

**TOG 2 (Germany) Limited
(Previously known as Cheetah
Newco 2 Limited)**

Report and Financial Statements

Year Ended

31 December 2018

Company Number 11122169



TOG 2 (Germany) Limited

Company Information

Directors	C Green M Green G Katakya O Olsen
Company secretary	J Grabiner
Registered number	11122169
Registered office	35 Great St. Helen's London EC3A 6AP
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

TOG 2 (Germany) Limited

Contents

	Page
Group strategic report	1 - 3
Directors' report	4 - 7
Independent auditor's report	8 - 10
Consolidated statement of profit and loss and other comprehensive income	11
Consolidated balance sheet	12 - 13
Company balance sheet	14
Consolidated statement of changes in equity	15
Company statement of changes in equity	16
Consolidated Statement of cash flows	17
Notes to the financial statements	18 - 52

TOG 2 (Germany) Limited

Group Strategic Report for the Year Ended 31 December 2018

Introduction

The directors present their strategic report together with the audited financial statements for the year to 31 December 2018.

Organisational overview

TOG 2 (Germany) Limited was incorporated on 21 December 2017. On 27 February 2018, as part of a group restructure, TOG 2 (Germany) Limited acquired an indirect interest in The Office Group Holdings Limited and became a subsidiary of Cheetah Holdco Limited and an indirect parent of the trading entities hereafter referred to as The Office Group (TOG). Blackstone Real Estate Partners Europe V acquired a majority shareholding in Cheetah Holdco Limited on 6 July 2017.

The merger accounting method was used to account for the common control transaction on 27 February 2018, therefore the financial statements are presented as if the business combination occurred at the beginning of the earliest comparative period being 1 June 2017, the date that The Office Group Holdings Limited acquired the trading group.

The Office Group (TOG) is London's leading flexible office provider. The market for flexible work space continues to enjoy rapid expansion driven by a combination of technological, economic and behavioural changes. London is at the forefront on this growth, with flexible workspaces now accounting for nearly 5% of total central London office space.

During the period, the TOG group acquired eight buildings bringing the total number of sites to 46 (including 4 managed properties and 7 held within a joint venture), representing over 1.75m sqft. TOG owns the freehold or long leasehold to 9 of the 46 buildings. The lease commitments have a weighted average unexpired term of 17 years providing the foundation for a robust and growing income stream for years to come.

Strategy

TOG's objective is to exploit the market shift across all sizes of business towards more flexible and design-led working environments. The consistent high occupancy, growing revenue and speed of fill up of new buildings indicate the increasing demand for shorter tenure space, in turn challenging the standard form of lease for traditional occupiers. This trend extends to some of the largest businesses in the world which are now demanding shorter-term, and more flexible solutions to their space requirements. Clients also see this flexibility and focus on design as an important element in attracting and retaining the right calibre of staff. The consensus from leading real estate agents is that over time 20%-30% of the overall office market will be made up of flexible workspace.

TOG 2 (Germany) Limited

Group Strategic Report (continued) for the Year Ended 31 December 2018

Results and dividends

The business performed well during the period with strong mature building occupancy and three new buildings opened during the year which are now fully let. Tintagel House in Vauxhall, opened at the start of the year after a two year extension and comprehensive refurbishment. TOG's largest building to date, at just under 100,000 sqft, it has performed exceptionally well since opening, finishing the year fully occupied and achieving license fees ahead of budget. Additionally, TOG opened its second building in Victoria (Thomas House), as well as a first building in Soho (151 Wardour Street). Both buildings traded very strongly in their first year reaching full occupancy before year end. The TOG group generated revenue for the year of £97m, an increase of £44m over the prior period.

The group made an operating profit (before fair value movements) of £3.4m (2017 - £0.017m) in the year. Excluding the impact of pre-opening losses, the group made an adjusted operating profit of £8.5m (2017 - £13.3m). The group generated EBITDA of £33.4m (2017 - £7.1m) for the year.

Following the completion of the Group's refinancing in November 2018, the Group undertook a capital reduction in the year of £263m. The Group subsequently declared and paid an interim dividend of £130.2m.

The value of TOG's opening freehold portfolio increased by £20.0m reflecting the impact of a number of refurbishments and the recognition of gains on the revaluation of assets previously under construction.

The Directors do not recommend payment of a final dividend.

Future

As at the year end, the group has 13 buildings in development with a further 1 acquired post year end bringing the total number of buildings in the group to 47.

The Group's footprint continues to grow across Central London and the UK with a diverse mix of individually designed buildings. The Group has established international operations for the first time having acquired its first 4 buildings in Germany, and looks forward to welcoming the first clients in late 2019.

The demand for TOG's market leading offering continues to increase with group occupancy over 95% at the end of the year. The group continues to innovate to ensure the offering remains market leading as TOG continues to acquire space within the UK and internationally.

TOG 2 (Germany) Limited

Group Strategic Report (continued) for the Year Ended 31 December 2018

Principal risks and uncertainties

Economic Downturn

A significant portion of the Group's costs are fixed which creates a risk to profitability if either occupancy or license fee rates fall. The Group monitors occupancy and license fee rates on a weekly basis. TOG's mixed portfolio of freeholds and leaseholds helps to mitigate this risk to an extent as its EBITDA margins are higher than would otherwise be possible with a pure leasehold model, reducing the exposure to falls in income.

The risk is further mitigated by its aspiration to provide a viable long-term home for businesses as well as its emphasis on central London, the largest flexible office market in the world.

Britain's decision to leave the EU has not had any adverse impact on the business to date. In fact, the Group has found that the economic uncertainty created has increased demand for flexible workspace by clients wishing to avoid long term lease commitments. The Group continues to monitor the situation closely to gauge the effect on the business, the sector and the UK economy.

Client Retention

The majority of clients are bound to commitments of a maximum of 12 months. The Group manages this risk by having a policy of not over-committing to licensing more than 20% of an individual building to one client, having a proactive and early renewals process and staggering the exit of larger clients over several months. The Group is increasingly offering longer term commitments to larger clients, further mitigating the risk of losing clients. Approximately 29% of annual revenue is now generated from multi-year contracts.

Financial Market Volatility

The Group has refinanced its existing facilities and obtained a funding package of senior and mezzanine debt provided by 3 lenders. There is a risk that these loans may not be refinanced at competitive prices, or at all, due to market volatility at the time of refinancing. The funding requirements of the Group are reviewed regularly and options for alternative sources of funding monitored. Existing arrangements have 2 years until they mature.


Business Interruption

There is a risk that the business could be adversely affected by major external events which could result in TOG being unable to carry out its business for a sustained period. The Group has business continuity plans and procedures in place and benefits from the growing diversity of its portfolio across London.

Regulatory Risk

The Directors ensure the Group complies with, and where possible is ahead of current regulations. As a matter of policy, the Group compliance checks all clients against leading databases and conducts annual independent audits of clients' files, going further than is currently recommended as industry best practice. Another key area of focus is the requirement to comply with increasing health and safety as well as environmental regulations. This is one of the factors driving the development of the flexible office market due to the increasing administrative burden it forces on small businesses.

This report was approved by the board and signed on its behalf.



M Green
Director

Date: 28th June 2019

TOG 2 (Germany) Limited

Directors' Report for the Year Ended 31 December 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Incorporation

The Company was incorporated on 21 December 2017 and commenced trading on the same date.

Principal activity

The principal activity of the Group is that of a provider of flexible office space and related services. TOG 2 (Germany) Limited is a holding Company.

Change of name

The Company passed a special resolution on 9 May 2018 changing its name from Cheetah Newco 2 Limited to TOG 2 (Germany) Limited.

Group reorganisation

On 27 February 2018 the Company became a new intermediary holding company by acquiring shares in The Office Group Holdings Ltd by way of a share for share exchange. The background to this transaction has been explained below.

The Office Group Holdings Ltd was incorporated on 12 May 2017. The entity acquired the share capital of The Office Group Midco Ltd on 1 June 2017. At this point The Office Group Holdings Ltd became the ultimate parent of the trading group referred to as 'The Office Group'. There was no change in ultimate control arising from this transaction. The date of The Office Group Holdings Ltd's acquisition of The Office Group Midco Ltd (1 June 2017) forms the beginning of the comparative period, being the date that The Office Group Holdings Ltd (now indirect subsidiary of TOG 2 (Germany) Ltd) gained control of the group.

Subsequent to the above transaction The Office Group Holdings Ltd, along with the trading group, was acquired by The Blackstone Group. The acquisition of The Office Group was effected through two UK intermediary holding companies, being Cheetah Holdco Ltd and Cheetah Bidco Ltd. This acquisition represented a change in control and was accounted for as a business combination within the consolidated accounts of Cheetah Holdco Ltd.

During the year ended 31 December 2018, a group reorganisation took place, as part of which 7 new intermediary holding companies were inserted into the group structure. TOG 2 (Germany) Ltd was one of the entities incorporated and inserted into the structure as part of this reorganisation. TOG 2 (Germany) Ltd acquired 100% of the share capital of The Office Group Holdings Ltd by way of a share for share exchange with TOG 1 (US) Ltd (direct parent of The Office Group Holdings Ltd prior to the insertion of TOG 2 (Germany) Ltd into the group). TOG 1 (US) Ltd is a 100% indirect subsidiary of Cheetah Holdco Ltd.

Subsequent to the acquisition of The Office Group Holdings Ltd by TOG 2 (Germany) Ltd, the shares in the entity were sold to TOG 3 (Ireland) Ltd by way of a share for share exchange. TOG 2 (Germany) Ltd retained 100% indirect control of The Office Group Holdings Ltd.

No change in ultimate control has arisen as a result of this transaction and the acquisition of the group by TOG 2 (Germany) Ltd has been accounted for at book value. The Group has elected to present comparative figures under the principles of merger accounting. The combining entities, being TOG 2 (Germany) Ltd and The Office Group Holdings Ltd have been presented as if they have historically always been one entity. Hence the comparative period commences on the date of the acquisition of the group by The Office Group Holdings Ltd (1 June 2017).

TOG 2 (Germany) Limited

Directors' Report (continued) for the Year Ended 31 December 2018

Dividends

The Group undertook a capital reduction in the year reducing the share capital and premium account by a total of £263m. The Group subsequently declared and paid an interim dividend of £130.2m. The Directors do not recommend payment of a final dividend.

Directors

The directors who served during the year were:

C Green (appointed 21 December 2017)
M Green (appointed 21 December 2017)
G Katakya (appointed 21 December 2017)
O Olsen (appointed 21 December 2017)

Going concern

The Group reports a net profit of £14.8m for the year (2017 – loss of £4.5m for the period) and the Company reports a loss of £0.02m. The Group has net current liabilities of £1.7m (2017 - £1.7m) and the Company has net current liabilities of £0.04m (2017 – £Nil).

During the year the Group refinanced its debt facilities, securing debt funding for a further 5 years of £344m.

The directors, having made appropriate enquiries, have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the Group's accounts. In adopting the going concern basis for preparing the financial statements, the directors have considered the Group's principal risks and uncertainties and business review as set out in the strategic report.

TOG 2 (Germany) Limited

Directors' Report (continued) for the Year Ended 31 December 2018

Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

TOG 2 (Germany) Limited

Directors' Report (continued) for the Year Ended 31 December 2018

Auditor

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



.....
M Green
Director

Date: 28th June 2019

TOG 2 (Germany) Limited

Independent Auditor's Report to the Members of TOG 2 (Germany) Limited

Opinion

We have audited the financial statements of TOG 2 (Germany) Limited. ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent Company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effect of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of goodwill and investment property and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effect are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

TOG 2 (Germany) Limited

Independent Auditor's Report to the Members of TOG 2 (Germany) Limited (continued)

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the Company or to cease their operations, and as they have concluded that the group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the Company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

TOG 2 (Germany) Limited

Independent Auditor's Report to the Members of TOG 2 (Germany) Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent 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 they either intend to liquidate the group or the parent Company or to cease operations, or have no realistic alternative but to do so.

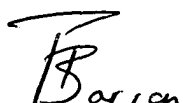
Auditor's responsibilities for the audit of the financial statements

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

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.



Paul Barron (senior statutory auditor)
For and on behalf of KPMG LLP, statutory auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

Date: 28/06/19

TOG 2 (Germany) Limited

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the Year Ended 31 December 2018

		Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
	Note		
Revenue	4	97,003	53,028
Administrative expenses		(95,818)	(47,054)
Non-recurring transaction costs		-	(5,957)
Other operating income	26	2,246	-
Movement in fair value of investment properties	12	20,014	-
EBITDA		33,407	7,087
Depreciation and amortisation		(9,962)	(7,070)
Operating profit	5	23,445	17
Share of post-tax profits of equity accounted joint ventures	14	2,255	-
Profit on sale of trade and assets of subsidiary	14	97	-
Interest receivable and similar income	9	22	2
Interest payable and similar charges	9	(9,354)	(4,003)
Movement in fair value of interest rate derivative		(54)	(36)
Profit/(loss) before taxation		16,411	(4,020)
Tax on profit/(loss)	10	(1,569)	(432)
Profit/(loss) for the financial year		14,842	(4,452)
Currency translation differences		(12)	-
Total comprehensive income for the year		14,830	(4,452)
Profit/(loss) for the year attributable to:			
Non-controlling interests		(76)	(37)
Owners of the parent Company		14,918	(4,415)
		14,842	(4,452)

All amounts relate to continuing operations, except for the sale of trade and assets of a subsidiary as disclosed in note 14.

The notes on pages 18 to 52 form part of these financial statements.

TOG 2 (Germany) Limited
Registered number: 11122169

**Consolidated Balance Sheet
as at 31 December 2018**

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	12	403,772	351,277
Intangible assets	11	36,059	39,600
Investments in equity-accounted joint ventures	14	26,301	24,046
Goodwill	11	111,290	111,290
		<u>577,422</u>	<u>526,213</u>
Current assets			
Trade and other receivables	16	36,589	23,878
Other financial assets	15	184	12
Cash and cash equivalents		23,434	16,183
Total current assets		<u>60,207</u>	<u>40,073</u>
Total assets		<u>637,629</u>	<u>566,286</u>
Current liabilities			
Trade and other payables	17	(61,159)	(35,482)
Other interest bearing loans and borrowings		(767)	(6,299)
Total current liabilities		<u>(61,926)</u>	<u>(41,781)</u>
Net current liabilities		<u>(1,719)</u>	<u>(1,708)</u>
Trade and other payables more than one year	18	(42,395)	(29,647)
Other interest bearing loans and borrowings	19	(361,244)	(210,869)
Deferred taxation	20	(28,856)	(25,441)
Total non current liabilities		<u>(432,495)</u>	<u>(265,957)</u>
Total liabilities		<u>(494,421)</u>	<u>(307,738)</u>
Net assets		<u>143,208</u>	<u>258,548</u>

TOG 2 (Germany) Limited

Registered number: 11122169

Consolidated Balance Sheet (continued) as at 31 December 2018

	Note	2018 £000	2017 £000
Equity attributable to owners of the parent company			
Share capital	21	-	-
Share premium account	21	-	263,000
Foreign exchange reserve	21	(12)	-
Retained earnings	21	143,300	(4,415)
		<u>143,288</u>	<u>258,585</u>
Non-controlling interests		(80)	(37)
		<u>143,208</u>	<u>258,548</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:


.....
M Green
Director

Date: 28th June 2019

The notes on pages 18 to 52 form part of these financial statements.

TOG 2 (Germany) Limited

Registered number: 11122169

Company Balance Sheet as at 31 December 2018

	Note	2018 £000
Non-current assets		
Investments	14	132,852
Total assets		<u>132,852</u>
Current liabilities		
Trade and other payables	17	(39)
Total current liabilities		<u>(39)</u>
Net current liabilities		<u>(39)</u>
Net assets		<u><u>132,813</u></u>
Capital and reserves		
Share capital	21	-
Share premium account	21	-
Retained earnings	21	132,813
		<u><u>132,813</u></u>

The Company loss for the period was £17,000.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

.....
M Green
Director

Date: 28th June 2019

The notes on pages 18 to 52 form part of these financial statements.

TOG 2 (Germany) Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £000	Share premium account £000	Foreign exchange reserve £000	Retained earnings £000	Equity attributable to owners of parent Company £000	Non- controlling interests £000	Total equity £000
Balance at 22 June 2017	-	-	-	-	-	-	-
Comprehensive loss for the period							
Loss for the period	-	-	-	(4,415)	(4,415)	(37)	(4,452)
Contributions by and distributions to owners							
Shares issued during the period	-	263,000	-	-	263,000	-	263,000
Balance at 31 December 2017	-	263,000	-	(4,415)	258,585	(37)	258,548
Comprehensive income for the year							
Profit for the year	-	-	-	14,918	14,918	(76)	14,842
Currency translation differences	-	-	(12)	-	(12)	-	(12)
Total comprehensive income for the year	-	-	(12)	14,918	14,906	(76)	14,830
Contributions by and distributions to owners							
Dividends	-	-	-	(130,170)	(130,170)	-	(130,170)
Issue of ordinary shares	-	263,000	-	-	263,000	-	263,000
Acquisition of subsidiaries under common control	-	(263,000)	-	-	(263,000)	-	(263,000)
Capital reduction	-	(263,000)	-	263,000	-	-	-
Minority interest disposed	-	-	-	(33)	(33)	33	-
At 31 December 2018	-	-	(12)	143,300	143,288	(80)	143,208

Refer to note 21 for the description of equity balances and movements.

TOG 2 (Germany) Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 21 December 2017	-	-	-	-
Comprehensive income for the period				
Loss for the period	-	-	(17)	(17)
Contributions by and distributions to owners				
Dividends	-	-	(130,170)	(130,170)
Shares issued during the period	-	263,000	-	263,000
Capital reduction	-	(263,000)	263,000	-
At 31 December 2018	<u>-</u>	<u>-</u>	<u>132,813</u>	<u>132,813</u>

The notes on pages 18 to 52 form part of these financial statements.

Refer to note 21 for description of equity balances and movements.

TOG 2 (Germany) Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit/(loss) for the financial year	14,842	(4,452)
Adjustments for:		
Depreciation and amortisation	9,962	5,914
Change in value of investment property	(20,014)	-
Profit on sale of trade assets of subsidiary	(97)	-
Finance charges	9,353	4,543
Finance income	(22)	(2)
Share of post-tax profits of equity accounted joint ventures	(2,255)	-
Movement in fair value of interest rate derivative	53	36
Income tax expense	1,569	362
Increase in trade and other receivables	(12,712)	(4,392)
Increase in trade and other payables	40,401	10,550
Income taxes paid	(128)	(834)
Forex	(12)	-
Net cash generated from operating activities	40,940	11,725
Cash flows from investing activities		
Net cash acquired from group on acquisition	-	20,353
Purchase of tangible fixed assets	(38,941)	(23,452)
Disposal of tangible fixed assets	39	-
Proceeds of sale of trade assets of subsidiary	97	-
Net cash used investing activities	(38,805)	(3,099)
Cash flows from financing activities		
Interest paid	(6,346)	(5,784)
Interest received	22	2
Dividends paid	(130,170)	-
Proceeds from bank borrowings	149,554	14,784
Financing costs paid	(6,910)	(1,545)
Repayment of finance leases	(808)	-
Increase in related party loan	-	100
Premium paid on interest rate derivative	(225)	-
Net cash generated from financing activities	5,117	7,557
Net increase in cash and cash equivalents	7,252	16,183
Cash and cash equivalents at beginning of year	16,182	-
Cash and cash equivalents at the end of year	23,434	16,183

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1. Statutory information

TOG 2 (Germany) Limited is a private Company incorporated, domiciled and registered in England in the UK. The registered business number is 11122169 and the registered business address is 35 Great St Helen's, London, EC3A 6AP.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and Joint Ventures. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The consolidated financial statements are presented in Pound Sterling, which is also the Group's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU). The Company has elected to prepare its parent Company financial statements in accordance with FRS 101.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

The consolidated financial statements are prepared on a going concern basis as explained in the directors' report.

The consolidated financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):

- Financial Instruments – Fair value through profit or loss
- Investment property – Fair value through profit or loss

New standards, interpretations and amendments effective:

- IFRS 9: Financial Instruments (effective 1 January 2018); and
- IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)

The following standards and interpretations, which are in issue at the reporting date but not yet effective, have not been applied in these financial statements. In some cases these standards and guidance have not been endorsed by the European Union. There were no changes to recognition or measurement arising from the adoption of these standards.

- FRS 16: Leases (effective 1 January 2019).

IFRS 9: Financial Instruments

The Group do not consider the adoption of IFRS 9 to have a significant effect on the classification and measurement of financial assets and financial liabilities.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, replacing IAS 18 Revenue. The Group has adopted IFRS 15 with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018).

The Group considers the current basis of revenue recognition to remain appropriate because the accounting policies support the recognition of revenue in line with the performance obligations identified under IFRS 15. Licence fee revenue is recognised when the performance obligation of providing the space to the licensee for occupation is fulfilled. Other service revenue is recognised in the month that the service was delivered. Rent receivable is spread on a straight-line basis over the period of the lease. Therefore the Group considers that the initial application of IFRS 15 has no significant change or impact on the Group's accounting policies applied on its consolidated financial statements.

IFRS 16: Leases

IFRS 16 was released in January 2016 and replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard requires all leases (excluding short term and leases of low value items) to be recognised as an asset on the balance sheet, with a corresponding lease liability.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense of the right-of-use asset. The directors are currently evaluating the impact of the adoption of this standard on future periods on the treatment of the Group's short leasehold properties which are currently being accounted for as operating leases under IAS 17.

2.2 Basis of consolidation

The Group financial statements consolidate the financial statements of TOG 2 (Germany) Ltd and all of its subsidiary undertakings ('subsidiaries') drawn up to 31 December 2018 using the merger method of accounting.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of the elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights.

- Substantive potential voting rights held by the Company and by other parties.
- Other contractual arrangements.
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

On 27 February 2018, the Company became an intermediary holding company for the Group. This was put into effect through a share for share exchange, with 158 £1 ordinary shares in TOG 2 (Germany) Ltd exchanged for 1,560,570 £0.0001 ordinary shares and 12,542 £0.0001 A ordinary shares in The Office Group Holdings Ltd, a pre-existing intermediary holding company of the group.

The accounting treatment for the group reorganisation is scoped out of IFRS 3. The introduction of the new holding company was accounted for as a capital reorganisation using the merger accounting principles prescribed.

Where merger accounting has been used (due to group re-organisation), the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration. In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous reporting date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to a separate merger reserve.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.3 Going Concern

The Group reports a net profit of £14.8m for the year (2017 – loss of £4.5m for the period) and the Company reports a loss of £0.02m. The Group has net current liabilities of £1.7m (2017 - £1.7m) and the Company has net current liabilities of £0.04m (2017 – £Nil).

Included in the group trade and other payables is an intercompany debt of £9,600,000 payable to Cheetah Holdco Limited, the indirect parent of the Group. The directors of Cheetah Holdco Limited do not intend to call for repayment of the intercompany debt for a period of at least 12 months from the date of this report.

The Group refinanced its debt facilities, securing debt funding for a further 5 years.

The directors, having made appropriate enquiries, have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the Group's accounts. In adopting the going concern basis for preparing the financial statements, the directors have considered the Group's principal risks and uncertainties and business review as set out in the strategic report.

2.4 Non-controlling interests

For business combinations the total comprehensive income of non-wholly owned subsidiaries is attributable to owners of the parent and to the non-controlling interest in proportion to their relative ownership interests. Unfunded losses in such subsidiaries are attributed entirely to the Group.

2.5 Investments in debt and equity securities

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.6 Joint arrangements

The Group is party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principals as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

The Group's interest in joint ventures was initially recognised at fair value (deemed cost). Subsequent to initial recognition, joint ventures are accounted for using the equity method, where the group's share of post acquisition profits and losses is recognised in the consolidated statement of Profit and Loss and Other Comprehensive Income.

2.7 Property, plant and equipment

Property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Fixtures, fittings and equipment	- 20% on cost
Short leasehold properties	- over the period of the lease

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.8 Investment property

Investment property comprises completed property that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when it is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Investment property under construction is initially measured at cost including transaction costs. Subsequent to initial recognition, investment property under construction is stated at fair value less any costs payable in order to complete.

The fair value is determined by a professional internal valuer as set out in note 13. The valuations have been prepared in accordance with the Royal Institute of Chartered Surveyors Valuations - Professional Standards January 2014 ("the Red Book"). Factors affecting the valuation include current market conditions, annual rentals, lease lengths and location.

Additions to properties include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits which are expected to accrue to the Group. All other property expenditure is written-off in the consolidated statement of profit or loss and other comprehensive income as incurred.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the consolidated statement of profit or loss and other comprehensive income in the year of retirement or disposal.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.9 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

Brand	- 5 years
Customer relationships	- 15 years
Lease intangibles	- over remaining length of each lease (3 – 17 years)

The fair values on above intangible assets have been calculated using the following valuation techniques:

- Royalty relief approach - Brand: This considers the discounted estimated royalty payments that are expected to be avoided as a result of the brand being owned.
- Excess earnings method - Customer relationships: This considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.
- Market comparison technique - Lease intangibles: This considers the difference between the rent payable under operating leases versus the market rent.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.10 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income in the finance income or expense line. Other than the Group's interest rate derivative which is not designated as a hedging instrument, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers e.g. trade receivables, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairments.

Loss allowances for trade debtors and contract assets are measured at an amount equal to lifetime expected credit losses (ECLs), i.e. the ECLs that result from all possible default events over the expected life of the asset. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and - for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the statement of financial position.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.11 Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Fair value through profit or loss

Financial liabilities are classified as fair value through profit or loss where the liability is either held for trading or is designated as held at fair value through profit or loss on initial recognition. They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. The Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities include the following items:

- Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.
- Loans from Group companies are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method. The difference between the fair value of the loan on initial recognition and the amount of the proceeds is credited directly to equity as a capital contribution.

2.12 Derivative financial instruments

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at cost and are subsequently measured at fair value being the estimated amount that the Group would receive or pay to terminate the agreement at the reporting date, taking into account current interest rate expectations and the current credit rating of counterparties. The gain or loss at each fair value remeasurement date is recognised in the consolidated statement of profit or loss and other comprehensive income. Amounts payable or receivable under such arrangements are included within finance costs.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.14 Leased assets

The Group recognises ground rents payable on long leasehold properties held as investment properties as finance leases. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the lease term and the corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group ('an operating lease'), the total rents payable are charged to the profit and loss account on a straight line basis over the lease term.

Lease incentives on short leasehold properties are recognised as a reduction of the rental expense over the lease term on a straight line basis. A rent accrual is recognised for the difference between the lease expense and the amount invoiced.

2.15 Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax arising as a consequence of investment property carried at fair value is calculated on the basis that the gain/(loss) will be recovered through a sale of the property in line with the Group's business model which is to generate value in the form of capital appreciation.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable Group Company, or
- Different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2. Accounting policies (continued)

2.16 Revenue

Revenue comprises rent and license fees in relation to the provision of office space, as well as ancillary charges for additional services including telephone, IT, other support services and meeting rooms. Revenue is recognised exclusive of VAT and is recognised on an accruals basis.

Licence fee revenue is billed monthly in advance and recognised when the performance obligation of providing the space to the licensee for occupation is fulfilled. Other service revenue is billed monthly in arrears and is recognised in the month that the service was delivered and it is probable that payment will be received. Rent receivable is spread on a straight-line basis over the period of the lease. When the billing profile is not uniform this results in a balance of accrued or deferred income at each reporting date until the licence term is complete.

The directors are of the opinion that the Group is engaged in a single segment, being the investment in and operation of flexible workspaces in the UK only. In 2018 the group acquired its first building outside of the UK but no revenue was generated in the year. This has been assessed in accordance with IFRS 15.

2.17 Borrowing costs

Interest incurred on Group borrowings used to fund the construction or production of an asset that necessarily takes a substantial amount of time to get ready for intended use are capitalised as part of the cost of that asset, net of interest received on cash drawn down yet to be expended. The Group does not incur any other interest costs that qualify for capitalisation.

2.18 Finance income

Finance income is recognised as interest accrues on cash balances held by the Group. Where any interest is charged to a tenant on any overdue rental income, this would also be recognised within finance income.

2.19 Finance costs

Any finance costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that takes a period of time to complete are capitalised as part of the cost of the asset. All other finance costs are expensed in the period in which they relate. Finance costs consist of interest and other costs that an entity incurs in connection with bank and other borrowings.

2.20 Employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

3. Critical accounting estimates and judgements

The Group makes certain estimates and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the following items at fair value:

1. Investment property
2. Identifiable intangible assets arising from business combinations in the year of acquisition
3. Impairment of goodwill

Estimates:

Fair valuation of investment property

The market value of investment property is determined, by either an internal or external real estate valuation expert, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation expert used the recognised valuation techniques and the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institute of Chartered Surveyors Valuation - Professional Standards January 2017 ("the Red Book"). Factors reflected include current market conditions, annual rentals and location. The significant methods and estimates used by valuers in estimating the fair value of investment property are set out in note 13.

Impairment of goodwill

The Group determines whether goodwill is permanently impaired on an annual basis or otherwise when changes in events or situations indicate that the carrying value may not be recoverable.

No critical accounting judgements are identified.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

4. Revenue

Revenue arising from:

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
Licence fee and rental income	76,992	41,921
Other services income	20,011	11,107
	<u>97,003</u>	<u>53,028</u>

5. Expenses and auditor's remuneration

Included in the profit/loss for the period are the following:

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
Depreciation and amortisation	9,962	7,070
Operating lease expense - property	36,675	15,473
Building operating costs	22,287	10,623
Sales and marketing costs	4,147	1,705
	<u> </u>	<u> </u>

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
--	--	---

Auditor's remuneration

Audit of these financial statements	3	5
Audit of financial statements of subsidiaries of the Company	177	70
	<u> </u>	<u> </u>

Fees payable to the Group's auditor and its associates in respect of:

Taxation compliance services	77	25
All other services	-	12
	<u>77</u>	<u>37</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

6. Employees

Staff costs, including directors' remuneration, were as follows:

	Group Year Ended 31 December 2018 £000	Group Period from 1 June 2017 to 31 December 2017 £000
Wages and salaries	14,163	7,086
Social security contributions and similar taxes	1,519	758
Pension costs	278	53
	<u>15,960</u>	<u>7,896</u>
	2018 No.	2017 No.
The average monthly number of employees, including the directors, during the year was	<u>298</u>	<u>253</u>

7. Non-recurring transaction costs

In the prior year, non-recurring transactions costs of £5,957,000 expensed to profit and loss were legal and professional fees incurred in relation to the acquisition of The Office Group (headed by The Office Group Holdings Limited) by Blackstone Real Estate Partners Europe V. and comprised of fees incurred by The Office Group Holdings Limited and The Office Group Midco Limited.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

8. Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
Wages and salaries	2,077	2,173
Social security contributions and similar taxes	392	269
Pension costs	52	6
	<u>2,521</u>	<u>2,448</u>

The aggregate of remuneration of the highest paid Director was £820,000 (2017 - £820,000), including pension contributions of £20,000 (2017 - £5,000).

9. Finance income and expense

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
Finance income		
Bank interest	<u>22</u>	<u>2</u>
	2018	2017
	£000	£000
Finance expense		
Bank interest payable	6,347	2,619
Other loan interest payable	1,631	618
Finance leases and hire purchase contracts	1,376	766
	<u>9,354</u>	<u>4,003</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

10. Tax expense

	Year Ended 31 December 2018 £000	Period from 1 June 2017 to 31 December 2017 £000
Corporation tax		
Current tax on profits for the period	-	1,555
Adjustments in respect of previous periods	(386)	(374)
Deferred tax		
Origination and reversal of timing differences	2,210	(749)
Adjustments in respect of previous periods	(255)	-
Taxation on profit on ordinary activities	1,569	432

Factors affecting tax charge for the year

The tax assessed for the period is lower than (2017 - higher than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit/(loss) on ordinary activities before tax	16,411	(4,019)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	3,118	(774)
Effects of:		
Expenses not deductible for tax purposes	1,156	2,157
Income not taxable for tax purposes	(5,038)	(264)
Chargeable gains	3,177	(787)
Group relief surrendered for nil consideration	43	-
Adjustment to tax charge in respect of previous periods (current and deferred tax)	(641)	-
Effect of tax rate change on opening deferred tax balances	2,955	4,107
Effect of tax rate change on closing deferred tax balances	(3,210)	(4,007)
Deferred tax not recognised	9	-
Total tax charge for the period	1,569	432

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

10. Tax expense (continued)

Factors that may affect future tax charges

A reduction in the UK Corporation Tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. A deferred tax rate of 17% has been applied to the unrealised gains on the investment properties as the directors do not intend to sell the property and realise the gains in the foreseeable future.

11. Intangible assets

Group

	Brand £000	Operating leases £000	Customer Relationships £000	Goodwill £000	Total £000
Cost					
At 1 January 2018	3,343	31,161	6,867	111,290	152,661
At 31 December 2018	3,343	31,161	6,867	111,290	152,661
Amortisation					
At 1 January 2018	335	1,207	229	-	1,771
Charge for the year	669	2,414	458	-	3,541
At 31 December 2018	1,004	3,621	687	-	5,312
Net book value					
At 31 December 2018	2,339	27,540	6,180	111,290	147,349
At 31 December 2017	3,008	29,954	6,638	111,290	150,890

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

11. Intangible assets (continued)

The Group is considered to have only one CGU, flexible office space and related services. Goodwill and intangible assets that are considered significant in comparison to the group's total carrying amount of such assets are related to this CGU only.

The recoverable amount of the cash generating unit has been calculated with reference to its fair value less costs to sell. The key assumptions of this calculation are shown below:

Value in Use Approach

The recoverable amount is determined based upon a value-in-use calculation. Value-in-use is established by discounting anticipated future cash flows attributable to each cash generating unit that goodwill has been allocated to. Pre-tax cash flow projections are based on financial budgets approved by management covering the next financial period and projections for three future periods. Cash flows beyond the three-year period have been extrapolated using long-term growth rates of 3.5%.

Key Assumptions

The key assumptions are based upon the historic performance of the group combined with relevant market data. The calculation of value-in-use is most sensitive to the following assumptions:

EBITDA - this reflects the Directors' best estimate of the performance of the group, taking into account the client renewal rate over the past 3 years and opening of the remaining buildings in development at the end of 2018. Operating costs include lease payments under operating leases and corporate overheads sufficient to grow the business to maturity with the current building portfolio.

Future forecast capital expenditure – this includes costs incurred to bring the current development buildings to completion and is expected to decrease to maintenance expenditure levels in order to sustain mature revenue performance.

Discount rate – A discount rate of 9.06% has been used, this reflects the Directors' estimate of an appropriate market rate of return taking into account the risk factors applicable to the Group.

Growth rate – A growth rate of 3.5% has been used to extrapolate between the plan years and the terminal value. A growth rate of 3.5% has been determined based on the average client renewal rate over the past 3 years.

Terminal value growth rate – growth is assumed to continue beyond the forecast period as the average client renewal rate is expected to continue. There are no indicators that this will slow beyond the forecast period.

Sensitivity to Changes in Assumptions

The impairment calculation is sensitive to changes in the above assumptions. Sensitivity analyses were performed to model the effects of adverse changes in the forecasts and growth assumptions.

Assuming the growth rate falls to 2.5% the value in use decreases by 39%, however is still significantly higher than the carrying amount of goodwill. A similar result is achieved if the discount rate increases by 100 basis points. The goodwill carrying amount is therefore not reasonably expected to exceed the recoverable amount.

Management have considered any changes in value arising from factors since acquisition and concluded that there was no material or significant change in the group operations, industry, regulatory environment, country, market or other factors would could affect the recoverable amount.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

12. Tangible fixed assets

Group

	Freehold and long leasehold investment properties £000	Short-term leasehold property £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost or valuation					
At 1 January 2018	207,693	41,440	9,279	93,479	351,891
Additions	7,958	17,546	3,557	9,854	38,915
Disposals	-	-	(39)	-	(39)
Transfers between classes	53,308	-	-	(53,308)	-
Revaluations	20,014	-	-	-	20,014
At 31 December 2018	<u>288,973</u>	<u>58,986</u>	<u>12,797</u>	<u>50,025</u>	<u>410,781</u>
Depreciation					
At 1 January 2018	-	33	581	-	614
Charge for the period	-	3,033	3,388	-	6,421
Disposals	-	-	(26)	-	(26)
At 31 December 2018	<u>-</u>	<u>3,066</u>	<u>3,943</u>	<u>-</u>	<u>7,009</u>
Net book value					
At 31 December 2018	<u>288,973</u>	<u>55,920</u>	<u>8,854</u>	<u>50,025</u>	<u>403,772</u>
At 31 December 2017	<u>207,693</u>	<u>41,407</u>	<u>8,698</u>	<u>93,479</u>	<u>351,277</u>

Bank borrowings are secured on the Group's freehold and long leasehold land and buildings. Interest capitalised at the period end amounted to £1,957,000 (2017 - £1,192,000) which represents 24% (2017 - 21%) of the total interest expense for the period.

Assets under construction relate to freehold properties, which are measured at cost as they are still in development. Upon completion, they will be transferred to Investment Properties.

The historic cost of investment properties was £269,242,000 (2017 - £207,693,000).

As at the year-end the Group has £Nil (2017 - £Nil) capital commitments.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

13. Investment property

Restrictions and obligations

At 31 December 2018, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

There are currently no obligations to construct or develop the existing investment properties.

Fair value measurement

The investment properties were revalued at 31 December 2018 by C Green MRICS, a director of TOG 2 (Germany) Limited and a chartered surveyor with the Royal Institute of Chartered Surveyors.

The fair value of investment property is categorised as a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	2018
	£000
Opening balance (level 3 recurring fair values)	207,693
Additions in the year	7,958
Transfers between classes	53,308
Revaluations in the year	20,014
Closing balance (level 3 recurring fair values)	288,973

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of investment property, as well as the inter-relationship between key unobservable inputs and fair value, is detailed below:

Valuation techniques used	Key unobservable inputs	Relationship between key unobservable inputs and fair value
A combination of the comparable evidence approach and the income approach using earnings generated by each property is used	Yield 5% - 6.25% (2018)	Higher yield reduces fair values

The fair value measurement is based on the above items' highest and best use, which does not differ from their actual use.

During the year, £24,963,000 was recognised in the consolidated statement of profit and loss and other comprehensive income in respect of income generated by the freehold and long leasehold properties.

Direct operating expenses including repairs and maintenance arising from investment properties amounted to £4,686,000

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

14. Investments

Group

	Joint Ventures £000
Cost	
At 1 January 2018	24,046
Share of post - tax profits of equity accounted joint ventures	2,255
	<u>26,301</u>
At 31 December 2018	
Net book value	
At 31 December 2018	<u>26,301</u>
At 31 December 2017	<u>24,046</u>

The investment relates to a 50% indirect interest in The Station Office Network LLP.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

14. Investments (continued)

Company

	Investments in subsidiary companies £000
Cost	
At 1 January 2018	-
Additions	526,022
Disposals	(263,000)
	<hr/>
At 31 December 2018	263,022
Impairment	
At 1 January 2018	-
Charge for the period	130,170
	<hr/>
At 31 December 2018	130,170
	<hr/>
Net book value	
At 31 December 2018	132,852
	<hr/> <hr/>
At 31 December 2017	-
	<hr/> <hr/>

The investment relates to a 100% interest in the share capital of TOG 3 (Ireland) Limited and TOG The Office Group Germany GmbH.

The investment in TOG 3 (Ireland) Ltd was acquired on 24 August 2018. The share capital of TOG 3 (Ireland) Ltd was acquired by way of share for share exchange. 100% of the share capital of TOG 3 (Ireland) Ltd was exchanged for 100% of the share capital of The Office Group Holdings Limited. The transaction was accounted for at book value. Consideration was determined as equivalent to the net assets of The Office Group Holdings Limited.

The investment was impaired by £130,170,000 following the declaration of a dividend by TOG 3 (Ireland) Limited payable to the Company for the same amount.

The Company acquired the entire share capital of The Office Group (Germany) GmbH on 17 January 2018 for €25,000.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

14. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
TOG 3 (Ireland) Limited	Ordinary	100%	Intermediate holding company
TOG 4 Limited	Ordinary	*100%	Intermediate holding company
TOG UK Topco Ltd	Ordinary	*100%	Intermediate holding company
TOG UK Mezzco Ltd	Ordinary	*100%	Intermediate holding company
TOG UK Pledgeco Ltd	Ordinary	*100%	Intermediate holding company

The subsidiaries as stated above have the registered office address of 35 Great St. Helen's, London E14 5GL, United Kingdom.

The Office Group Holdings Limited	Ordinary	*100%	Intermediate holding company
The Office Group Midco Limited	Ordinary	*100%	Flexible office provider
The Office Group Properties Limited	Ordinary	*100%	Flexible office provider
The Office Group Limited	Ordinary	*100%	Intermediate holding company
The Office Islington Limited	A, B and Deferred	*100%	Management services provider
The Office (Farringdon) Limited	Deferred and Ordinary	*100%	Flexible office provider
The Office (Shoreditch) Limited	Ordinary	*100 %	Flexible office provider
The Office (Bristol1) Limited	Ordinary	*100 %	Flexible office provider
The Office (Marylebone) Limited	Ordinary	*100 %	Flexible office provider
The Office (Kirby) Limited	Ordinary	*100 %	Flexible office provider
EOP DL Limited	Ordinary	*100 %	Flexible office provider
TOG Fitness Limited (a)	Ordinary	*100 %	Fitness provider
Creative Debuts Limited (b)	Ordinary	*51%	Artwork sale and rental

The subsidiaries and joint venture as stated above have the same registered office address of 179 - 185 Great Portland Street, London, W1W 5PL, United Kingdom.

TOG The Office Group (Germany) GmbH	Ordinary	100 %	Flexible office provider
TOG (Smiths Building) Ireland Limited	Ordinary	*100 %	Flexible office provider

*shares held indirectly

TOG The Office Group (Germany) GmbH's registered office address is Friedrichstrasse 189, 10117 Berlin, Germany.

TOG (Smiths Building) Ireland Limited's registered office address is 2nd Floor, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland.

(a) During the year TOG Fitness Limited sold its gym operations. The profit on sale of the trade and assets was £97,000.

(b) The Group sold its investment in Creative Debuts Limited on 31 January 2019.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

14. Investments (continued)

Joint ventures

At the year end the Company held an indirect 50% interest in The Station Office Network LLP. The principal activity of the company is that of a flexible office provider. The joint venture was acquired by business combination on 6 July 2017 and initially recognised at fair value of £24,046,000. The Group's share of post-tax profits of the joint venture from 6 July 2017 to 31 December 2018 was recognised in the year at £2,255,000. Joint ventures are accounted for using the equity method, where the Group's share of profits and losses is recognised in the consolidated statement of Profit and Loss and Other Comprehensive Income.

	Aggregate of share capital and reserves £000	Profit £000
The Station Office Network LLP	8,236	3,094

The Group's aggregate share of joint venture's net assets at the balance sheet date is as follows:

	£000
Share of assets	
Non current assets	6,410
Current assets	6,346
	<u>12,756</u>
Share of liabilities	
Current liabilities	(3,329)
Non current liabilities	(5,309)
	<u>4,118</u>
Net assets	<u>4,118</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

15. Other financial assets

	Group 2018 £000	Group 2017 £000
Current assets: Interest rate derivative	184	12

It is the Group's policy to manage interest rate exposure using interest rate derivatives.

To mitigate the threat of interest rate risk which arises as a result of entering into the London Interbank Offered Rate ("LIBOR") linked loans, the Group has entered into an interest rate cap. Interest rate caps have been taken out in respect of the loans drawn to cap the rate at which the 3 month LIBOR can rise to. The cap rate for the Group as at the period end was 2.25% above LIBOR. The total premium payable in the period towards securing the interest rate caps was £225,000.

The interest rate derivatives are marked to market by the relevant third party banks on a quarterly basis in accordance with IFRS 9. Any movement in the mark to market values of the derivatives are taken to the consolidated statement of profit or loss and other comprehensive income.

Company

The Company has no financial assets.

16. Trade and other receivables

	Group 2018 £000	Group 2017 £000
Due within one year		
Trade receivables	2,020	1,595
Amounts owed by group undertakings	2,737	-
Other receivables	16,673	15,077
Prepayments	12,167	6,740
Accrued income	1,418	350
Deferred taxation	1,574	116
	36,589	23,878

The carrying value of trade and other receivables classified as loans and receivables approximates to fair value.

Amounts owed by group undertakings are repayable on demand and are not interest-bearing.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

17. Trade and other payables

	Group 2018 £000	Group 2017 £000	Company 2018 £000
Trade payables	560	3,027	-
Amounts owed to group undertakings	12,327	-	39
Amounts owed to joint venture undertakings	988	627	-
Corporation tax	-	516	-
Other taxation and social security	899	731	-
Other payables	29,233	12,726	-
Accruals	16,800	17,053	-
Deferred income	352	802	-
	61,159	35,482	39

Other payables comprise the current portion of the rent-free accrual. Amounts owed to group and joint venture undertakings are repayable on demand and are not interest-bearing.

18. Trade and other payables more than one year

	Group 2018 £000	Group 2017 £000
Other payables	42,395	29,647
	42,395	29,647

Other payables due after one year comprise the non-current portion of the rent-free accruals.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

19. Other interest bearing loans and borrowings

	Group 2018 £000	Group 2017 £000
Non current borrowings		
Bank loan	343,652	187,559
Unamortised arrangement fees	(6,780)	(535)
Loan notes	34	31
Finance leases	24,338	23,814
	<u>361,244</u>	<u>210,869</u>
	Group 2018 £000	Group 2017 £000
Due after more than one year:		
Repayable between one and two years	808	7,309
Repayable between two and five years	345,980	182,341
Repayable after more than five years	116,245	21,754
	<u>463,033</u>	<u>211,404</u>
	Group 2018 £000	Group 2017 £000
Current borrowings		
Bank loan	-	6,542
Unamortised arrangement fees	-	(1,010)
Finance leases	767	767
	<u>767</u>	<u>6,299</u>

Unamortised arrangement fees of £6,780,000 as at 31 December 2018 are being amortised up until the loan maturity date of February 2024 and includes £1,355,000 expected to be amortised within 1 year.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

19. Other interest bearing loans and borrowings (continued)

The Group refinanced its bank borrowings during the year. The bank loan is secured by fixed and floating charges over the assets of the Group. The debt facilities mature in February 2024. Any associated fees in arranging the bank borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the note above.

Each of the Group's facilities has an interest charge which is based on a margin above the 3 month weighted average margin above LIBOR. The weighted average margin payable by the Group on its debt portfolio as at the period end was 3.57% (2017 - 3.01%).

Group future lease payments are due as follows:

	Minimum lease payments £000	Interest £000	Present value £000
2018			
Not later than one year	808	41	767
Between one year and five years	3,136	319	2,817
Later than five years	116,246	94,725	21,521
	<u>120,190</u>	<u>95,085</u>	<u>25,105</u>
	Minimum lease payments £000	Interest £000	Present value £000
2017			
Not later than one year	808	41	767
Between one year and five years	3,232	330	2,902
Later than five years	116,958	96,046	20,912
	<u>120,998</u>	<u>96,417</u>	<u>24,581</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

20. Deferred taxation

Group

	2018 £000
At beginning of year	(25,325)
Charged to profit or loss	(1,957)
At end of year	(27,282)

	Group 2018 £000	Group 2017 £000
Accelerated capital allowances	(4,922)	(4,067)
Capital gains	(17,576)	(14,734)
Provisions	(255)	(275)
Loan relationship asset	-	274
Tax losses asset	1,601	209
Intangibles on business combination	(6,130)	(6,732)
	(27,282)	(25,325)

Comprising:

Asset - due within one year	1,574	116
Liability	(28,856)	(25,441)
	(27,282)	(25,325)

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

21. Share capital and other reserves

	2018 £	2017 £
Allotted, called up and fully paid		
258 (2017 - 157) Ordinary shares of £1 each	258	157

Other Reserves

Share premium records the amount above the nominal value for shares sold. On 28 November 2018 a reduction of share premium of £263m was undertaken which was credited to retained earnings, thereby creating sufficient distributable reserves to effect the declaration and payment of a dividend of £130.2m payable to the immediate parent undertaking, TOG 1 (US) Ltd.

The foreign exchange reserves records the exchange differences arising upon translation of foreign entities into presentational currency. It represents the difference between recording the foreign assets and liabilities at the closing rate and the foreign income and expenses at the rates on the dates of the transactions.

Retained earnings includes all current and prior period retained profits and losses.

22. Leases

The Group maintains a mixed portfolio of owned and leased properties.

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 £000	Group 2017 £000
Not later than 1 year	28,297	26,399
Later than 1 year and not later than 5 years	161,491	165,826
Later than 5 years	566,316	389,371
	756,104	581,596

Notes to the Financial Statements for the Year Ended 31 December 2018

The Group is exposed through its operations to the following financial risks:

- In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Principal financial instruments

- Trade receivables
- Trade and other payables
- Floating-rate bank loans
- Interest rate caps

	Group Financial liabilities at amortised cost 2018 £000	Group Financial liabilities at amortised cost 2017 £000
Financial liabilities		
Trade and other payables	73,087	46,131
Other interest bearing loans and borrowings	368,791	218,713
	441,878	264,844

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

23. Financial instruments - risk management - continued

Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and other interest bearing loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates to their fair value.

Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below.

	2018	Level 2 2017
	£000	£000
Financial assets		
Derivative financial assets (fair value through profit or loss)	184	12

There were no transfers between levels during the period.

There were no changes to the valuation techniques during the period.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk from the Group's customers is very low as the Group holds deposits for each customer and can deny access to services if payment is outstanding. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due or impaired, are provided in note 16.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

23. Financial instruments - risk management - continued

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

The Group finances its operation through a mixture of retained profits and external borrowings. The Group borrows at both fixed and floating rates of interest and then utilises interest rate swaps and caps to generate the desired interest and risk profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

During 2018, the Group's borrowings at variable rate were denominated in Pound Sterling.

At 31 December 2018, if interest rates on Pound Sterling denominated borrowings had been 100 basis points higher/lower with all other variables held constant, profit after tax for the period would have been £2.1m lower/higher.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section above.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial period, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The liquidity risk of each Group entity is managed centrally by the Group finance function.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Up to 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2018				
Trade and other payables	35,781	1,972	13,703	26,246
Other interest bearing loans and borrowings	842	808	345,980	116,246
	36,623	2,780	359,683	142,492

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

23. Financial instruments - risk management - continued

Capital disclosures

The Group's objective when maintaining capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group monitors the ratio of bank borrowings to long term property assets. Long term property assets is calculated as the net book value of freehold investment properties and short leasehold property shown in property, plant and equipment.

24. Related party transactions

Included within revenue is £843,213 (2017 - £717,468) of management fees from The Station Office Network LLP, a joint venture of which The Office Group Properties Limited is a member with a 50% interest in the partnership. An amount of £252,101 (2017 - £245,971) relating to management fees was included in accrued income owing by The Station Office Network LLP at year end. The Group also charged The Station Office Network LLP employee costs of £971,877 (2017 - £720,466) during the year. An amount of £987,589 (2017 - £627,320) was owing by the Group at year end.

The Group is related to Blackstone Property Management Limited by virtue of being under common control. During the year the Group incurred administrative costs of £100,000 (2017- £Nil) of which nil (2017 - £Nil) was outstanding at year end.

The Group is related to BRE Europe UK Limited by virtue of being under common control. During the year the Group incurred administrative costs of £121,000 of which nil (2017 - £Nil) was outstanding at year end.

The Group sold its 51% interest in Creative Debuts Limited on 31 January 2019. During 2017, the Group purchased loan notes issued by Creative Debuts Limited amounting to £55,152, which remain outstanding at 31 December 2018. Interest accrued in the year amounted to £11,471 (2017 - £8,139) and this remains unpaid at the year end. The Group paid expenses of £11,116 (2017 - £77,371) on behalf of Creative Debuts Limited and received income of £6,250 (2017 - £3,750). At the accounting date, £28,930 (2017 - £10,630) was due from Creative Debuts to the Group.

On 14 February 2018 the Group acquired the minority shareholding in TOG Fitness Limited, at which point it became a wholly owned subsidiary. During the period it was partially owned, expenses of £13,338 (2017 - £81,678) were incurred on behalf of TOG Fitness Limited and the Group received income of £589 (2017 - £5,000).

Included within payables is £12,327,000 (2017: Nil) owing by entities in the TOG 2 (Germany) Limited group to Cheetah Holdco Limited, an indirect parent of the Company. Included within receivables is £2,737,000 (2017: Nil) owing by related entities in the Cheetah Holdco Limited Group by outside the TOG 2 (Germany) Limited Group.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

25. Ultimate parent

The Company is a subsidiary undertaking of Cheetah-Wild Holdco Limited which is the ultimate parent company incorporated in Jersey. The accounts of Cheetah-Wild Holdco Limited are not available to the public.

The largest Group in which the results of the Company are consolidated is Cheetah Holdco Limited. The direct parent of the Company is TOG 1 (US) Ltd. The smallest group in which the Company is consolidated is that headed by TOG 2 (Germany) Ltd, registered in 35 Great St. Helen's, London, United Kingdom, EC3A 6AP.

26. Events after the reporting date

In 2017 the Group's leasehold interest in Euston Square was subject to a compulsory purchase order in relation to the High Speed Rail Bill. The Group received some compensation for this loss of business in 2019 amounting to £2m which represents 90% of the undisputed claim amount. This was treated as an adjusting post-balance sheet event and an amount of £2.2m representing 100% of the undisputed element was recorded in other income in 2018, being the value considered reliably measurable and certain to be recovered as at year end date. The Group expects to receive further compensation however a reliable estimate is unable to be determined, therefore a contingent asset is not recognised at the year end date.

On 31 January 2019, the Group sold its 51% interest in Creative Debuts Ltd. Creative Debuts has not been disclosed as a discontinued operation on the basis of its financial insignificance to the Group.