

#### **Responsibilities of directors**

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, and for such internal control as the directors 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.

#### **Auditor's 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 auditor's 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.



## **Global Switch Estates 2 Limited**

**Independent auditor's report (*Continued*)  
for the year ended 31 December 2018**

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### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

We have nothing to report in respect of these matters.

### **Use of our report**

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.

*Kate Darlison*

Kate Darlison (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London  
1 October 2019

**Global Switch Estates 2 Limited**  
**Profit and loss account and statement of comprehensive income**  
**for the year ended 31 December 2018**

	Notes	2018 £'000	2017 £'000
Turnover		77,789	88,836
Cost of sales		(28,078)	(23,504)
<b>Gross profit</b>		<b>49,711</b>	<b>65,332</b>
Administrative expenses		(5)	(1,034)
<b>Operating profit before other gains</b>		<b>49,706</b>	<b>64,298</b>
Gains arising on revaluation of investment property	5	42,019	24,911
<b>Operating profit</b>		<b>91,725</b>	<b>89,209</b>
Interest payable and similar expenses	3	(38,662)	(37,634)
<b>Profit before taxation</b>	<b>2</b>	<b>53,063</b>	<b>51,575</b>
Tax on profit	4	(13,728)	(7,081)
<b>Profit for the financial year</b>		<b>39,335</b>	<b>44,494</b>

All amounts relate to continuing activities.

**Statement of Comprehensive Income**

	2018 £'000	2017 £'000
Profit for the year	39,335	44,494
<b>Total comprehensive income attributable to equity shareholders of the Company</b>	<b>39,335</b>	<b>44,494</b>

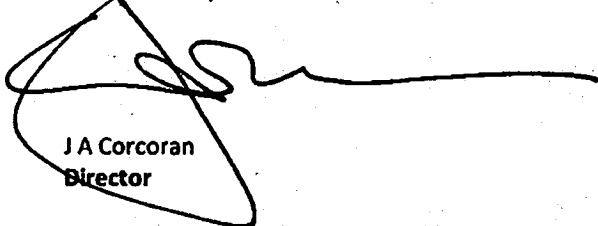
The notes on pages 11 to 22 form part of these financial statements.

# Global Switch Estates 2 Limited

Balance sheet  
as at 31 December 2018

<b>Company number 04729738</b>	<b>Notes</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Fixed assets</b>			
Investment property	5	1,169,054	1,124,445
		<u>1,169,054</u>	<u>1,124,445</u>
<b>Current assets</b>			
Debtors	6	102,722	310,408
Cash at bank and in hand		2,839	7,917
		<u>105,561</u>	<u>318,325</u>
<b>Creditors: amounts falling due within one year</b>	7	(25,974)	(226,620)
		<u>79,587</u>	<u>91,705</u>
<b>Net current assets</b>			
		<u>1,248,641</u>	<u>1,216,150</u>
<b>Total assets less current liabilities</b>			
<b>Creditors: amounts falling due after more than one year</b>	7	(560,621)	(566,179)
<b>Provisions for liabilities</b>	8	(171,852)	(164,138)
		<u>516,168</u>	<u>485,833</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called-up share capital	9	-	-
Profit and loss account		516,168	485,833
		<u>516,168</u>	<u>485,833</u>
<b>Shareholders' funds</b>			
		<u>516,168</u>	<u>485,833</u>

The financial statements were approved by the Board of Directors and authorised for on Issue 1 October 2019 and signed on their behalf by:

  
J A Corcoran  
Director

The notes on pages 11 to 22 form part of these financial statements.

## Global Switch Estates 2 Limited

### Statement of changes in equity for the year ended 31 December 2018

	Called-up share capital £'000	Profit and loss account £'000	Total £'000
<b>At 1 January 2017</b>	-	467,139	467,139
Profit for the period	-	44,494	44,494
<b>Total comprehensive income</b>	-	44,494	44,494
Dividends	-	(25,800)	(25,800)
<b>At 31 December 2017</b>	-	485,833	485,833
Profit for the period	-	39,335	39,335
<b>Total comprehensive income</b>	-	39,335	39,335
Dividends	-	(9,000)	(9,000)
<b>At 31 December 2018</b>	-	516,168	516,168

# **Global Switch Estates 2 Limited**

## **Notes to the financial statements for the year ended 31 December 2018**

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### **1) General information and accounting policies**

#### **General information**

Global Switch Estates 2 Limited (the "Company") is a private limited company incorporated on 10 April 2003 and is domiciled in the England and Wales, United Kingdom, under the Companies Act 2006. The Company's registered number is 04729738. The address of its registered office is 4th Floor, Millbank Tower, 21-24 Millbank, London SW1P 4QP. The nature of the operations and principal activity is set out in the Strategic Report on page 1.

#### **Accounting policies**

The accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

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

The functional currency of the Company is pounds sterling because that is the currency of the primary location of operations and where primarily the revenues and expenses are earned and incurred. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its parent, Global Switch Holdings Limited. The London Stock Exchange is notified when the Consolidated accounts are lodged and a copy can be obtained from the National Storage Mechanism. Exemptions have been taken in these separate Company financial statements in relation to presentation of a cash flow statement, remuneration of key management personnel, related party disclosures and disclosures regarding financial instruments.

#### ***Accounting period***

These financial statements are prepared for the year ended 31 December 2018, the comparative period presented is the year ended 31 December 2017.

#### ***Going concern***

The directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about the future trading performance. The parent company has confirmed its continued financial support to ensure that the Company continues to meet its obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the Company 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 financial statements.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**1. General information and accounting policies (Continued)**

*Investment property*

Investment properties are stated at fair value, being the market rate as determined by independent professionally qualified valuers.

Changes in fair value are recognised in the profit and loss account. In accordance with FRS 102, no depreciation is provided in respect of investment properties, which are carried at fair value.

*Impairment of assets*

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

*Financial assets:*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**1. General information and accounting policies (Continued)**

*Financial instruments*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the conditions of being 'basic' financial instruments as defined in FRS 102.11.9 are subsequently measured at amortised cost using the effective interest method.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**1. General information and accounting policies (Continued)**

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one period are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled; b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

*Taxation and deferred taxation*

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to non-depreciable property measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset. Deferred tax is measured on an undiscounted basis.

*Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).



**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**1. General information and accounting policies (Continued)**

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

*Turnover*

*Rental and service fee income from investment properties*

Revenue is contracted under service contracts that specify a total charge for the provision of rental or service fees and central services. The income is treated as arising under an operating lease as provided under FRS102 "Leases and hire purchase contracts".

All net income under such service contracts is recognised on a straight-line basis over the periods of the respective contracts. Lease incentives and any fixed indexation are amortised over the lease term or the period to the first break date, whichever is the shortest.

*Power*

Electricity revenue is recognised in the period in which the electricity was drawn by the customer and included in rental income from investment properties.

*Provision of additional services*

Additional services include power administration, the provision of sub ducts, cross connect installation and management, managed services reporting, cleaning, access management and client management services. Revenue from additional services is recognised when the service is provided.

All of the turnover derives from operations in the United Kingdom.

*Employees*

The Company did not have any employees in the current or prior year.

*Related party transactions*

The Company is a wholly-owned indirect subsidiary of Global Switch Holdings Limited and is included in the consolidated financial statements of that company. The address of Global Switch Holdings Limited's registered office is 2<sup>nd</sup> Floor, O'Neal Marketing Associates Building, PO Box 3174, Road Town, Tortola, British Virgin Islands. The Company has taken advantage of the exemption from related party disclosures in accordance with Paragraph 33.1A of Financial Reporting Standard No. 102.

**Critical accounting estimates and judgements**

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts 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 revision and future periods if the revision affects both current and future periods. The following are the critical estimates that the Directors have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in financial statements. Apart from those involving estimates, there are no further instances in which judgments made in applying accounting policies have a significant effect on the amounts recognised in the financial statements.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

**1. General information and accounting policies (Continued)**

*Estimate of fair value of investment properties*

Investment properties are the largest component of the Company's net asset value. The value of the investment properties is affected by the conditions prevailing in the property investment market and the general economic environment. Accordingly, the Company's net asset value can change due to external factors beyond management's control. The Company determines the value of investment properties using discounted cash flow valuation techniques performed by external professionally qualified valuers. Information about the valuation techniques and inputs used in determining the value of investment properties is disclosed in note 5.

*Deferred Taxation*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computations of taxable profit and is accounted for using the balance sheet liability method. In accordance with FRS 102, a deferred tax liability has been provided in respect of increased investment property values. Deferred tax liabilities are recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in the future for them to be utilised. Deferred tax is determined using tax rates and laws that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. When there is an uncertainty over the income tax treatments, the Company considers whether it is probable that a tax authority will accept an uncertain tax treatment. If it is not probable that the tax authority will accept an uncertain tax treatment, the Company reflects the effect of the uncertainty by determining the single most likely amount or by estimating a probability weighted value based on a range of possible outcomes whichever method is most appropriate.

**2) Profit before taxation**

This is stated after charging:

	2018 £'000	2017 £'000
Auditor's remuneration – audit of the financial statements	22	20
Operational charge	28,061	23,484
	<hr/>	<hr/>

**Directors' remuneration**

	2018 £'000	2017 £'000
Wages and salaries	198	185
Pension costs: defined contribution scheme	7	16
	<hr/>	<hr/>
	205	201
	<hr/>	<hr/>

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**2) Profit before taxation (continued)**

*Highest paid director:*

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Wages and salaries	198	185
Pension costs: defined contribution scheme	7	16
	<hr/>	<hr/>
	205	201
	<hr/>	<hr/>

The directors disclosed in the table above are employed by Global Switch Limited. The emoluments disclosed above are as recharged to and in respect to their service to this Company. The remainder of the costs are borne by and disclosed in the Financial Statements of Global Switch Limited.

One director was accruing benefits under defined contribution pension schemes (2017: one).

**3) Interest payable and similar expenses**

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Interest payable to fellow subsidiary undertakings	38,662	37,634
	<hr/>	<hr/>

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

**4) Taxation on profit**

	2018 £'000	2017 £'000
<b>a) Analysis of tax charge in the year</b>		
<i>Current tax</i>		
UK corporation tax at 31 December 2018 19% (2017: 19.25%)	6,014	5,587
<i>Deferred tax</i>		
Origination and reversal of timing differences	7,877	2,916
Prior year adjustment	(163)	(1,422)
	<hr/>	<hr/>
Tax on profit	13,728	7,081
	<hr/>	<hr/>

**b) Factors affecting the tax charge for the year**

The differences between the tax assessed for the period and the standard rate of corporation tax in the UK are explained below:

	2018 £'000	2017 £'000
Profit before taxation	53,063	51,575
	<hr/>	<hr/>
Profit at the standard rate of UK corporation tax of 19% (2017: 19.25%)	10,082	9,928
Effects of:		
Cap on interest deduction	4,736	3,800
Capital allowance indexation	-	(2,390)
Group relief	-	(2,452)
Changes in tax rate	(927)	(383)
Adjustment in relation to prior years	(163)	(1,422)
	<hr/>	<hr/>
Total tax charge for the year	13,728	7,081
	<hr/>	<hr/>

**c) Factors that may affect future tax charges**

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This change in tax rate impacts the deferred tax and is reflected in the reduction in the tax rate above.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

**5) Investment property**

	2018 £'000	2017 £'000
<i>Market valuation</i>		
At beginning of year	1,124,445	1,098,168
Additions	2,590	1,366
Revaluation	42,019	24,911
	<hr/>	<hr/>
At end of year	1,169,054	1,124,445
	<hr/>	<hr/>

Investment properties, which are freehold, are stated at market value as at 31 December 2018, valued by professionally qualified external valuers. The Company's properties were valued by CBRE Limited who have sufficient current local and national knowledge of the particular property market involved, and have the skills and understanding to undertake the valuations competently. The valuations were prepared in accordance with the RICS Valuation Standards.

Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Market value has been primarily derived using comparable recent market transactions on arm's length terms. CBRE use a variety of valuation techniques (valuation metrics) which include yield methodology, IRR and market value analysis. There have been no significant changes in the valuation techniques used by CBRE in 2018 in comparison to previous years.

An increase/decrease to rental value will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. There are interrelationships between all these inputs as they are determined by market conditions. The existence of an increase in more than one input would be to magnify the input on the valuation. The impact on the valuation will be mitigated by the interrelationship of two inputs in opposite directions, e.g. an increase in rent may be offset by an increase in yield.

The historical cost of the investment properties at 31 December 2018 was £574,700,000 (2017 is £572,111,000).

No contingent rents have been recognised as income in the current or prior year.

The table below shows a reconciliation of the amounts shown in the balance sheet in respect of investment property to the valuation prepared by the valuers.

	2018 £'000	2017 £'000
Investment property carrying amount	1,169,054	1,124,445
Accrued income (included in debtors)	18,986	22,375
	<hr/>	<hr/>
Total valuation	1,188,040	1,146,820
	<hr/>	<hr/>

As at 31 December 2018, the company had £7,498,020 of capital commitments in relation to expenditure on investment properties (2017 : £1,381,000).

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

**6) Debtors**

<i>Amounts falling due within one year</i>	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Trade debtors	20,356	14,501
Amounts due from group companies	59,241	269,517
Prepayments and accrued income	23,125	26,390
	<hr/>	<hr/>
	<b>102,722</b>	<b>310,408</b>
	<hr/>	<hr/>

Amounts due from group companies include amounts owed by Global Switch Limited and Global Switch Estates 1 Limited. These amounts are non-interest bearing and repayable on demand and unsecured.

The directors consider the carrying amount of the debtors to approximate their fair value.

**7) Creditors**

<i>Amounts falling due within one year</i>	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Trade creditors	122	30
Amounts due to fellow subsidiary undertakings	379	201,664
Taxation and social security	5,993	5,539
Other creditors	2,474	3,018
Accruals and deferred income	17,006	16,369
	<hr/>	<hr/>
	<b>25,974</b>	<b>226,620</b>
	<hr/>	<hr/>

Amounts due to fellow subsidiaries are unsecured.

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

**7) Creditors (continued)**

<i>Amounts falling due after more than one year</i>	<b>2018</b>	<b>Dec 2017</b>
	<b>£'000</b>	<b>£'000</b>
Amounts due to fellow subsidiary undertakings	560,621	566,179
	<hr/>	<hr/>
	<b>560,621</b>	<b>566,179</b>
	<hr/>	<hr/>

Amounts due to fellow subsidiary undertakings included amounts owed to ICT Centre Holding B.V and Global Switch Limited. Amounts due to ICT Centre Holding B.V are charged interest at 7% + LIBOR and other balances are non-interest bearing. At 31 December 2018, these amounts are not repayable within twelve months and therefore, are classified as non-current.

The directors consider the carrying amount of the creditors to be approximates of their fair value.

**8) Provisions for liabilities**

	<b>Deferred tax</b>
	<b>£'000</b>
At 1 January 2018	164,138
Charged to the profit and loss	7,714
At 31 December 2018	<hr/> <b>171,852</b> <hr/>

Deferred tax is provided as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	29,500	28,943
Valuation surpluses on investment properties	142,352	135,195
Provision for deferred tax	<hr/> <b>171,852</b> <hr/>	<hr/> <b>164,138</b> <hr/>

**9) Called-up share capital**

	<b>Allotted, called up and fully paid</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>	<b>£</b>	<b>£</b>
Ordinary shares of £1	<hr/> <b>1</b> <hr/>	<hr/> <b>1</b> <hr/>	<hr/> <b>1</b> <hr/>	<hr/> <b>1</b> <hr/>

**Global Switch Estates 2 Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2018 (Continued)**

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**10) Operating leases**

*Operating leases where the Company acts as lessor*

The total undiscounted future lease payments receivable under customer contracts accounted for as property operating leases are as follows:

	2018 £'000	2017 £'000
Less than one year	55,312	60,185
In the second to fifth year inclusive	128,785	158,491
After more than five year	40,331	56,563
	224,428	275,239

All leases include rent uplift provisions and are re-negotiated at the end of the contracted lease term.

**11) Ultimate and immediate holding company**

The company is a wholly-owned subsidiary of Global Switch Limited, incorporated in England and Wales. The intermediate holding company is Global Switch Holdings Limited, Incorporated in British Virgin Islands.

At 31 December 2018, Aldersgate Investments Limited, Elegant Jubilee Limited and Strategic IDC Limited jointly controlled Global Switch Holdings Limited and owned 24.01%, 51% and 24.99% respectively.

The ultimate parent company of Aldersgate Investments Limited is Landal Worldwide Corp, a company incorporated and domiciled in the British Virgin Islands. Elegant Jubilee Limited is ultimately owned by a consortium of fifteen corporate and institutional investors. Strategic IDC Limited is owned by a consortium of six corporate and institutional investors.

On 23 August 2019, Tough Expert Limited acquired Aldersgate Investments Limited's 24.01% stake. Tough Expert Limited is an indirect, wholly owned investment vehicle of Jiangsu Shagang Group Co., Limited ("Shagang Group").

Shagang Group had previously acquired indirect stakes in Global Switch Holdings Limited through its participation in the Elegant Jubilee Limited and Strategic IDC Limited consortia of institutional and private investors, which invested in the Company in December 2016 and July 2018. The investment by Shagang Group, through Tough Expert Limited, increases its equity stake in Global Switch Holdings Limited to 49.8% on a look through basis, making it the largest shareholder. Following the transaction, Shagang Group is the company's ultimate controlling party.

**12) Contingent Liabilities**

The Company does not have any contingent liabilities as at the date of this report or for the comparative year end.