

AMENDING

TOG 2 (Germany) Limited

Report and Financial Statements

Year Ended

31 December 2019

Company Number 11122169

WED WEDNESDAY		*A9GMHGMP*	
	A19	28/10/2020	#151
	COMPANIES HOUSE		
WED WEDNESDAY		*A9F52D1T*	
	A03	07/10/2020	#363
	COMPANIES HOUSE		

TOG 2 (Germany) Limited

Company Information

Directors	C Green M Green G Katakya O Olsen
Registered number	11122169
Registered office	1 Bartholomew Lane London EC2N 2AX
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

TOG 2 (Germany) Limited

Contents

	Page
Group strategic report	1 - 4
Directors' report	5 - 8
Independent auditor's report	9 - 11
Consolidated statement of profit and loss and other comprehensive income	12
Consolidated balance sheet	13 - 14
Company balance sheet	15
Consolidated statement of changes in equity	16
Company statement of changes in equity	17
Consolidated statement of cash flows	18 - 19
Notes to the financial statements	20 - 70

TOG 2 (Germany) Limited

Group Strategic Report for the Year Ended 31 December 2019

Introduction

The directors present their strategic report together with the audited financial statements for the year to 31 December 2019.

Organisational overview

TOG 2 (Germany) Limited (the "Company") was incorporated on 21 December 2017. On 27 February 2018, as part of a group restructure, the Company 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).

Therefore, although TOG 2 Limited only acquired The Office Group on 27 February 2018, the comparative period for the current year group results is for the full year, 1 January 2018 to 31 December 2018.

Business model

Key activities

TOG is one of UK's leading flexible office providers, providing office space on flexible contracts and memberships to a wide range of clients. Properties are held on a freehold or leasehold basis and redeveloped into beautifully designed workplaces, responding to the architecture, location and context of each building. In addition, TOG also provides meeting rooms, events and a platform for community and networking to over 25,000 members.

TOG assets

TOG has a total of 50 locations at 31 December 2019 representing 2 million sq ft, including 9 leaseholds which have not commenced, 4 managed properties and 7 held within a joint venture. The portfolio includes 5 properties in Germany. The German assets are located in Berlin, Frankfurt and Hamburg with Kontorhaus (Berlin) and Oper46 (Frankfurt) on track to open in the second half of 2020. TOG owns the freehold or long leasehold to 9 of the 50 buildings. This combined with a high quality leasehold portfolio with a weighted average unexpired term of 17 years provides a strong and robust foundation for years to come.

TOG members

Having increased the member base by 19% during 2019, the TOG brand has proven to resonate with companies from start-ups to well-established corporates across a broad spectrum of industries. TOG is committed to providing a high level of service and remains connected to the needs of its customers enabling the Group to respond by driving the continual enhancement of the offer, particularly in wellness, food & beverage, technology and sustainability.

Trends and factors

Consistently high occupancy, growing revenue and the ability to let new buildings quickly are all indications of the increased demand for shorter tenure space over the last 5 years, challenging the standard form of lease for traditional occupiers. Many of the largest and most forward-thinking businesses in the world are now demanding shorter-term, and more flexible solutions to their space requirements. Clients also see this flexibility and focus on design and wellness as an important element in attracting and retaining the right calibre of staff, particularly following the announcement of a COVID-19 global pandemic on 11 March 2020 by the World Health Organization.

TOG 2 (Germany) Limited

Group Strategic Report (continued) for the Year Ended 31 December 2019

Trends and factors (continued)

2020 thus far has seen a slowing down in activity by all office providers due to the impact of lockdown as a result of the coronavirus pandemic. A short term reduction in demand is being experienced but this is showing the early signs of recovery as the lead flow of new business has increased close to normal levels. TOG expects that flexible contracts will be more desirable during uncertain times; an opinion supported by leading global real estate experts. TOG is ready for a strong return to normal operations, having prepared its buildings with increased cleaning specifications, revised layouts supporting physical distancing and new health and safety protocols.

Principal risks and uncertainties

Economic Downturn

A significant portion of the Group's costs are fixed which creates a risk to profitability and property valuations if either occupancy or license fee rates fall. The Group monitors occupancy and license fee rates on a weekly basis. The Group's clients are from a diverse range of industries. 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. EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

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. This is further evidenced by the increase in longer term commitments from clients over the last twelve months.

On 23 June 2016, the UK voted to leave the European Union (EU). On 31 January 2020 the UK left the EU after consensus was reached by the two parties on a withdrawal agreement. 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 European economy. TOG's international expansion into Germany further mitigates the risk by providing greater opportunities for market growth and diversification.

The coronavirus pandemic has impacted the world, European and property industry in the first six months of 2020 with the short, medium and long term impact on economic conditions being uncertain. The UK government, when introducing lockdown measures also introduced a range of support initiatives for individuals and organisations to reduce the impact on the economy. Despite these measures there are organisations that have not been able to survive, in particular those in the hardest hit sectors of travel and hospitality. A large proportion of the office workforce has been working from home which may have an impact on the office market in the future however the requirement for greater social distancing within the workplace may also have a large impact on the office market, as well as transport and most other businesses with physical space. The ability to be able to adapt and be flexible will benefit TOG during these uncertain times and as seen from the impact of Britain's decision to leave the EU uncertainty may lead to an increased demand for the Group's product in the UK. In Germany the demand for flexible space has remained strong despite the downturn in the global economy reflecting the positive impact of the German government's effective fiscal response to the pandemic and confidence in the country's ability to recover.

Client Retention

The majority of clients are bound to commitments 12 36 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.

TOG 2 (Germany) Limited

Group Strategic Report (continued) for the Year Ended 31 December 2019

Principal risks and uncertainties (continued)

Financial Market Volatility

The Group has existing facilities through 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 will mature in February 2024.

Business Interruption

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. The Group continues to monitor the impact of the coronavirus pandemic very closely. The buildings have remained open during lockdown and TOG has taken the necessary steps to make its buildings safe for clients, with workspaces supporting physical distancing and new health and safety protocols.

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.

Environment, Social and Governance

The directors have considered the impact of the Group's activities on the environment, its workforce, stakeholders and the wider community.

TOG has employed sustainability policies focused on creating environmentally friendly buildings, achieving carbon emissions targets and improving energy efficiency. This involves tracking our carbon consumption, waste recycling initiatives, reducing hard to recycle plastics, improving air quality in our buildings and has transitioned our portfolio over to renewable electricity supply contracts.

We have rolled out a new framework setting out the key TOG values, core competencies and behaviours for our employees. Programmes actively promoting good health, well being and which provide training and support for mental health have been provided to all staff.

Financial performance

The business performed well during the year generating revenue of £119m, an increase of £22m over the prior period. Mature building occupancy remained strong at 95% (2018 – 93%) and we opened 6 new buildings during the year adding 344,000 sqft to the portfolio: One Lyric Square in Hammersmith, TOG's largest opening to date at just over 100,000 sqft, Orion House in Covent Garden, Summit House in Red Lion Square, One Canada Square in Canary Wharf, York House in Kings Cross and Scott House in Waterloo Station.

The Group made an operating profit of £116m (2018 - £23m) in the year. Excluding fair value movements, operating profit is £46m (2018 - £3.4m) in the year. The Group generated EBITDA of £125m (2018 - £33m) in the year. EBITDA excluding fair value movements is £54.2m (2018 - £13m). EBITDA excluding fair value movements has increased significantly upon adoption of IFRS 16 and elimination of the operating lease expense in 2019.

TOG 2 (Germany) Limited

Group Strategic Report (continued) for the Year Ended 31 December 2019

Financial performance (continued)

During the year the Group have adopted the new accounting standard, IFRS 16 'Leases'. On adoption of the standard using the modified retrospective approach, the Group's total assets have increased by £453m, the Group's total liabilities have increased by £482m and the day one negative impact to the statement of profit and loss was £29m.

The value of TOG's opening freehold and long leasehold portfolio increased by £17m (2018 - £20m) reflecting the impact of refurbishments and the recognition of gains on the revaluation of assets previously under construction. See note 13 Investment property.

The directors do not recommend payment of a dividend.

S172 statement

The directors confirm that during the year under review, through their business decisions, they have acted to promote the long-term success of the Group and Company for the benefit of shareholders, whilst considering the potential impact of those decisions on the Group's stakeholders. The factors considered would often include the likely long-term consequences of the decision, the interests of employees, the relationships with customers and suppliers, the impact on the community and environment, maintaining the Group's reputation and acting fairly for all members of the Group.

The directors receive regular updates on stakeholder views from senior management. The directors seek to achieve an appropriate balance of stakeholder preferences, which in turn will assist the Group in achieving its long-term growth objectives.

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

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



M Green
Director

Date: 28 September 2020

TOG 2 (Germany) Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

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.

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.

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. In 2019, two further intermediary holding companies were inserted into the group structure indirectly below TOG 2 (Germany) Limited. The intermediary holding companies are TOG 5 (France) Limited and TOG 6 Limited.

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.

Dividends

The Directors do not recommend payment of a final dividend for the year ended 31 December 2019. In 2018 the Group undertook a capital reduction reducing the share capital and premium account by a total of £263m and subsequently declared and paid an interim dividend of £130.2m.

Directors

The directors who served during the year were:

C Green
M Green
G Katakya
O Olsen

TOG 2 (Germany) Limited

Directors' Report (continued) for the Year Ended 31 December 2019

Going concern

The Group reports a net profit of £68.6m for the year (2018 – profit of £14.8m) and the Company reports a loss of £7k (2018 - £17k). The Group has net current liabilities of £63.7m (2018 - £1.7m) and the Company has net current liabilities of £46k (2018 – £39k). The Group has cash and cash equivalents of £59.9m (2018 - £23.4m).

Included in the Group trade and other payables is an intercompany debt of £65.2m (2018 - £9.6m) 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. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

In addition to intercompany debt included in Group trade and other payables, the adoption of IFRS 16 'Leases' has resulted in current liabilities further exceeding current assets, due to the current portion of the lease liability of £37m being included in current liabilities, whereas the corresponding right of use asset is included in investment property in non-current assets. The right of use assets are forecast to generate sufficient operating cash flows to cover the current portion of the lease liabilities.

In 2018 the Group refinanced its debt facilities, securing debt funding to 2024.

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.

The coronavirus (COVID) pandemic, which has impacted the world, UK and property industry in the first six months of 2020, is considered a current principal risk. The short, medium and long-term impact on economic conditions is still uncertain at the time of preparing the financial statements.

The directors specifically considered the impact of the COVID pandemic as part of their assessment of the Group's ability to continue in operational existence. The directors of the Group have prepared and analysed base and sensitised cash flow forecasts that exceed a period of 12 months from the date of the authorisation of the financial statements, which consider a plausible but severe down-side scenario. Where applicable, assumptions applied include reductions of revenue below committed revenues, limiting cost base savings and assuming longer than expected recovery periods. The severe down-side scenario does not consider that the majority of forecast capital expenditure, including development and information technology expenditure, can be controlled to further reserve funds for the operation of the mature building portfolio. In a severe downside scenario this forecast capital expenditure remains at the Directors' discretion and can be delayed if required to enable the existing portfolio to meet its operational requirements. The results of the assessment performed have led the directors to conclude on the appropriateness of preparing the financial statements on the going concern basis.

TOG 2 (Germany) Limited

Directors' Report (continued) for the Year Ended 31 December 2019

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 2019

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: 28 September 2020

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 2019 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 2019 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.

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 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.

TOG 2 (Germany) Limited

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

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.

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 6, 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.

We have nothing to report in these respects.

Auditor's responsibilities

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: 29 September 2020

TOG 2 (Germany) Limited

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £000	2018 £000
Revenue	4	118,961	97,003
Administrative expenses	6	(73,389)	(95,818)
Other operating income	5	84	2,246
Movement in fair value of investment properties - in year revaluations	13	99,673	20,014
Movement in fair value of investment properties - on adoption of IFRS 16	2.1	(29,250)	-
EBITDA		124,591	33,407
Depreciation and amortisation		(8,512)	(9,962)
Operating profit	6	116,079	23,445
Share of post-tax profits of equity accounted joint ventures	15	7,723	2,255
Profit on sale of subsidiary		52	-
Profit on sale of trade and assets of subsidiary		-	97
Interest receivable and similar income	9	6	22
Interest payable and similar charges	9	(40,866)	(9,354)
Movement in fair value of interest rate derivative		(184)	(54)
Profit before taxation		82,810	16,411
Tax on profit	10	(14,237)	(1,569)
Profit for the financial year		68,573	14,842
Currency translation differences		180	(12)
Total comprehensive income for the year		68,753	14,830
Profit for the year attributable to:			
Non-controlling interests		40	(76)
Owners of the parent Company		68,533	14,918
		68,573	14,842

All amounts relate to continuing operations, except for the sale of a subsidiary as disclosed in note 23.

The notes on pages 20 to 70 form part of these financial statements.

TOG 2 (Germany) Limited

Registered number: 11122169

Consolidated Balance Sheet as at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	11	11,792	36,059
Goodwill	11	111,290	111,290
Property, plant and equipment	12	91,027	64,774
Investment property	13	961,081	338,998
Investments	15	34,024	26,301
		<u>1,209,214</u>	<u>577,422</u>
Current assets			
Trade and other receivables	17	33,819	36,589
Other financial assets	16	-	184
Cash and cash equivalents		59,890	23,434
Total current assets		<u>93,709</u>	<u>60,207</u>
Total assets		<u>1,302,923</u>	<u>637,629</u>
Current liabilities			
Trade and other payables	18	(120,375)	(61,159)
Other interest bearing loans and borrowings	20	-	(767)
Lease liabilities	14	(37,048)	-
Total current liabilities		<u>(157,423)</u>	<u>(61,926)</u>
Net current liabilities		<u>(63,714)</u>	<u>(1,719)</u>
Non-current liabilities			
Trade and other payables	19	-	(42,395)
Other interest bearing loans and borrowings	20	(364,037)	(361,244)
Lease liabilities	14	(527,316)	-
Deferred taxation	21	(42,146)	(28,856)
Total non current liabilities		<u>(933,499)</u>	<u>(432,495)</u>
Total liabilities		<u>(1,090,922)</u>	<u>(494,421)</u>
Net assets		<u>212,001</u>	<u>143,208</u>

TOG 2 (Germany) Limited
Registered number: 11122169

Consolidated Balance Sheet (continued)
as at 31 December 2019

	Note	2019 £000	2018 £000
Equity attributable to owners of the parent company			
Share capital	22	-	-
Share premium account	22	-	-
Foreign exchange reserve	22	168	(12)
Retained earnings	22	211,833	143,300
		<u>212,001</u>	<u>143,288</u>
Non-controlling interests		-	(80)
		<u>212,001</u>	<u>143,208</u>

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


M Green
Director

Date: 28 September 2020

The notes on pages 20 to 70 form part of these financial statements.

TOG 2 (Germany) Limited

Registered number: 11122169

Company Balance Sheet as at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Investments	15	132,852	132,852
Total assets		<u>132,852</u>	<u>132,852</u>
Current liabilities			
Trade and other payables	18	(46)	(39)
Total current liabilities		<u>(46)</u>	<u>(39)</u>
Net assets		<u>132,806</u>	<u>132,813</u>
Capital and reserves			
Share capital	22	-	-
Share premium account	22	-	-
Retained earnings	22	132,806	132,813
		<u>132,806</u>	<u>132,813</u>

The Company's loss for the period was £7,000 (2018 - £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: 28 September 2020

The notes on pages 20 to 70 form part of these financial statements.

TOG 2 (Germany) Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	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 1 January 2018	-	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
Dividends	-	-	-	(130,170)	(130,170)	-	(130,170)
Minority interest disposed	-	-	-	(33)	(33)	33	-
Capital reduction	-	(263,000)	-	263,000	-	-	-
At 1 January 2019	-	-	(12)	143,300	143,288	(80)	143,208
Comprehensive income for the year							
Profit for the year	-	-	-	68,533	68,533	40	68,573
Currency translation differences	-	-	180	-	180	-	180
Total comprehensive income for the year	-	-	180	68,533	68,713	40	68,753
Minority interest disposed	-	-	-	-	-	40	40
At 31 December 2019	-	-	168	211,833	212,001	-	212,001

Refer to note 22 for description of equity balances and movements.

TOG 2 (Germany) Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 21 December 2017	-	-	-	-
Comprehensive loss for the period				
Loss for the period	-	-	(17)	(17)
	<hr/>	<hr/>	<hr/>	<hr/>
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	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2019	-	-	132,813	132,813
Comprehensive loss for the year				
Loss for the year	-	-	(7)	(7)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 20 to 70 form part of these financial statements.

Refer to note 22 for description of equity balances and movements.

TOG 2 (Germany) Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit for the financial year	68,573	14,842
Adjustments for:		
Depreciation and amortisation	8,512	9,962
Change in value of investment property	(70,423)	(20,014)
Profit on sale of subsidiary	(52)	-
Profit on sale of trade and assets of subsidiary	-	(97)
Finance charges	40,866	9,353
Finance income	(6)	(22)
Share of post-tax profits of equity accounted joint ventures	(7,723)	(2,255)
Movement in fair value of interest rate derivative	184	53
Income tax expense	14,238	1,569
Decrease/(increase) in trade and other receivables	3,950	(12,712)
Increase in trade and other payables	58,956	40,401
Income taxes received/(paid)	390	(128)
Forex	179	(12)
Net cash generated from operating activities	117,644	40,940
Cash flows from investing activities		
Purchase of intangible fixed assets	(3,744)	-
Purchase of tangible fixed assets	(34,805)	(38,941)
Disposal of tangible fixed assets	-	39
Capital expenditure on investment properties	(12,584)	-
Profit on sale of subsidiary	28	-
Profit on sale of trade and assets of subsidiary	-	97
Net cash from investing activities	(51,105)	(38,805)

TOG 2 (Germany) Limited

Consolidated Statement of Cash Flows (continued) for the Year Ended 31 December 2019

	2019 £000	2018 £000
Cash flows from financing activities		
Bank interest/interest on lease liabilities paid	(40,866)	(6,346)
Interest received	6	22
Dividends paid	-	(130,170)
Proceeds from bank borrowings	25,985	149,554
Financing costs paid	-	(6,910)
Repayment of lease liabilities	(15,208)	(808)
Premium paid on interest rate derivative	-	(225)
Net cash used in financing activities	(30,083)	5,117
Net increase in cash and cash equivalents	36,456	7,252
Cash and cash equivalents at beginning of year	23,434	16,182
Cash and cash equivalents at the end of year	59,890	23,434
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	59,890	23,434
	59,890	23,434

The notes on pages 20 to 70 form part of these financial statements.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

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 1 Bartholomew Lane, London, EC2N 2AX.

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.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and in accordance with applicable accounting standards.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors';
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'; and
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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 2019

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. Further information on going concern is provided within note 2.3 Going Concern.

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

In 2018 and earlier periods, Investment properties were disclosed as an asset class within Property, plant and equipment and not split out on the face of the Balance Sheet. This year, these have been split out to be shown separately, with three sub-classes of Investment properties, as follows. The comparatives have been re-presented as though these have always been treated the same.

	As previously stated £000	Change in presentation £000	As re-presented £000
Property, plant and equipment			
Freehold and long leasehold investment properties	288,973	(288,973)	-
Short-term leasehold property	55,638	-	55,638
Fixtures and fittings	8,850	-	8,850
Assets under construction	50,025	(50,025)	-
Total	403,486	(338,998)	64,488
 Investment property			
Freehold investment properties	-	288,973	288,973
Right of use investment properties	-	-	-
Properties under construction	-	50,025	50,025
Total	-	338,998	338,998

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

New effective standards:

- IFRS 16: Leases (effective 1 January 2019)

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. Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense of the right-of-use asset.

Effects of changes in accounting policy

Transition method and practical expedients utilised

The Group has applied IFRS 16 using the modified retrospective approach, with right of use assets assumed to equal the lease liabilities on adoption, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately. Refer to note 2.14 for more details.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- (c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application;
- (d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application; and
- (e) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

The following table presents the impact of adopting IFRS 16 on the balance sheet as at 1 January 2019:

	Adjustments	31 December 2018 As re-presented £000	IFRS 16 adoption reclassifications - Investment property £000	IFRS 16 £000	1 January 2019 £000
Assets					
Property, plant and equipment	(a)	64,774	(256)	-	64,518
Freehold investment properties	(a)	288,973	(139,665)	-	149,308
Right-of-use-assets investment properties	(a)/(b)/(c)	-	139,921	480,562	620,483
Intangible assets	(c)	147,349	-	(27,540)	119,809
Liabilities					
Finance lease liability (current and non-current payables)	(d)	25,105	-	(25,105)	-
Lease liabilities	(e)	-	-	550,558	550,558
Rent free and other rent-related accruals	(f)	43,180	-	(43,180)	-
Equity					
Retained earnings	(g)	-	-	-	-
Statement of Profit and Loss and Other Comprehensive Income					
Movement in fair value of investment properties - on adoption of IFRS 16	(c)	-	-	(29,250)	(29,250)

Adjustments:

- (a) Reclassification of finance lease assets previously recognised in line with IAS 17 to right of use assets in line IFRS 16. Previously recognised finance leases were for the long leaseholds of the Stanley and Tintagel House buildings. The adjustment on transition reclassifies the following long leaseholds to Investment properties totalling £139,665,000:
- previously recognised finance lease assets for Stanley and Tintagel of £24,038,428
 - capitalised construction and development costs and fair value remeasurements of £115,581,572
- (b) Right of use assets recognised on adoption of IFRS 16

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

- (c) On adoption of IFRS 16, the operating lease intangible asset that arises on consolidation of the group of companies, effectively results in double counting the present value of cash flows or cash flow savings on existing operating leases, as there is an overlap of the process followed to discount future cash flows on existing operating leases on transition. At transition to IFRS 16, the operating lease intangible is reclassified to investment properties, and eliminated as a fair value adjustment through profit and loss.

The carrying value of the operating lease intangible as at 1 January 2019 of £27,540,000 is reclassified to Right of use investment properties (net of rent free accruals) and the elimination is recognised in the statement profit and loss.

In addition, included in the adoption adjustment, is a £1,710,000 net remeasurement of the right of use asset and lease liability on long leasehold properties previously recognised as finance leases under the old leases standard - IAS17.

The total of these two adjustments amount to £29,250,000 per the table above.

- (d) Reclassification of leases previously recognised as finance leases under IAS 17 to right of use assets under IFRS 16.
- (e) Lease liabilities recognised on adoption of IFRS 16 on 1 January 2019, including previously recognised finance leases. The lease liabilities were derived from the minimum operating lease commitment at 31 December 2018 as follows:

	1 January 2019 £000
Minimum operating lease commitment at 31 December 2018	756,100
Plus: adjustment to expected lease commitment	23,195
	779,295
Undiscounted lease payments	
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(250,751)
	528,544
Lease liabilities for leases classified as operating type under IAS 17	
Plus: leases previously classified as finance type under IAS 17	22,014
	550,558
Lease liability as at 1 January 2019	550,558

- (f) Rent free- and other rent-related accruals balance at 31 December 2018 offset against the right-of-use assets on date of initial application, in line with the modified retrospective approach under IFRS 16.
- (g) No adjustments recognised to retained earnings as the modified retrospective approach is applied with previously recognised right-of-use assets stated as equal to lease liabilities on initial application. Finance type leases under IAS 17 were reclassified as right-of-use assets under IFRS 16.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

- IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Group applies judgement in identifying uncertain tax positions. The Group considers that the adoption of the interpretation did not have an impact on the consolidated financial statements and no restatements of comparative information have been made in the year ending 31 December 2019 due to adoption of the interpretation.

New and not yet effective standards:

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The Group is currently assessing the impact of these new accounting standards and amendments.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

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 2019 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.

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.

The assets and liabilities of foreign operations, arising on consolidation, are translated to the Group's presentational currency, Pound Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign exchange reserve.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

2.3 Going Concern

The Group reports a net profit of £68.6m for the year (2018 – profit of £14.8m) and the Company reports a loss of £0.01m (2018 - £0.02m). The Group has net current liabilities of £63.7m (2018 - £1.7m) and the Company has net current liabilities of £46k (2018 – £39k). The Group has cash and cash equivalents of £59.9m (2018 - £23.4m).

Included in the Group trade and other payables is an intercompany debt of £65.2m (2018 - £9.6m) 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. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

In addition to intercompany debt included in Group trade and other payables, the adoption of IFRS 16 'Leases' has resulted in current liabilities further exceeding current assets, due to the current portion of the lease liability of £37m being included in current liabilities, whereas the corresponding right of use asset is included in investment property in non-current assets. The right of use assets are forecast to generate sufficient operating cash flows to cover the current portion of the lease liabilities.

In 2018 the Group refinanced its debt facilities, securing debt funding to 2024.

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.

The coronavirus (COVID) pandemic, which has impacted the world, UK and property industry in the first six months of 2020, is considered a current principal risk. The short, medium and long-term impact on economic conditions is still uncertain at the time of preparing the financial statements.

The directors specifically considered the impact of the COVID pandemic as part of their assessment of the Group's ability to continue in operational existence. The directors of the Group have prepared and analysed base and sensitised cash flow forecasts that exceed a period of 12 months from the date of the authorisation of the financial statements, which consider a plausible but severe down-side scenario. Where applicable, assumptions applied include reductions of revenue below committed revenues, limiting cost base savings and assuming longer than expected recovery periods. The severe down-side scenario does not consider that the majority of forecast capital expenditure, including development and information technology expenditure, can be controlled to further reserve funds for the operation of the mature building portfolio. In a severe downside scenario this forecast capital expenditure remains at the Directors' discretion and can be delayed if required to enable the existing portfolio to meet its operational requirements. The results of the assessment performed have led the directors to conclude on the appropriateness of preparing the financial statements on the going concern basis.

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.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

2.5 Investments in debt and equity securities

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

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 2019

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 includes right-of-use assets arising from property leases, measured according to IFRS 16 Leases, and property held on a freehold basis, measured in accordance with IAS 40 Investment Properties. Valuation methods are set out in note 13 Investment property.

Investment property held in accordance with IAS 40 Investment Properties 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 2017 ("the Red Book"). Factors effecting 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 2019

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. Employee costs directly associated with development of the intangible assets are capitalised to cost.

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)
Other intangibles	- 3 - 5 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.

The lease intangible was eliminated on adoption of IFRS 16 'Leases' on 1 January 2019.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

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 2019

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.

2.11.1 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.

2.11.2 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.
- Lease liabilities are recognised and measured according to note 2.14 Leases.

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 2019

2. Accounting policies (continued)

2.14 Leases

Policy applicable after 1 January 2019

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets arising from property leases is subsequently remeasured to fair value in line with IAS 40 Investment Properties, with remeasurement being recognised in the statement of profit and loss. Remeasurement is made on reporting date, and fair value movement is calculated as the difference between the present value of current passing lease or lease payments over the fixed term of the lease, and the present value of market-related lease payments over the same term. The discount rate applied is the same discount rate as applied to discount future cash flows to calculate the lease liability at recognition date.

Non-property leases are subsequently measured at cost less depreciation, calculated on the straightline over the non-cancellable term of the lease.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The right-of-use asset will indirectly also be adjusted for certain remeasurements of the lease liability, by virtue of the cash flows and term of the lease being adjusted.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The incremental borrowing rate is determined as being the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset, in a similar economic environment. The Group has applied a portfolio approach in determining a single discount rate for leases with similar characteristics.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

2.14 Leases (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the balance sheet.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. Low value-leases are considered to be all leases where the individual value of the underlying assets is below £500, or where the lease is equal to or shorter than one year.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group's licensing agreements are all classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'revenue'.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

2.14 Leases (continued)

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output; or
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

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 settle or recovered.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

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 and IT services revenue are billed monthly in advance and recognised when the performance obligations of providing the space and IT access to the licensee are fulfilled. Revenue is recognised over time as the services are provided. For the provision of other ancillary charges and meeting rooms, revenue is recognised at a point in time, as and when the performance obligation of providing the service or meeting room to the customer has been fulfilled. 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.

The Group generates licence fee revenue from licence agreements and rental income from traditional leases that are similar in substance. Revenue from licence agreements is recognised over time in line with IFRS 15 'Revenue from Contracts with Customers' and rental income from leases is recognised over time in line with IFRS 16 'Leases'.

The method of revenue recognition is the same under IFRS 15 and IFRS 16 for the licence fee and rental income generated by the Group.

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 2019

2. Accounting policies (continued)

2.21 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 5 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

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. Impairment of goodwill

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3. Critical accounting estimates and judgements (continued)

Estimates:

Fair valuation of investment property

The market value of freehold and long leasehold 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. The market value of leasehold right of use assets are determined by calculating the present value of estimated market related cash flows over the period of the lease.

Estimated market rental values (ERVs) of each active lease in the portfolio are used to calculate net present value of the market based fixed lease cash flows. The estimated market rental values for the remainder of the leases are used to estimate the fair value of the right-of-use asset, by discounting to present value using the incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the group would be required to borrow at to obtain a similar value right-of-use asset over a similar term, and is based on the Group's effective interest rate at 31 December 2019, which is a floating rate of 4.37% based on LIBOR plus margin of 2.62%.

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.

4. Revenue

Revenue arising from:

	2019 £000	2018 £000
Licence fee and rental income	96,730	76,992
Other services income	22,232	20,011
	<u>118,962</u>	<u>97,003</u>

Of the licence fee and rental income generated, £8,389,000 was from operating leases recognised in line with IFRS 16 'Leases', the remaining licence fee and rental income is recognised in line with IFRS 15 'Revenue from Contracts with Customers'.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5. Other operating income

	2019 £000	2018 £000
Other income	84	2,246

Other operating income relates to compensation received in respect of a compulsory purchase order for the Group's leasehold interest in Euston Square. The full amount has not been settled, but no income was accrued for 2019.

6. Expenses and auditor's remuneration

Included in the profit for the year are the following:

	2019 £000	2018 £000
Depreciation and amortisation	8,512	9,962
2019 - Leases under IFRS 16		
Other variable lease payments through profit and loss - turnover rent	784	925
2018 - Operating leases under IAS 17		
Lease expense	-	36,675

	2019 £000	2018 £000
Auditor's remuneration		
Audit of these financial statements	7	3
Audit of financial statements of subsidiaries of the Company	209	177

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

Taxation compliance services	78	77
------------------------------	----	----

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

7. Employees

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

	Group 2019 £000	Group 2018 £000
Wages and salaries	14,222	12,630
Social security costs	1,555	1,339
Pension costs	476	271
	<u>16,253</u>	<u>14,240</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
	<u>354</u>	<u>298</u>

In 2019, directors remunerated from within the Group in 2018, were remunerated out of Cheetah Holdco Ltd, the ultimate parent of the Group.

8. Directors' remuneration

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

Directors costs are borne by Cheetah Holdco, the ultimate parent of TOG 2 Limited. The figures presented in this note represent the qualifying services provided by the directors to the Group.

	2019 £000	2018 £000
Wages and salaries	1,848	2,077
Social security contributions and similar taxes	259	392
Pension costs	53	52
	<u>2,160</u>	<u>2,521</u>

The aggregate of remuneration of the highest paid Director was £735,000 (2018 - £820,000), including pension contributions of £20,000 (2018 - £20,000).

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

9. Finance income and expense

	2019 £000	2018 £000
Finance income		
Bank interest receivable on deposits	6	22
	<u>6</u>	<u>22</u>
	2019 £000	2018 £000
Finance expense		
Bank interest payable on loans	14,562	6,391
Loan arrangement fee amortisation	1,857	1,631
Finance leases and hire purchase contracts (as under IAS 17)	-	1,332
Interest on lease liabilities (as under IFRS 16)	24,447	-
	<u>40,866</u>	<u>9,354</u>

10. Tax expense

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the year	523	-
Adjustments in respect of prior year	(744)	(386)
Total corporation tax	<u>(221)</u>	<u>(386)</u>
Deferred tax		
Origination and reversal of timing differences	14,290	2,210
Adjustments in respect of prior year	168	(255)
Total deferred tax	<u>14,458</u>	<u>1,955</u>
Taxation on profit on ordinary activities	<u>14,237</u>	<u>1,569</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

10. Tax expense (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	<u>82,810</u>	<u>16,411</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	15,734	3,118
Effects of:		
Expenses not deductible for tax purposes	310	1,156
Non taxable income	(19,404)	(5,038)
Losses not recognised for tax purposes	2	-
Chargeable gains	3,781	3,177
IFRS 16 right of use asset fair value adjustment	15,521	-
Group relief (claimed)/surrendered	(448)	43
Adjustment to tax charge in respect of previous periods (current and deferred tax)	(576)	(641)
Effect of tax rate change on opening deferred tax balances	3,240	2,955
Effect of tax rate change on closing deferred tax balances	(4,797)	(3,210)
Deferred tax not recognised	1,444	9
Foreign tax rate differential	(570)	-
Total tax charge for the year	<u><u>14,237</u></u>	<u><u>1,569</u></u>

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, and the UK deferred tax liability as at 31 December 2019 has been calculated based on this rate.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the Group's future current tax charge accordingly and increase the total deferred tax liability by £4,724,774.

TOG 2 (Germany) Limited

Notes to the Financial Statements
for the Year Ended 31 December 2019

11. Intangible assets

Group	Brand £000	Other intangibles £000	Operating leases £000	Customer relationships £000	Goodwill £000	Total £000
Cost						
At 1 January 2019 (as previously stated)	3,343	-	31,161	6,867	111,290	152,661
Effect on application of IFRS 16 - see note 2.1	-	-	(31,161)	-	-	(31,161)
At 1 January 2019 (as restated)	3,343	-	-	6,867	111,290	121,500
Additions	-	3,744	-	-	-	3,744
Disposals	-	(56)	-	-	-	(56)
Transfers from tangible assets (see note 12)	-	1,543	-	-	-	1,543
At 31 December 2019	3,343	5,231	-	6,867	111,290	126,731
Amortisation						
At 1 January 2019 (as previously stated)	1,004	-	3,621	687	-	5,312
Effect on application of IFRS 16 - see note 2.1	-	-	(3,621)	-	-	(3,621)
At 1 January 2019 (as restated)	1,004	-	-	687	-	1,691
Charge for the year	669	418	-	458	-	1,545
On disposals	-	(27)	-	-	-	(27)
Transfers from tangible assets (see note 12)	-	440	-	-	-	440
At 31 December 2019	1,673	831	-	1,145	-	3,649

TOG 2 (Germany) Limited

Notes to the Financial Statements
for the Year Ended 31 December 2019

11. Intangible assets (continued)

Net book value						
At 31 December 2019	1,670	4,400	-	5,722	111,290	123,082
At 31 December 2018	2,339	-	27,540	6,180	111,290	147,349

The transfer from tangible fixed assets relates to a change in classification of software costs.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

11. Intangible assets (continued)

In respect of prior year:

Group

	Patents £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

The Group has identified multiple cash generating units (CGUs), with each individual building considered to be a CGU. Goodwill and intangible assets that arise on consolidation are allocated to the buildings on the basis of the buildings forming a group of CGUs, and impairment is assessed by management on the same basis. The level at which impairment is tested reflects the lowest level at which goodwill and intangible assets are monitored for internal reporting purposes. The group is considered to consist of a single operating segment and goodwill has been assessed for impairment accordingly. Goodwill is tested for impairment on an annual basis.

Other intangible assets have a finite useful life in line with the Group's accounting policy, and are not tested for impairment annually. Impairment indicators are considered by management, and no impairment indicators translated into a risk of impairment of other intangible assets in the current year.

Goodwill, intangible assets and other intangible assets are included in the calculation of carrying value of the assets of the group of CGUs, which is subjected to the annual test of impairment by comparing the carrying value to the recoverable amount. All intangible assets are considered critical to the CGUs' ability to generate operating cashflows.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

11. Intangible assets (continued)

The recoverable amount of the group of CGUs has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

Value in Use Approach

The recoverable amount of the group of CGUs 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%. Post-tax free cash flows are then discounted to calculate the net present value of the future cash flows – which constitute the recoverable amount of the group of CGUs.

Based on the annual impairment test, no impairment of any intangible assets has arisen, including on goodwill, and there is adequate headroom between the CGUs' recoverable amount and the carrying value.

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 2019. 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 8.5% (pre-tax discount rate of 10.49%) 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, and the average property yield rate for the geographical areas the Group's core properties operate in over the previous five 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 19% and headroom decreases by 69%. A similar result is achieved when the post tax discount rate is increased by 1% (pre-tax discount rate is increased by 1.25%), with the value in use decreasing by 23% and headroom decreasing by 85%. Both sensitised scenarios suggests adequate headroom is maintained, and the carrying value of the group of cash generating units is therefore not reasonably expected to exceed the recoverable amount.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

11. Intangible assets (continued)

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.

The impact of the coronavirus pandemic on the forecasts is considered as a non-adjusting post balance sheet event - see note 27 Events after the reporting date and note 2.3 Going concern for further details.

12. Property, plant and equipment

Group

	Short-term leasehold property £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 1 January 2019 (as previously stated)	58,986	12,797	71,783
Reclassification of long leasehold investment property - see note 2.1	(254)	(2)	(256)
At 1 January 2019 (as restated)	58,732	12,795	71,527
Additions	27,902	6,909	34,811
Transfers to intangible assets	-	(1,543)	(1,543)
Disposals	-	(6)	(6)
Exchange adjustments	(226)	(2)	(228)
At 31 December 2019	86,408	18,153	104,561
Depreciation			
At 1 January 2019	3,066	3,943	7,009
Charge for the year	4,046	2,921	6,967
Transfers to intangible assets	-	(440)	(440)
Disposals	-	(2)	(2)
At 31 December 2019	7,112	6,422	13,534
Net book value			
At 31 December 2019	79,296	11,731	91,027
At 31 December 2018	55,920	8,854	64,774
At 31 December 2018 (as restated)	55,666	8,852	64,518

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

12. Property, plant and equipment (continued)

As at the year-end the Group has £Nil (2018 - £Nil) capital commitments.

In 2018 and previous years, Investment properties were disclosed within Property, plant and equipment. This has been re-presented to be shown separately, please see note 2.1 for details.

The transfer of intangible assets relates to software and infrastructure projects that were classified as work in progress in 2018. In 2019 project costs continued to be incurred and all costs have been capitalised as Other intangibles (refer to note 11).

In respect of prior year:

Group

	Short-term leasehold property £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 1 January 2018	41,440	9,279	50,719
Additions	17,546	3,557	21,103
Disposals	-	(39)	(39)
At 31 December 2019	58,986	12,797	71,783
Depreciation			
At 1 January 2018	33	581	614
Charge for the year	3,033	3,388	6,421
Disposals	-	(26)	(26)
At 31 December 2019	3,066	3,943	7,009
Net book value			
At 31 December 2018	55,920	8,854	64,774
At 31 December 2017	41,407	8,698	50,105

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13. Investment property

	Freehold investment properties £000	Right of use investment properties £000	Properties under construction £000	Total £000
Cost or valuation				
At 1 January 2019 (as previously stated)	288,973	-	50,025	338,998
Effect of transition to IFRS 16 - see note 2.1	-	480,562	-	480,562
Reclassification of long leasehold investment property - see note 2.1	(139,665)	139,921	-	256
At 1 January 2019 (as restated)	149,308	620,483	50,025	819,816
Additions at cost	11,186	29,014	1,392	41,592
Surplus on revaluation	13,966	85,707	-	99,673
Transfers between classes	49,416	-	(49,416)	-
At 31 December 2019	223,876	735,204	2,001	961,081

In respect of prior year:

	Freehold investment properties £000	Properties under construction £000	Total £000
Cost or valuation			
At 1 January 2018	207,693	93,479	301,172
Additions at cost	7,958	9,854	17,812
Surplus on revaluation	20,014	-	20,014
Transfers between classes	53,308	(53,308)	-
	288,973	50,025	338,998

In 2018 and previous years, Investment properties were disclosed within Property, plant and equipment. This has been re-presented to be shown separately, please see note 2.1 for details.

In 2018 Freehold investment properties included the long leasehold investment properties for Stanley and Tintagel. These have been reclassified to Right of Use investment properties in the current year.

Restrictions and obligations

At 31 December 2019, there were no restrictions on the reliability 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.

As at the year-end the Group has £Nil (2018 - £Nil) capital commitments.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13. Investment property (continued)

Fair value measurement

The freehold and long leasehold investment properties were revalued at 31 December 2019 by C Green MRICS, a director of TOG 2 (Germany) Limited and a chartered surveyor with the Royal Institute of Chartered Surveyors.

Leasehold right of use assets were remeasured to fair value at 31 December 2019 by the directors of TOG 2 (Germany) Limited.

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:

	2019 £000
Opening balance (level 3 recurring fair values)	338,998
Effect of adoption of IFRS 16	480,562
Pre-adoption of IFRS 16 reclassifications	256
Additions	41,592
Revaluations in the year - freehold	13,966
Revaluations in the year - long leasehold	3,162
Revaluations in the year - leasehold	82,545
Closing balance (level 3 recurring fair values)	961,081

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

Tenure	Type of valuation	Valuation techniques used	Key unobservable inputs	Relationship between key unobservable inputs and fair value
Freehold and long leasehold right of use assets	Underlying asset revalued	A combination of the comparable evidence approach and the income approach using earnings generated by each property is used	Yield 5% - 6.25% (2018: 5% - 6.25%)	Higher yield reduces fair values
Leasehold right of use asset	Present value of current lease cash flows, over the period of the lease, revalued to present value of market related cash flows	Estimated market rental values of each active lease in the portfolio is used to calculate net present value of the market-based fixed lease cash flows.	Midpoint estimated rental values per square foot for similar properties in similar areas on the market - based on current active portfolio. Discount rates derived from incremental borrowing rate (where relevant) or property yield rates - on an individual lease basis.	Higher estimated rental value increases fair values. Higher discount rate reduces fair values.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13. Investment property (continued)

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, £118,944,000 (2018* - £24,963,000) was recognised in the consolidated statement of profit and loss and other comprehensive income in respect of income generated by investment properties.

Direct operating expenses including repairs and maintenance arising from investment properties amounted to £32,557,891 (2018* - £4,686,000).

Bank borrowings are secured on the Group's freehold and long leasehold land and buildings. Interest capitalised at the period end amounted to £1,015,000 (2018 - £1,957,000) which represents 7% (2018 - 24%) 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 freehold and long leasehold investment properties was £101,055,630 (2018 - £88,477,675).

*In 2018, only freehold and long leasehold properties were classified as investment properties.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13. Investment property (continued)

Leases as lessor

The Group leases out some of its investment property consisting of its owned commercial properties as well as leased property under short-term licensing agreements. Licence agreements are not classified as operating leases as licence agreements do not transfer substantially all of the risks and rewards incidental to the ownership of the assets, and the licence holder does not have the right to direct the use of the asset.

Operating leases

The Group has selected operating leases that meet the definition a lease and that conveys the right to use and direct the use of the leased space.

Operating lease income recognised by the Group during 2019 was £8,389,000.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2019 £000
Less than one year	17,515
One to two years	11,793
Two to three years	1,699
	<hr/>
	31,007
	<hr/>

The Group does not have any finance leases as a lessor.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

14. Leases

Leases and lease commitments

The Group leases commercial office space and offers the space to customers under licence agreements that do not transfer the risks and rewards of ownership of the underlying assets. The Group's property lease terms are typically between 15 to 20 years, but individual leases may be longer depending on negotiated terms. The average remaining lease term of the Group's portfolio is as follows:

	2019 Years
Short leasehold portfolio (21 active leased properties - excluding 7 properties held by the TSON joint venture)	14
Long leasehold portfolio (2 active long leasehold properties)	91

At 31 December 2019, the Group has a commitment to nine leased properties that have not commenced. The lease term of five UK based leases is 20 years and four Germany based leases is 15 years. The expected undiscounted cash flows over the lease term (excluding rent reviews) are £354,306,943.

Leases are typically subject to market rent reviews, index-linked increases or step increases defined within the lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases or leases of low-value items

Variable payments

No remeasurements of payments dependent on an index or rate occurred in the year ended 31 December 2019. There were no in-substance fixed payments identified for any leases during the year-ended 31 December 2019. Other variable payments such as profit share payments were recognised in profit or loss during the year ended 31 December 2019 when the event or condition that triggered the payments occurred.

Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options, but due to the average length of lease terms it is unlikely that a decision will be made until closer to the option date. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances. The Group has not estimated potential future lease payments at 31 December 2019.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

14. Leases (continued)

Lease liabilities are presented in the balance sheet as follows:

	2019 £000
Lease liability at 1 January 2019	528,544
Reclassification and remeasurement of finance leases	22,014
Additions in the year	28,921
Interest charged	24,447
Lease payments - including prepaid rent costs offset against lease liability	(39,562)
At 31 December 2019	564,364

Lease liability

Lease liabilities are presented in the balance sheet as follows:

	2019 £000
Current lease liability	37,048
Non current liability	527,316
At 31 December 2019 (net of prepaid rent)	564,364

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

	Within 1 year £000	2-5 years £000	More than 5 years £000	Total £000
31 December 2019				
Lease payments	39,568	194,713	645,820	880,101
Finance charges	(24,692)	(89,484)	(193,327)	(307,503)
Prepaid rent at 31 December 2019	(8,234)	-	-	(8,234)
Net present values (net of prepaid rent)	6,642	105,229	452,493	564,364

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

15. Investments

Group

	Joint Ventures £000
Cost	
At 1 January 2019	26,301
Share of post - tax profits of equity accounted joint ventures	7,723
At 31 December 2019	<u>34,024</u>
Net book value	
At 31 December 2019	<u><u>34,024</u></u>
At 31 December 2018	<u><u>26,301</u></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 2019

15. Investments (continued)

Company

	Investments in subsidiary companies £000
Cost	
At 1 January 2019	263,022
At 31 December 2019	<u>263,022</u>
Impairment	
At 1 January 2019	130,170
At 31 December 2019	<u>130,170</u>
Net book value	
At 31 December 2019	<u>132,852</u>
At 31 December 2018	<u>132,852</u>

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

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

15. 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 5 (France) Ltd	Ordinary	*100%	Intermediate holding company
TOG 6 Ltd	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 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX.

The Office Group Holdings Limited	Ordinary	*100%	Intermediate holding company
The Office Group Midco Limited	Ordinary	*100%	Intermediate holding company
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 %	Dormant
Creative Debuts Limited (b)	Ordinary	*51%	Artwork sale and rental
TOG UK Properties Ltd	Ordinary	*100 %	Flexible office provider

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	-
TOG France	Ordinary	*100 %	Flexible office provider	-

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

15. Investments (continued)

*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.

TOG France has the registered office address of Tour Pacific, 11/13 Cours Valmy 92977 Paris La Defense Cedex, France.

a) TOG Fitness Limited was dissolved on 4 February 2020. In 2018 TOG Fitness Limited sold its gym operations resulting in a profit on sale of the trade and assets of £97,000

(b) The Group sold its investment in Creative Debuts Limited on 31 January 2019. A profit on sale of the subsidiary of £52,000 was recognised in the year.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

15. 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 partnership is that of a flexible office provider, and its registered office address is 179-185 Great Portland Street, London, United Kingdom, W1W 5PL.

The Group's share of post-tax profits of the joint venture for the year was £7,723,000 (2018 - £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 for the period £000
The Station Office Network LLP	23,684	15,447

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	7,047
Current assets	50,162
	<u>57,209</u>
Share of liabilities	
Current liabilities	(7,450)
Non current liabilities	(37,917)
	<u>11,842</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16. Other financial assets

	Group 2019 £000	Group 2018 £000
Current assets: Interest rate derivative	-	184

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 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.

The interest rate cap has not reached maturity, but the fair value at 31 December 2019 is negligible.

17. Trade and other receivables

	Group 2019 £000	Group 2018 £000
Due within one year		
Trade receivables	4,156	2,052
Amounts owed by group undertakings	2,785	2,737
Other receivables	18,230	16,641
Prepayments	3,933	12,167
Accrued income	4,309	1,418
Deferred taxation	406	1,574
	33,819	36,589

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

Included within trade and other receivables are amounts receivable from group companies of £2,784,734 (2018 - £2,736,529) which are expected to be recovered in more than 12 months.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

18. Trade and other payables

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade payables	1,877	560	-	-
Amounts owed to group undertakings	65,194	12,327	46	39
Amounts owed to joint ventures	1,961	988	-	-
Other taxation and social security	3,611	899	-	-
Other payables	26,575	29,233	-	-
Accruals	20,303	16,800	-	-
Deferred income	854	352	-	-
	<u>120,375</u>	<u>61,159</u>	<u>46</u>	<u>39</u>

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.

Included within trade and other payables are amounts owed to group companies of £65,194,346 (2018 - £12,324,667) which are expected to be settled in more than 12 months.

19. Trade and other payables more than one year

	Group 2019 £000	Group 2018 £000
Other payables	-	42,395

Other payables due after one year in 2018 comprised the non-current portion of the rent-free accruals. The rent free accrual is eliminated upon the transition to IFRS 16 and is deducted from the right of use asset at the date of the transition, being 1 January 2019.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

20. Other interest bearing loans and borrowings

	Group 2019 £000	Group 2018 £000
Non current borrowings		
Bank loan	369,637	343,652
Unamortised arrangement fees	(5,600)	(6,780)
Loan notes	-	34
Finance leases	-	24,338
	<u>364,037</u>	<u>361,244</u>
	Group 2019 £000	Group 2018 £000
Due after more than one year		
Repayable between one and two years	-	808
Repayable between two and five years	369,637	345,980
	<u>369,637</u>	<u>346,788</u>
	Group 2019 £000	Group 2018 £000
Current borrowings		
Finance leases	-	767
	<u>-</u>	<u>767</u>

Unamortised arrangement fees of £5,600,000 as at 31 December 2019 includes £1,400,000 (2018 - £1,355,000) expected to be amortised within 1 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.

The Group's and Company's facilities have an interest charge which is based 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% (2018 - 3.57%).

The finance lease liability is reclassified upon transition to IFRS 16 and is included within the current and non-current lease liabilities. Group future lease payments are detailed in note 14.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

21. Deferred taxation

Group

	2019 £000	2018 £000
At beginning of year	(27,282)	(25,325)
Charged to profit or loss	(14,458)	(1,957)
At end of year	(41,740)	(27,282)
	Group 2019 £000	Group 2018 £000
Accelerated capital allowances	(5,939)	(4,922)
Capital gains	(20,960)	(17,576)
IFRS 16 right of use asset fair value adjustment	(13,904)	-
Provisions	12	(255)
Loan relationship asset	4	-
Tax losses asset	304	1,601
Intangibles on business combination	(1,257)	(6,130)
	(41,740)	(27,282)
Comprising:		
Asset - due within one year	406	1,574
Liability	(42,146)	(28,856)
	(41,740)	(27,282)

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

22. Share capital and other reserves

	2019 £	2018 £
Allotted, called up and fully paid		
258 (2018 - 258) Ordinary shares of £1 each	258	258

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.

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

23. Disposal of subsidiary

On 31 January 2019 the Group disposed of its 51% investment in Creative Debuts Ltd., a company incorporated in the United Kingdom, for cash consideration of £27,781. The fair value of the net liabilities of Creative Debuts Ltd. was £49,690. A profit on sale of the subsidiary of £52,000 was recognised in the year.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

24. Financial instruments - risk management

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

- Credit risk
- Fair value or cash flow interest rate risk
- Liquidity risk

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.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

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

	Financial assets at fair value through profit or loss 2019 £000	Loans and receivables 2019 £000	Financial assets at fair value through profit or loss 2018 £000	Loans and receivables 2018 £000
Financial assets				
Cash and cash equivalents	-	59,890	-	23,434
Trade and other receivables	-	26,095	-	20,111
Derivatives	-	-	184	-
	<u>-</u>	<u>85,985</u>	<u>184</u>	<u>43,545</u>
			Group Financial liabilities at amortised cost 2019 £000	Group Financial liabilities at amortised cost 2018 £000
Financial liabilities				
Trade and other payables			32,753	73,087
Other interest bearing loans and borrowings			934,002	368,791
			<u>966,755</u>	<u>441,878</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

24. 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.

	2019 £000	2018 £000
Financial assets		
Derivative financial assets (fair value through profit or loss)	-	184

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 17.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

24. 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 2019, 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 £3.6m 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 2019				
Trade and other payables	118,285	-	-	-
Other interest bearing loans and borrowings	39,561	43,294	521,024	645,859
	<u>157,846</u>	<u>43,294</u>	<u>521,024</u>	<u>645,859</u>

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

24. Financial instruments - risk management (continued)

	Up to 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
As 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
	<u>36,623</u>	<u>2,780</u>	<u>359,683</u>	<u>142,492</u>

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.

25. Related party transactions

Included within turnover is £1,078,302 (2018 - £843,213) of management fees from The Station Office Network LLP of which The Office Group Properties Limited is a member with a 50% interest in the partnership. Included within trade and other payables is a working capital balance of £1,960,848 (2018 - £987,589) owed to The Station Office Network LLP and £973,258 (2018 - £360,269) of expenses were incurred by the partnership on behalf of the Group in the year. The Office Islington Limited charged The Station Office Network LLP employee costs of £732,419 (2018 - £971,877). The balance due at the year end was £Nil (2018 - £317,890).

The Company was related to Creative Debuts Limited by virtue of being under common control. During the year the Group paid expenses of £2,996 (2018 - £11,116) on behalf of Creative Debuts Limited and the Group received income of £Nil (2018 - £6,250). At the accounting date, £Nil (2018 - £28,930) was due to the Group. On 31 January 2019, the Group sold its controlling share of 51.2% in Creative Debuts for net cash proceeds of £27,781, resulting in a profit on disposal of £52,000.

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 £35,072 (2018 - £100,000) of which £Nil (2018 - £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 £105,595 (2018 - £121,000) of which £Nil (2018 - £Nil) was outstanding at year end.

Included within payables is £65,186,831 (2018 - £12,327,000) owing by entities in the group to Cheetah Holdco Limited, the ultimate indirect parent of the Group. Included within receivables is £47,438 (2018 - £2,737,000) owing to the group by related entities in the Cheetah Holdco Limited Group, but outside the Group, and an amount of £47,500 (2018 - £Nil) receivable from Cheetah Holdco Limited.

TOG 2 (Germany) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

26. Controlling party

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 direct parent of the Company is TOG 1 (US) Ltd.

The largest Group in which the results of the Company are consolidated is Cheetah Holdco Limited. The smallest group in which the Company is consolidated is that headed by TOG 2 (Germany) Ltd, registered in the UK.

27. Events after the reporting date

On 4 February 2020 TOG Fitness Limited, a 100% subsidiary, was dissolved. TOG Fitness Limited has not been disclosed as a discontinued operation on the basis of its financial insignificance to the Group.

There are no adjusting post balance sheet events to report. The directors draw attention to the coronavirus pandemic which has impacted the world, UK and property industry in the first six months of 2020, which has an uncertain short, medium and long-term impact on the economic conditions the Group operates in. The impact on the value of investment properties and goodwill cannot be reasonably determined at the time of preparation of the financial statements.

Having considered reasonably expected sensitivities in relation to the pandemic, the directors believe it is still appropriate to prepare the accounts on a going concern basis.

Please refer to the Strategic Report and Going concern section of Note 2 – Accounting Policies for more information.