Company Registration Number 04345552

IBM Global Financing UK Company

Financial Statements

31 December 2018

IBM Global Financing UK Company

Financial Statements

For the Year Ended 31 December 2018

Contents

IBM Global Financing UK Company

Company Information

For the Year Ended 31 December 2018

Company registration number	04345552
The board of directors	E Cook T Clements J Stanton
Company secretary	H Reeve
Registered office	76 Upper Ground London SE1 9PZ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Savannah House 3 Ocean Way Ocean Village Southampton Hampshire SO14 3TJ

The directors present their strategic report for the year ended 31 December 2018.

Review of the business and future developments

The company acted as a holding company during the year. The directors intend the company to continue as a holding company for the foreseeable future.

The company's profit for the year amounted to £2,527,000 (2017: £916,000) and net assets as at 31 December 2018 were £701,605,000 (2017: £699,078,000).

The company did not receive a dividend during the year (2017: nil) from its subsidiary, IBM United Kingdom Financial Services Limited.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of its subsidiaries (as these affect the value of the company's investment) and are not managed separately. The company's principal trading subsidiaries are IBM United Kingdom Financial Services Limited and IBM United Kingdom Asset Leasing Limited, and their principal risks and uncertainties are discussed on pages 3 and 2 respectively of their financial statements.

Key performance indicators

IBM Global Financing UK Company is managed by its board of directors. The performance and results for this company, along with all other IBM UK entities, are analysed on a worldwide IBM measurement basis, at a business unit and sector level. For this reason the directors of IBM Global Financing UK Company believe that analysis using key performance indicators is not appropriate for an understanding of the development, performance or position of the business shown in these financial statements. The development, performance and position of International Business Machines Corporation, which includes the UK entities, is discussed in their financial statements, which do not form part of this report.

Impairment

In accordance with International Accounting Standard No. 36 "Impairment of Assets" (IAS 36), the directors have conducted an impairment review of the investments held by the company. As a result of this review no impairment charge has been recognised in the year (2017: £nil).

Signed on behalf of the board

E Cook
Director

19 July 2019

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

Future developments
The company anticipates continuing demand for its subsidiaries' services.

Dividends
The directors have not recommended a dividend during the year (2017: £nil).

Financial risk management
The company's operations do not expose it to significant risk with respect to price, credit, cash flow or liquidity risk because it has no trade.

The company invests cash balances internally on a short term basis with IBM GF International Treasury Company DAC in Ireland. Interest is earned on the daily balance at a variable rate.

Capital risk management
The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

Directors' indemnity and insurance
As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The company has granted this indemnity in favour of the directors of the company as is permitted by Section 232-235 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. International Business Machines Corporation has purchased Directors' and Officers' liability insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

Directors
The directors who served the company during the year and up to the date of signing these financial statements were as follows:

T Clements	
E Cook	(appointed 6 July 2018)
P White	(resigned 6 July 2018)
J Stanton	

Statement as to disclosure of information to auditors
Each of the persons who are directors at the date of approval of this report confirm that:

- there is no relevant audit information of which the company's auditors are unaware, and

- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Independent auditors
PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the board

E Cook
Director

19 July 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Report on the audit of the financial statements

Opinion

In our opinion, IBM Global Financing UK Company's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Southhampton

19 July 2019

IBM Global Financing UK Company

Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	**2018** **£000**	2017 £000
Interest income calculated using the effective interest method	6	**3,120**	1,135
Profit before income tax		**3,120**	1,135
Income tax expense	7	**(593)**	(219)
Profit and total comprehensive income for the year		**2,527**	916

All operations are classified as continuing.

The notes on pages 13 to 27 form part of these financial statements.

IBM Global Financing UK Company

Statement of Financial Position

As at 31 December 2018

	Note	**2018 £000**	2017 £000
Non-current assets			
Investments in subsidiaries	9	**48,312**	48,312
Current assets			
Receivables from related parties	12	**654,170**	651,051
Total assets		**702,482**	699,363
Current liabilities			
Income tax payable		**(593)**	(219)
Payables to related parties	12	**(284)**	(66)
Total liabilities		**(877)**	(285)
Net assets		**701,605**	699,078
Issued capital and reserves			
Share capital	10	**410,449**	410,449
Capital redemption reserve	11	**236,751**	236,751
Retained earnings		**54,405**	51,878
Total equity		**701,605**	699,078

The financial statements on pages 9 to 27 were approved by the directors and authorised for issue on 19 July 2019, and are signed on their behalf by:

E Cook
Director

Company registration number: 04345552

The notes on pages 13 to 27 form part of these financial statements.

IBM Global Financing UK Company

Statement of Changes in Equity

For the Year Ended 31 December 2018

	Share capital £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 1 January 2017	410,449	236,751	50,962	698,162
Profit for the financial year	-	-	916	916
Total comprehensive income	-	-	916	916
At 31 December 2017	410,449	236,751	51,878	699,078
Profit for the financial year	-	-	**2,527**	**2,527**
Total comprehensive income	-	-	**2,527**	**2,527**
At 31 December 2018	**410,449**	**236,751**	**54,405**	**701,605**

The notes on pages 13 to 27 form part of these financial statements.

IBM Global Financing UK Company

Statement of Cash Flows

For the Year Ended 31 December 2018

	Note	2018 £000	2017 £000
Net cash flows generated from operating activities		**-**	-
Cash flows from investing activities			
Interest received	6	**3,120**	1,135
Increase in short-term deposits with related parties		**(3,120)**	(1,135)
Net cash flows generated from investing activities		**-**	-
Cash and cash equivalents at beginning of the year		**-**	-
Cash and cash equivalents at end of year		**-**	-

The company has changed its cash flow presentation to show cash movements in respect of short-term deposits with related parties as an investing activity, rather than as a movement in cash and cash equivalents. The prior year amounts have been re-presented to be consistent with this revised presentation for the purposes of comparison. The impact on the comparative figures was to decrease the net cash flows generated from investing activities and reduce the net increase in cash and cash equivalents by £1,135,000.

The notes on pages 13 to 27 form part of these financial statements.

1 Accounting policies

Basis of preparation
IBM Global Financing UK Company (the 'company') is a private unlimited company and is incorporated and domiciled in United Kingdom and registered in England and Wales under the Companies Act 2006. These financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, IFRS Interpretations Committee ("FRS IC") interpretations and as applied in accordance with the provisions of the Companies Act 2006.

These financial statements contain information about the company as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the publicly available consolidated financial statements of its ultimate parent company, International Business Machines Corporation, registered in the United States of America.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to all years presented, unless otherwise stated. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in note 2 to the financial statements.

The financial statements have been prepared on a going concern basis.

New and amended standards adopted by the company

The company has applied the following standards and amendments for the first time commencing 1 January 2018:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRIC 22 Foreign currency transactions and advance consideration;
- Amendments to IFRS 2 Share-based Payment;
- Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IFRS 1 and IAS 28

IFRS 9 Financial instruments

On 1 January 2018, the company adopted IFRS 9 'Financial Instruments', which replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities and impairment of financial assets. The company has elected not to restate comparative figures.

The classification and measurement of financial assets is based on the company's business model and the contractual cash flow characteristics.

1 Accounting policies (continued)

New and amended standards adopted by the company (continued)
A new impairment model, an expected credit loss ("ECL") model, was introduced as part of IFRS 9. The ECL model is a change from the IAS 39 model, which was an incurred loss model, and is forward looking by incorporating probability weighted outcomes using all available relevant information including past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. Subsequent changes in expected credit losses will be recognised in profit or loss.

For liabilities, IFRS 9 retains most of the IAS 39 requirements. At 31 December 2018, the company's financial liabilities were carried at amortised cost ("AC").

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

In £'000	Measurement category		Carrying value under IAS 39	Effect of adopting IFRS 9				Carrying value under IFRS 9
	IAS 39	IFRS 9	31 December 2017	Reclassification		Remeasurement		1 January 2018
				Mandatory	Voluntary	ECL	Other	
Receivables from related parties	Loans and receivables	Amortised cost	651,051	-	-	-	-	651,051
Total financial Assets			651,051	-	-	-	-	651,051

Receivables from related parties

Based on the business model assessment carried out by the company, it was established that all receivables from related parties should be classified as the "Hold to collect" business model as the company did not sell nor does not intend to sell any of the receivables from related parties. As a result, receivables from related parties that have SPPI contractual cash flows were reclassified from the loans and receivables ("L&R") measurement category under IAS 39 to the amortised cost "AC" measurement category under IFRS 9 at the adoption date of the standard. The impact of IFRS 9 on expected credit losses ("ECLs") for receivables from related parties was insignificant.

IFRS 15 Revenue from Contracts with Customers

The Company applied IFRS 15 for the first time in the 2018 financial statements with the date of initial application of 1 January 2018 by using the modified retrospective transition method.

Adoption of the new standard did not have any impact on the company, as no revenue is recognised under IFRS 15 in the financial year.

New standards, interpretations and amendments not yet effective and not early adopted by the company
The following new standards, interpretations and amendments which have not been applied in these financial statements, will or may have an effect on the company's future financial statements:

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective and not early adopted by the company (continued)
IFRS 16 Leases
The company adopted IFRS 16 on the effective date 1 January 2019. The new standard does not have a material impact on the company.

The following new standards and their amendments have been endorsed by the European Union, but they are not mandatory for the year ended 31 December 2018 and they have not been early adopted:

- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019, endorsed on 23 October 2018);
- Amendments to IAS 19 Employee Benefits (effective from 1 January 2019, endorsed on 13 March 2019);
- Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective from 1 January 2019, endorsed on 14 March 2019);
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation (effective from 1 January 2019, endorsed on 22 March 2018);
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019, endorsed on 8 February 2019).

The following new standards and their amendments have not yet been endorsed by the European Union:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective from 1 January 2020);
- Amendments to IFRS 3 Definition of a Business (effective from 1 January 2020);
- Amendments to IAS 1 and IAS 8 Definition of material (effective from 1 January 2020).

There are no other new standards, interpretations or amendments not yet effective or endorsed by the European Union which are expected to have a material impact on the future financial statements of the company.

Dividend income
Income is recognised when the right to receive the dividend payment is established.

Foreign currencies
The financial statements of the company are presented in British Pounds Sterling which is the functional currency of the company.

Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date. Foreign exchange differences are recognised in the statement of comprehensive income in the year of settlement of these items with the exception of foreign exchange differences arising on redemption of share

1 **Accounting policies (continued)**

Foreign currencies (continued)
capital which are recognised in retained earnings.

At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting foreign exchange differences are recognised in the statement of comprehensive income for the year. Non-monetary assets and liabilities that are denominated in foreign currencies are carried at fair value at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the statement of comprehensive income, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Taxation
Income tax represents the current tax calculated on taxable profits or losses for the year and any adjustments in respect of prior years.

The current tax is based on taxable profits or losses for the year. Taxable profits or losses differ from profits or losses as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investments in subsidiaries and available for sale financial assets
Investments in subsidiaries are recorded at cost, less any impairment losses.

Available for sale financial assets are recorded at fair value with movements recognised in the statement of comprehensive income.

Cash and cash equivalents
Cash and cash equivalents disclosed in the statement of cash flows comprise short term deposits with related parties that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of assets
At each statement of financial position date the company reviews the carrying amount of its investments to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of the asset is estimated based on value in use calculations. The estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money.

If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. Any impairment loss is recognised in the statement of comprehensive income in the year in which it occurs.

1 Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised initially at fair value, plus or minus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Such assets and liabilities are subsequently measured at amortised cost or fair value, depending on the measurement classification. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed. Trade receivables are measured at their transaction price.

In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

Categories of financial instruments

The company has the following categories of financial assets and liabilities: (i) Financial assets measured at amortised cost, and (ii) Financial liabilities at amortised cost.

(i) Financial assets at amortised cost

Financial assets at amortised cost are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. They are included in current assets. These assets are measured at amortised cost if the business model is to hold the assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest.

Financial assets at amortised cost include receivables from related parties, recognised in the statement of financial position (Note 12).

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting year that follows after the change in the business model.

Impairment of financial assets measured at amortised cost

The company on a forward looking basis measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting year about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

For receivables from related parties, the company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount

1 Accounting policies (continued)

Financial instruments (continued)
equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. Note 8 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the company has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The company may write-off financial assets that are still subject to enforcement activity when the company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(ii) Financial liabilities at amortised cost

Financial liabilities recognised at amortised cost include payables to related parties (Note 12). Payables to related parties are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or expired.

2 Significant accounting estimates

The application of accounting standards and policies requires the directors to make estimates and assumptions about future events that directly affect the company's reported financial condition and operating performance. The accounting estimate and assumptions discussed below are those that the directors consider to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the company's financial condition or operating performance. The directors consider that there are no significant accounting estimates and judgements, given the limited transactions in the period as the entity is a holding entity.

3 Auditors' remuneration

Auditors' remuneration in respect of the audit of the company's financial statements of £18,000 (2017: £18,000) was borne by a fellow subsidiary and is excluded from the results of the company.

4 Employee expenses

The average number of employees, excluding directors, during the year was nil (2017: nil).

5 Directors' emoluments and key management personnel

The emoluments of, and the number of stock options and stock appreciation rights, in International Business Machines Corporation, exercised by the directors in respect of their services as directors or otherwise in connection with the management of the company, its subsidiaries IBM United Kingdom Financial Services Limited and IBM United Kingdom Asset Leasing Limited, are shown in the following sections of this note.

It is not practicable to perform any allocation of these total emoluments between the respective companies as such amounts were earned in respect of the directors' services to the group of companies as a whole.

The emoluments received by the directors are paid by IBM United Kingdom Financial Services Limited and are therefore not included in the company's results for the year. Those directors whose emoluments, share options and share appreciation rights are received exclusively in respect of duties performed for other subsidiaries of International Business Machines Corporation are accordingly excluded from this note.

The directors' aggregate emoluments in respect of qualifying services were:

	2018	2017
	£000	£000
Short term employee benefits	**513**	378
Post-employment benefits	**43**	25
Share-based payment	**18**	8

5 Directors' emoluments and key management personnel (continued)

	2018 No.	2017 No.
Number of directors who received shares in respect of qualifying service under a long term incentive scheme	1	1
Number of directors who accrued benefits under defined benefit schemes	-	1
Number of directors who accrued benefits under defined contribution schemes	4	2

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2017: £nil). Termination benefits were £nil (2017: £nil).

Directors did not exercise share options during 2018 and 2017.

The remuneration of directors disclosed above includes the following in respect of the highest paid director:

	2018 £000	2017 £000
Short term employee benefits	260	105
Post-employment benefits	23	9
Share-based payment	18	-

The highest paid director has received shares in respect of qualifying services under a long term incentive scheme during 2018 (not received during 2017).

The highest paid director did not exercise share options during 2018 or 2017.

6 Interest income calculated using the effective interest method

	2018 £000	2017 £000
Interest on amounts receivable from related parties	3,120	1,135

Interest is received on amounts owed by group undertakings at variable rates based on LIBOR minus 0.125% (2017: 0.125%).

7 Income tax expense

(a) Analysis of charge in the year

	2018	2017
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on profit for the year at 19.00% (2017: 19.25%)	593	219
Income tax expense	593	219

(b) Factors affecting current tax charge

The tax assessed on the profit for the year is the same as (2017: same as) the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

	2018	2017
	£000	£000
Profit before income tax	3,120	1,135
Tax at the domestic income tax rate of 19.00% (2017: 19.25%)	593	219
Total income tax expense (note 7(a))	593	219

(c) Factors that may affect future tax charges

Finance Act 2016 included legislation to reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020.

8 Financial instruments

Financial risk management

The company's operations do not expose it to significant risk with respect to price, credit, cash flow or liquidity risk because it has no trade.

The company invests cash balances internally on a short term basis with IBM GF International Treasury Company DAC in Ireland. Interest is earned on the daily balance at a variable rate.

8 Financial instruments (continued)

Capital risk management

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in the statement of changes in equity. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debt.

The company has no externally imposed capital requirements to which it is subject.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	2018
	£000
	Amortised cost
Financial assets	
Receivables from related parties	**654,170**
Financial Liabilities	
Payables to related parties	**284**

	2017	2017
	£000	£000
	Loans and receivables	Amortised cost
Financial assets		
Receivables from related parties	651,051	
Financial liabilities		
Payables to related parties	-	66

8 Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Credit risk grading system

For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an internal risk based approach (GRMG) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Corresponding internal ratings GRMG	Corresponding ratings of external international rating agencies (Moody's)	Corresponding PD interval (12 months)
[1]	Aaa to Aa3	0.003%
[2-3]	A1 to Baa3	0.017% - 0.052%
[4-5]	Ba1 to B1	0.171% - 0.502%
[6]	B2 to B3	1.181%
[7]	Caa to D	5.546% - 100%

Intercompany receivables are from IBM Group counterparties that do not have assigned internal GRMG rating nor external. Moody's credit rating of the company's ultimate parent is A1, investment grade.

The following types of assets are subject to impairment criteria for expected credit losses:

Receivables from related parties

Receivables from related parties comprise of a short-term deposit held with the GF Treasury Centre in Ireland and are subject to impairment criteria for ECL. The company applies the three stage approach in measuring ECL. The company has decided to calculate only lifetime ECL and not 12 month ECL and has used current probabilities of default for lifetime ECL. The ECL losses were immaterial based on the calculation carried out by the company. All of the prior year balances were neither past due nor impaired.

Liquidity risk management

The company is funded internally by the GF Treasury Centre in Ireland. The company manages liquidity risk by maintaining adequate reserves and reserve borrowing facilities through its agreements with the GF Treasury Centre.

Liquidity and interest risk tables

The following table details the company's remaining contractual maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities including both interest and principal cash flows. The contractual maturity is based on the earliest date on

8 **Financial instruments (continued)**
which the company may be required to pay.

	Weighted average effective interest rate	Less than 1 year	Total
	%	£000	£000
2018			
Non-interest bearing			
Payables to related parties		**284**	**284**
2017			
Non-interest bearing			
Payables to related parties		66	66

Amounts payable to related parties are unsecured and non interest bearing.

The following table details the company's expected maturity of its financial assets. The table below has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate	Less than 1 year	Total
	%	£000	£000
2018			
Interest bearing			
Receivables from related parties	**0.436**	**654,170**	**654,170**
2017			
Interest bearing			
Receivables from related parties	0.139	651,051	651,051

Fair value of financial instruments
The directors have carried out a review of the fair values of the financial assets and liabilities. The directors consider that the carrying values of financial assets and financial liabilities in the financial statements reflect their fair value.

9 Investments

	Investments in subsidiaries £000
Cost	
At 1 January 2017	48,312
At 31 December 2017	48,312
At 31 December 2018	**48,312**
Net book value	
At 31 December 2018	**48,312**
At 31 December 2017	48,312

The company had beneficial ownership of ordinary share capital and voting rights of the following companies at 31 December 2018 and 2017. The indirect holding is held through IBM United Kingdom Financial Services Limited.

Name of investment	Country of incorporation	Holding	Nature of business
IBM United Kingdom Financial Services Limited	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU United Kingdom	100%	Trading
IBM United Kingdom Asset Leasing Limited	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU United Kingdom	100% (indirect)	Trading

The trading company provides a range of financial services including the leasing of equipment, the provision of lease purchase equipment, the short-term financing of sales from IBM United Kingdom Limited or otherwise to dealers and other customers, arranging loans under an agency agreement to a third party and factoring services.

10 Share capital

Allotted, called up and fully paid share capital:

	2018 £000	2017 £000
432,695,359 (2017: 432,695,359) A ordinary shares of €1 each	**360,449**	360,449
81,850,001 (2017: 81,850,001) B ordinary shares of €1 each	**50,000**	50,000
	410,449	410,449

The shares have full voting and dividend rights and confer no right of redemption. The holders of the A shares are entitled to repayment of the capital paid up on the shares in priority to the holders of the B shares on any redemption of shares, reduction of share capital or other repayment/return of capital to shareholders. The holders of the A shares are not entitled to any further participation in the profits or assets of the company.

11 Capital redemption reserve

The capital redemption reserve is a requirement of the Companies Act 2006 when shares are redeemed out of retained earnings. The purpose of the reserve is to ensure the company's capital is not diluted by the redemption of the shares.

12 Related party transactions

Related parties include parent companies, entities under common control ('group undertakings'), subsidiaries and key management personnel. There are no key management personnel other than the directors. Details of directors' emoluments can be found in note 5. The company enters into transactions with related parties in the ordinary course of business.

The following transactions were carried out with related parties and were made at fair value:

Class of related party	Transaction type	2018 £000	2017 £000
Non-UK group undertaking	Interest received	**3,120**	1,135

Details of the amounts receivable from related parties are set out below:

	2018 £000	2017 £000
Non-UK group undertaking	**654,170**	651,051

Included within amounts receivable from related parties is £654,170,000 (2017: £651,051,000) of amounts

12 Related party transactions (continued)

held on short term deposit. This is included as cash and cash equivalents in the statement of cash flows. The amount is repayable on demand, unsecured and interest bearing at LIBOR minus 0.125% (2017: 0.125%). The carrying value at 31 December 2018 and 2017 approximates to fair value due to its short term nature.

Details of the amounts payable to related parties are set out below:

	2018	2017
	£000	£000
UK group undertaking	**284**	66

The amounts owed to group undertakings are unsecured, interest-free, have no fixed date of repayment and are payable on demand.

There are no transactions to disclose with parent company in 2018 or 2017.

13 Ultimate parent company

The company's immediate parent undertaking is IBM International Holdings Investment Unlimited Company, registered in the Republic of Ireland.

The company's ultimate parent undertaking and controlling party is International Business Machines Corporation which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of these consolidated financial statements may be obtained from IBM Corporate Headquarters, New Orchard Road, Armonk, New York 10504.

14 Post balance sheet events

Capital reduction

Effective 20th March 2019, the company reduced its share capital by decapitalisation of all of the company's A Ordinary shares. This was effected by the repayment of the sum of €432,695,358 to IBM International Holdings Investment Unlimited Company and €1 to IBM International Holdings Finance Company Limited, being the repayment of the par value of 432,695,359 A Ordinary shares to the holders thereof in accordance with their shareholdings.

Share buy-back

Effective 9th May 2019, the company repurchased 69,600,000 of its B Ordinary shares of €1 each for a total consideration of the Euro equivalent of £283,272,000 from IBM International Holdings Investment Unlimited Company incorporated in Ireland.

Change in range of services in subsidiaries

During 2019, IBM Global Financing will globally wind down the portion of its commercial financing operations which provides short-term working capital solutions for OEM information technology suppliers, distributors and resellers. This action will result in a more focused financing portfolio with lower overall debt levels and refinancing requirements for IBM's financing business. The wind down is expected to begin in the second quarter of 2019 and conclude by the end of the year.