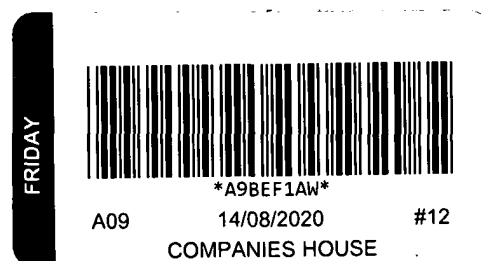


Company Registration Number 00122953

IBM United Kingdom Holdings Limited

Financial Statements

31 December 2019



IBM United Kingdom Holdings Limited

Financial Statements

For the Year Ended 31 December 2019

Contents	Page
Company Information	1
Strategic Report	2
Directors' Report	4
Statement of Directors' Responsibilities	6
Independent Auditors' Report to the Members of IBM United Kingdom Holdings Limited	7
Statement of Comprehensive Income	10
Statement of Changes in Equity	11
Statement of Financial Position	12
Statement of Cash Flows	13
Notes to the Financial Statements	14

IBM United Kingdom Holdings Limited

Company Information

For the Year Ended 31 December 2019

Company Registration Number	00122953
The Board of Directors	W Kelleher F Sciutti T Eagle
Company Secretary	I Ferguson
Registered Office	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Savannah House 3 Ocean Way Southampton Hampshire SO14 3TJ

IBM United Kingdom Holdings Limited

Strategic Report

For the Year Ended 31 December 2019

The directors present their strategic report of IBM United Kingdom Holdings Limited (the 'company') for the year ended 31 December 2019.

Review of the business and future developments

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

The company made a profit for the year of £186.3 million (2018: profit of £208.1 million). The profit for the year is primarily driven by the dividend received from subsidiary undertakings.

On 18 December 2019 the company received a dividend of £179.8 million from its subsidiary undertaking IBM United Kingdom Limited. Subsequently, on the same day the company paid a dividend of £179.8 million to its immediate parent undertaking IBM North Region Holdings.

On 27 December 2019 the company waived its rights to be repaid a loan from its subsidiary undertaking, South West One Limited, in the amount of £56.9 million. This resulted in a reversal of a previously recorded impairment. The loan waiver is considered a capital contribution and is reflected as an additional investment to South West One Limited. The finance income during the year on the loan is £0.6 million (2018: £0.4 million).

The financial strength of the company has improved year on year to a closing net asset position of £1,535.2 million from £1,528.7 million in 2018 due to net impact of loan impairment reversal and subsequent investment impairment.

Impairment

In accordance with International Accounting Standards 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, an impairment charge of £50.9 million has been recognised in the year (2018: £nil).

In accordance with International Financial Reporting Standards No. 9 "Financial Instruments" (IFRS 9) in 2017 an impairment loss on financial asset (intercompany loan) was recognised in the amount of £56.9 million. In 2019 the loan was waived and the impairment was reversed. Further details are disclosed in note 12.

Principal risks and uncertainties

The principal risks and uncertainties are integrated with those of the main trading subsidiary, IBM United Kingdom Limited and are not managed separately. The principal risks and uncertainties of IBM United Kingdom Limited are discussed in its financial statements, which do not form part of this report. The registered office address of IBM United Kingdom Limited is the same as that of this company and is detailed on the company information page of this report.

In the coming year the key business risks will be about the Covid 19 pandemic and the impact on the economic environment. The pandemic is a rapidly developing situation, which sees us entering uncharted territory and has an indeterminable length and impact. The crisis also presents an opportunity for the company, for example, data-enabled healthcare initiatives, scalable digital business models, reinventing ecommerce and also enabling and accelerating digital collaboration.

IBM United Kingdom Holdings Limited

Strategic Report

For the Year Ended 31 December 2019

The valuation of the company's investment in subsidiaries is based upon the financial forecasts of IBM United Kingdom Limited ('UKL'). UKL earns a minority, yet material, proportion of its revenue from providing its skilled resources to IBM group entities in other European Union ('EU') countries. Following the general election in December 2019, the UK Parliament ratified the withdrawal agreement, and the UK left the European Union on 31 January 2020. A transition period then commenced and will end on 31 December 2020, since neither side requested an extension by the June 2020 deadline. During the transition period the UK and European Union will seek agreement on their future trading relationship. While the final outcome remains unclear, the directors of UKL believe that the best outcome for business is that the negotiations between the United Kingdom (UK) and European Union (EU) result in future arrangements which will not materially interrupt business. However, the directors of UKL have taken the prudent step of making contingency plans to deal with a scenario in which there is not a comprehensive agreement at the end of the transition period.

Going concern

The directors remain focused on the company's liquidity, and expect to manage business operations whilst maintaining adequate liquidity for the foreseeable future. The Directors have assessed the financial position of the company as stable and have a reasonable expectation, taking into consideration the estimation of the continued business impacts of Covid 19, that the company will continue to operate, with headroom, within available cash and short term deposit levels. Historically, the company has not had any external borrowings, it settles its liabilities on time and has access to significant short term deposits placed within a subsidiary undertaking. Should a temporary need arise, resources are available from undrawn capacity under preapproved debt facilities from related parties to meet such demand. Based on the assessment, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Key performance indicators

Given the straightforward nature of the business, the directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Section 172 statement

The directors have considered the matters set out in section 172(1) (a) to (f) when performing their duty in respect of the Companies Act. For details of how this is achieved, refer to page 3 of IBM United Kingdom Limited annual report, with whom this company shares common directorship, management structure and stakeholders.

Signed on behalf of the board



W Kelleher
Director

22 July 2020

IBM United Kingdom Holdings Limited

Directors' Report

For the Year Ended 31 December 2019

The directors present their annual report and the audited financial statements of IBM United Kingdom Holdings Limited for the year ended 31 December 2019.

A review of the business including the results for the year and future developments together with details of principal risks and uncertainties, going concern and key performance indicators are covered in the Strategic Report.

Financial risk management

The company's operations do not expose it to significant risk in respect of price, credit, cash flow or liquidity risk because it has no trade. The company's investment activity means it is exposed to the inherent risk that the value of investments in subsidiaries may decline due to a reduction in estimated future cash flows attributable to the investments.

The company invests cash balances internally on a short term basis with IBM International Treasury Services Unlimited Company ("The Treasury Centre") in Ireland. Interest is earned on the daily balance at a variable rate. The company does not use derivative financial instruments to manage interest cost and as such, no hedge accounting is applied.

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 company's overall strategy remains unchanged from the prior year and is controlled globally. The capital structure of the company consists of short term loans to related parties, short term deposits with related parties and equity comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

Dividends

The Company paid a dividend of £179.8 million (74.93 UK pence per share) to its shareholder (2018: £194 million (80.83 UK pence per share)). The directors have not recommended further dividends.

Qualifying third party indemnity provisions

As at the date of this report, indemnities are in force under which the company has agreed to indemnify directors of IBM United Kingdom Pensions Trust Limited, a subsidiary of the company, to the extent permitted by law and the company's articles of association, in respect of all claims, demands, actions, proceedings, damages and fines arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of IBM United Kingdom Pensions Trust Limited.

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, the company's ultimate parent undertakings, 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.

IBM United Kingdom Holdings Limited

Directors' Report

For the Year Ended 31 December 2019

Events after the reporting date

Except for the pandemic, Covid 19 (note 13), there have been no significant events affecting the company since the year end.

Directors

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

W Kelleher	
F Sciutti	
T Eagle	
J A Davey	(appointed 24 April 2020)
J Smith	(appointed 27 April 2020)
J O'donnel	(appointed 27 April 2020)

Pursuant to the Company's articles of association, on 24 April 2020 and 27 April 2020 Mr Eagle, Mr Kelleher and Mr Sciutti each appointed an alternate, named above. These alternates are appointed to act if their appointing director is unable to do so.

Statement of 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



W Kelleher
Director

22 July 2020

IBM United Kingdom Holdings Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 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.

IBM United Kingdom Holdings Limited

Independent Auditors' Report to the Members of IBM United Kingdom Holdings Limited

For the Year Ended 31 December 2019

Report on the audit of the financial statements

Opinion

In our opinion, IBM United Kingdom Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 2019; 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

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

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

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

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.

IBM United Kingdom Holdings Limited

Independent Auditors' Report to the Members of IBM United Kingdom Holdings Limited

For the Year Ended 31 December 2019

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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.

IBM United Kingdom Holdings Limited

Independent Auditors' Report to the Members of IBM United Kingdom Holdings Limited

For the Year Ended 31 December 2019

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.



Matthew Haverson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

28 July, 2020

IBM United Kingdom Holdings Limited

Statement of Comprehensive Income For the Year Ended 31 December 2019

	Note	2019 £m	2018 £m
Dividend income	6	179.8	207.8
Impairment reversal on loan	12	56.9	-
Impairment of investments	10	(50.9)	-
Operating profit		185.8	207.8
Finance income	8	0.6	0.4
Profit before income tax		186.4	208.2
Income tax charge	9	(0.1)	(0.1)
Profit for the year and total comprehensive income		186.3	208.1

All operations are classified as continuing.

There was no other comprehensive income in 2019 (2018:£nil)

The notes on pages 14 to 30 form part of these financial statements.

IBM United Kingdom Holdings Limited

Statement of Changes in Equity For the Year Ended 31 December 2019

	Note	Share capital £m	Share premium £m	(Accumulated losses) / Retained earnings £m	Total equity £m
At 1 January 2018		490.0	1,038.2	(13.6)	1,514.6
Profit for the financial year and total comprehensive income		-	-	208.1	208.1
Dividends paid		-	-	(194.0)	(194.0)
At 31 December 2018		490.0	1,038.2	0.5	1,528.7
Profit for the financial year and total comprehensive income		-	-	186.3	186.3
Dividends paid		-	-	(179.8)	(179.8)
At 31 December 2019		490.0	1,038.2	7.0	1,535.2

The notes on pages 14 to 30 form part of these financial statements.

IBM United Kingdom Holdings Limited

Statement of Financial Position

As at 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Investments in subsidiaries	10	1,454.0	1,448.0
Current assets			
Receivables from related parties	12	87.4	80.8
		87.4	80.8
Total assets		1,541.4	1,528.8
Current liabilities			
Intercompany tax payables	9	(0.1)	(0.1)
Payables to related parties	12	(6.1)	-
Total liabilities		(6.2)	(0.1)
Net assets		1,535.2	1,528.7
Issued capital and reserves			
Share capital	14	490.0	490.0
Share premium	14	1,038.2	1,038.2
Retained earnings		7.0	0.5
Total equity		1,535.2	1,528.7

The financial statements on pages 10 to 30 were approved by the directors and authorised for issue on 22 July 2020 and are signed on their behalf by:



W Kelleher
Director

Company registration number: 00122953

The notes on pages 14 to 30 form part of these financial statements.

IBM United Kingdom Holdings Limited

Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019 £m	2018 £m
Net cash inflow/(outflow) from operating activities	11	4.2	(0.1)
Dividends received		179.8	207.8
Interest received		0.6	0.4
Increase in short-term deposits with related parties		(4.8)	(14.1)
Net cash inflow from investing activities		175.6	194.1
Dividends paid		(179.8)	(194.0)
Net cash outflow from financing activities		(179.8)	(194.0)
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

The notes on pages 14 to 30 form part of these financial statements.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies

Basis of preparation

IBM United Kingdom Holdings Limited (the 'company') is a private company limited by shares 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. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, International Financial Reporting Standards Interpretations Committee interpretations and applied in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements contain information about IBM United Kingdom Holdings Limited 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 accounting policies have been applied consistently, other than where new policies have been adopted, to all years presented. 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 these financial statements.

The directors remain focused on the company's liquidity, and expect to manage business operations whilst maintaining adequate liquidity for the foreseeable future. The Directors have assessed the financial position of the company as stable and have a reasonable expectation, taking into consideration the estimation of the continued business impacts of Covid 19, that the company will continue to operate, with headroom, within available cash and short term deposit levels. Historically, the company has not had any external borrowings, it settles its liabilities on time and has access to significant short term deposits placed within a subsidiary undertaking. Should a temporary need arise, resources are available from undrawn capacity under preapproved debt facilities from related parties to meet such demand. Based on the assessment, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

New and amended standards adopted by the company

The following standards, interpretations and amendments have been adopted in the financial statements for the first time for the year beginning 1 January 2019:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Annual Improvements to IFRS Standards 2015-2017 Cycle

These amendments include minor changes to the following standards:

- IAS 12, 'Income taxes'
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The new or amended standards did not have a material impact on the company.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective

Certain new standards and amendments to standards and interpretations have been published that are not mandatory for 31 December 2019 and have not been early adopted by 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:

- Amendments to IAS 1 and IAS 8 on the definition of material
- Amendments to references to the Conceptual Framework in IFRS Standards

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

- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform

There are no other new standards, interpretations and 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

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

Finance income

Finance income represents interest on short-term loans to related parties and is recognised on an accruals basis using the effective interest rate method.

Foreign currencies

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

Taxation

Income tax expense or credit represents the current tax calculated on taxable profit or loss for the year, any adjustments in respect of prior periods and the deferred tax charge or credit for the year.

The current tax is based on taxable profit for the year. Taxable profit or loss differs from profit or loss 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 current tax asset or liability is calculated using tax rates that have been enacted relevant to the reporting date.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

Investments in subsidiaries

The company acquires investments in subsidiary undertakings from its parent company and sells them onto its subsidiary, IBM United Kingdom Limited. Both the initial direct investment in subsidiaries and the subsequent indirect investment, following the sale to IBM United Kingdom Limited in exchange for shares in IBM United Kingdom Limited, are initially recorded at cost equal to the fair value of the company acquired. Investments in subsidiaries are tested annually for impairment and carried at cost less impairment losses.

Impairment of assets

At each reporting date, the company reviews the carrying amount of its investments in accordance with International Accounting Standard No. 36 "Impairment of Assets" (IAS 36) to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of the asset is estimated as the higher of value in use and the fair value of the investment that will be recovered on sale or liquidation. 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 or reversal, up to the original carrying amount, is recognised in the statement of comprehensive income in the year in which it occurs.

Financial instruments

Financial assets and liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

The only financial instruments held by the company are the related party receivables and related party payables.

Related party payables and receivables are stated at their fair value net of transaction costs at initial recognition and are subsequently held at amortised cost less allowance for expected credit loss. These balances are allocated between current and non-current periods dependent upon the specific loan repayment profile for each arrangement.

Financial assets - write off

Financial assets are written-off, in whole or in part, when the company 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 impairment – allowance for expected credit loss "ECL"

The first stage of the evaluation requires an assessment of expected credit losses (ECL), which represent the possibility of default over the next 12 months. When a significant increase in credit risk has occurred, the financial asset is transferred to stage 2 and the ECL will be calculated using the possibility of default over the expected life of the financial instrument. When there is objective evidence that a financial asset is impaired, the financial asset will be transferred to stage 3 and lifetime ECL will be calculated.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Accounting policies (continued)

Financial instruments (continued)

Expected credit losses for amount due from related parties (excluding loan due from related parties) are estimated using the simplified approach of lifetime ECL based on a combination of write-off history, aging analysis and known troubled accounts. These simplifications eliminate the need to calculate the 12-month ECL and to assess when a significant increase in credit risk has occurred, as required under a three-stage approach.

For receivables from related parties the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 12 section a) (Credit risk) for further details.

The identified impairment loss was immaterial and not recorded.

Share capital

Ordinary shares are classified as equity. When the company issues new equity share capital to its parent company, the consideration received is included in equity attributable to the company's equity holders.

Preference shares are classified as equity based on their characteristics. The board approves the reclassification of authorised ordinary shares to preference shares to enable the issue of preference shares to make acquisitions.

2 Significant accounting estimates and judgements

The application of accounting standards and policies requires the directors to make judgements, estimates and assumptions about future events that directly affect the company's reported financial condition and operating performance. The accounting estimates and assumptions discussed 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 the following to be subject to significant accounting estimates and assumptions: Further details about changes to the assumptions on valuations of investments are disclosed in note 10.

The directors believe there are no significant judgments.

3 Auditors' remuneration

Auditors' remuneration in respect of the audit of the company's financial statements of £26,750 (2018: £26,750) was borne by a fellow subsidiary and is excluded from the results of the company.

There were no fees payable for other services in 2019 or 2018.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

4 Employee expenses

The average monthly number of employees, excluding the directors, during the year was nil (2018: nil).

5 Directors' emoluments

The emoluments received by directors and the number of directors who received share options and share appreciation rights in respect of their services as directors, or otherwise in connection with the management of the company, its parent IBM North Region Holdings and its subsidiary IBM United Kingdom 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 are earned in respect of the directors' services to the group of companies as a whole. The following amounts are remunerated by IBM United Kingdom Limited and are therefore not included in the company's results for the year.

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

	2019	2018
	£	£
Short-term employee benefits	1,723,950	2,490,332
Post-employment benefits	72,736	71,422
Share-based payments	920,882	710,747

	2019	2018
	No.	No.
Number of directors who received shares in respect of qualifying service under a long term incentive scheme	3	4
Number of directors who accrued benefits under defined contribution schemes	3	4

No director was appointed and no director resigned during the year. None of the directors resigned and no director was appointed subsequent to the year end. One director was appointed and one director resigned during the prior year.

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2018: £nil).

Aggregate emoluments receivable as compensation for loss of office were £nil (2018: £nil).

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

5 Directors' emoluments (continued)

Emoluments of highest paid director:

	2019 £	2018 £
Short-term employee benefits	760,868	1,409,965
Post-employment benefits	26,376	31,830
Share-based payments	777,386	76,906

The highest paid director received shares in respect of qualifying service under a long term incentive scheme during 2019 and 2018. No other emoluments under long term incentive schemes were received by the highest paid director.

The highest paid director did not exercise any share options during 2019 or 2018.

6 Dividend income

	2019 £m	2018 £m
Income from shares in subsidiary undertakings	179.8	207.8

7 Dividends paid

	2019 £m	2018 £m
Ordinary dividends	(179.8)	(194.0)

The dividends paid during the year equals the dividends declared amount.

8 Finance income

	2019 £m	2018 £m
Interest on short term deposit with related parties	0.6	0.4

Interest on short term deposits with group undertakings is charged at variable rates based on LIBOR.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

9 Income tax charge

(a) Analysis of charge in the year

	2019 £m	2018 £m
Current tax:		
UK Corporation tax based on profit for the year at 19.00% (2018: profit at 19.00%)	0.1	0.1
Total current tax	0.1	0.1
Income tax charge	0.1	0.1

(b) Reconciliation of tax charge

The tax assessed on the profit (2018: profit) for the year is lower than (2018: lower) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £m	2018 £m
Profit before income tax	186.4	208.2
Tax at the domestic income tax rate of 19.00% (2018: 19.00%)	35.4	39.6
Effects of:		
Non-taxable UK dividend receivable	(34.2)	(39.5)
Investment impairments not deductible	9.7	-
Impairment reversal on loans not taxable	(10.8)	-
Total income tax charge/(credit) (note 9(a))	0.1	0.1

(c) Factors that may affect future tax charge/(credit)

The 2020 Finance Bill removes the reduction of the main rate of corporation tax to 17% which was due to come into effect from 1 April 2020 (as enacted by Finance Act 2016). The tax rate will therefore remain at 19%. As this change was not substantively enacted at the balance sheet date, it is not reflected in any closing deferred tax balances. The impact of the proposed tax rate change on the deferred tax balances is immaterial.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

9 Income tax charge (continued)

(d) Tax payables

	2019 £m	2018 £m
Intercompany tax payables	(0.1)	(0.1)

10 Investments in subsidiaries

	£m
Cost	
At 1 January 2018	1,448.6
At 31 December 2018	1,448.6
Additions	56.9
At 31 December 2019	1,505.5
Impairment	
At 1 January 2018	0.6
At 31 December 2018	0.6
Impairment charge for the year	50.9
At 31 December 2019	51.5
Net book value	
At 31 December 2019	1,454.0
At 31 December 2018	1,448.0

The company had control over and had 100% ownership of all the ordinary share capital and voting rights of the following companies at 31 December 2019 and 2018, unless otherwise stated, all of which are registered in England and Wales, unless otherwise stated. The registered office for all the following subsidiary undertakings is PO Box 41, North Harbour, Portsmouth, Hampshire, United Kingdom, PO6 3AU, unless otherwise stated.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

10 Investments in subsidiaries (continued)

Holding and trading companies

The trading companies provide information technology services, software and business solutions or treasury services to related parties.

Direct holdings

IBM United Kingdom Limited (89%)
IBM United Kingdom Pensions Trust Limited

IBM United Kingdom Pensions Trust Limited acts as and carries out the various duties of a corporate trustee of pension schemes. The company has no control over IBM United Kingdom Pensions Trust Limited.

Indirect holdings through IBM United Kingdom Limited International Business Machines Limited

Indirect holdings through International Business Machines Limited
IBM International Treasury Services Unlimited Company (Ireland), IBM House, Shelbourne road, Ballsbridge, Dublin 4, D04NP20

Indirect holdings through IBM International Treasury Services Unlimited Company
IBM Netherlands Treasury B.V., Johan Huizingalaan 765, 1066 VH Amsterdam, Netherlands

Indirect holdings through IBM Netherlands Treasury B.V.
IBM Treasury Corporation (5.06%), (Barbados), Radley Court, Lower Collymore Rock, St. Michael, Barbados

Non-trading companies

Direct holdings

*Continuity Services Limited (2019: 5%, 2018: 5%)
Data Sciences Limited
Data Sciences UK Limited
IBM Limited
South West One Limited

Indirect holdings through IBM United Kingdom Limited

010414 UK Limited
251211 UK Limited, 76 Upper Ground, London, SE1 9PZ
Algorithmics Risk Management Limited
*Cleversafe UK Limited
Blue Wolf Global Limited
*EZLegacy UK Limited
Heart Beat Experts Limited
i2 Holdings Limited
i2 Intermediate Holdings Limited
i2 Limited
*IBM Atlantic CV (0.003%), (Netherlands), Johan Huizingalaan 765, 1066 VH Amsterdam, the Netherlands
Kenexa Quorum Holdings Limited

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

10 Investments in subsidiaries (continued)

Kenexa Technologies LLC (25%), (USA), Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, USA

MH (UK) Limited

Oniqua Europe Limited, Ben Lomond View Riverside Business Park, 23 Pottery Street, Greenock,

Promontory Financial Group (UK) Limited

Renfrewshire, Scotland, PA15 2UZ

Optevia Limited

*Resilient Systems Europe Limited

*Silverpop Systems Limited

SPSS Limited

Sterling Commerce (UK) Limited

The Analytic Sciences Corporation Limited

Transitive Corporation Limited

Truven Health Analytics UK Limited

Indirect holdings through Algorithmics Risk Management Limited

Algorithmics (UK) Limited

Indirect holdings through Blue Wolf Global Limited

Bluewolf International Limited

Indirect holdings through Kenexa Quorum Holdings Limited

Kenexa Global Recruitment Services Limited

Indirect holdings through IBM United Kingdom Pensions Trust Limited

Spinnaker Nominees Limited

Indirect holdings through The Analytic Sciences Corporation Limited

Weather Services International Limited

Indirect holdings through Weather Services International Limited

The Weather Channel Global Media Limited

Indirect holdings through Transitive Corporation Limited

Transitive Limited

Indirect holdings through Truven Health Analytics UK Limited

Simpler Consulting Limited

* Denotes companies that entered liquidation or struck off during the year.

Significant investment information

Included within investments is an 89% interest in the ordinary share capital of IBM United Kingdom Limited, a company registered in England and Wales. The latest financial statements for IBM United Kingdom Limited show a profit for the year of £45.5 million and net capital and reserves of £2,090.1 million.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

10 Investments in subsidiaries (continued)

Acquisitions

During the year the company increased its investment to South West One Limited in amount of £56.9 million in a form of forgiving a loan receivable.

To support its continued operations in the UK, IBM United Kingdom Limited, a subsidiary of IBM United Kingdom Holdings Limited, have continued to purchase the following investments during 2019: Promontory Financial Group (UK) Limited. Further details of these acquisitions can be found in the financial statements of IBM United Kingdom Limited. (2018: The Analytic Sciences Corporation Limited, Blue Wolf Global Limited, Heartbeat Experts Limited, Oniqua Europe Limited, Truven Health Analytics UK Limited. Further details of these acquisitions can be found in the financial statements of IBM United Kingdom Limited.)

Disposal

During 2019, IBM United Kingdom Limited, a subsidiary of IBM United Kingdom Holdings Limited made the following disposals of investments:
IBM Atlantic CV

During the prior year, there were no disposal of investments.

Liquidations

During 2019 Cleversafe UK Limited, Continuity Services Limited, Resilient Systems Europe Limited and Silverpop System Limited went into liquidation and EZLegacy UK Limited was struck off.

During the prior year Integral Solution Limited and Truven Health Analytics Mexico went into liquidation.

Impairment

The directors conducted an impairment review of the investments held by the company in accordance with IAS 36.

The recoverable amount of the investment to South West One Limited is £6.1 million (2018: £nil). An impairment charge of £50.9 million was recognised in the current year (2018: £nil) as a result of this review.

The recoverable amount of the investment to IBM United Kingdom Limited is £1,454.0 million (2018: £1,448.0 million), which was determined based on value in use calculations. These calculations use pre-tax cash flow projections of the individual investment based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rate of 2.5% (2018: 2.5%) used is in line with the long term average growth rate for the industry in which the group operates. The discount rate used in this calculation was 11.5% (2018: 11.5%).

The directors believe there are no significant judgments.

The key assumptions used in the impairment testing were a) discount rates and b) rates of growth.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

10 Investments in subsidiaries (continued)

a) Discount rate

The discount rate reflects management's estimate of the pre-tax cost of capital employed in the current market and the risks specific to the information technology industry.

b) Rates of growth

Management have reviewed industry forecasts and consider the rate of 2.5%, for both short term and long term assumptions, to be reasonable for the purposes of the impairment test.

Any reasonable change in the assumptions would not result in an impairment.

11 Notes to the cash flow statement

Reconciliation of profit for the year to net cash inflow / (outflow) from operating activities

	2019 £m	2018 £m
Profit for the year	186.3	208.1
Adjustments for:		
Impairment of investment	50.9	-
Finance income	(0.6)	(0.4)
Dividend income	(179.8)	(207.8)
Income taxes	0.1	0.1
Impairment reversal on loans	(56.9)	-
Changes in operating assets		
Increase in receivables from related parties	(1.9)	(0.1)
Increase in payables to related parties	6.1	-
Net cash flow from operating activities	4.2	(0.1)

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

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 for the purchase or sale of investments and in relation to financing arrangements. The receivable from related parties arises primarily from group relief together with amounts held on short term deposit. The group relief receivable arises on the surrender of company losses to other group companies and are used in that company's tax return.

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

Class of related party	Transaction type	2019	2018
		£m	£m
Subsidiary undertakings	Interest receivable	0.6	0.4
	Dividends received	179.8	207.8
	Purchase of assets and liabilities from South West One Limited	6.1	-
Immediate parent	Dividends paid to North Region Holdings	(179.8)	(194.0)

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

Receivables from related parties

	2019	2018
	£m	£m
UK group undertakings	87.4	137.7
	87.4	137.7
Expected credit loss allowance		
Allowance for loan receivable	-	(56.9)
	87.4	80.8

Included within amounts owed by group undertakings is £19.8 million (2018: £15 million) of amounts held on short term deposit.

On 14 July 2017 the company granted a loan to its subsidiary undertaking South West One Limited in amount of £56.9 million. In accordance with International Financial Reporting Standards No. 9 "Financial Instruments" (IFRS 9) the loan was fully impaired in 2017 as the borrower was unlikely to be able to repay the loan. On 27 December 2019 the company waived the loan and reversed the impairment in full amount and deemed it to be a capital contribution. Further details are disclosed in note 10.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

12 Related party transactions (continued)

The receivables from related parties are unsecured and repayable on demand in cash. The credit risk on receivables from related parties is considered to be low.

Payables to related parties

	2019 £m	2018 £m
Subsidiary undertakings	6.1	-

The amounts outstanding on these balances are unsecured and repayable on demand in cash.

a. Financial instruments disclosure

The balances have the following terms and conditions:

	2019 £m	2018 £m	Term	Interest rate
Assets				
Group undertaking	67.6	65.8	Repayable on demand	Nil
Short term deposit with related parties	19.8	15.0	Repayable on demand	LIBOR -0.13%
Loan to related party	-	56.9	Fully impaired	LIBOR +0.15%
Liabilities				
Group undertakings	6.1	-	Repayable on demand	Nil

The carrying value at 31 December 2019 and 2018 approximates to fair value due to their short term nature.

Classification of financial instruments

The receivables and payables are carried at amortised cost less impairments for expected credit loss. (2018: amortised cost).

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

12 Related party transactions (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 company's overall strategy remains unchanged from the prior year and is controlled globally. The capital structure of the company consists of short term loans to related parties, short term deposits with related parties and equity comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

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

Credit risk

The company has assessed the impact of credit valuation adjustments on the financial receivables which are only receivables from related parties and cash held at related party. This credit check is supplied by independent rating agencies where available and, if not available, the company uses other publicly available financial information and its own trading records to rate the counterparty. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management team annually.

Receivables from related parties are short term in nature and it was determined that credit adjustments would have no material impact on the measurement of these financial assets.

Short term deposits with related parties are held with the IBM International Treasury Services Unlimited Company, which the directors assess as having high credit ratings

Interest rate risk

At 31 December 2019, if interest rates for the year had been 1 percent higher/lower with all other variables held constant, pre-tax profit for the year would have been £0.2 million higher/lower (2018: £nil higher/lower), mainly attributable to the company's exposure to interest rates on its variable rate loans.

Financial guarantee

The company has a number of financial guarantees over the performance of its main trading subsidiary, IBM United Kingdom Limited, in relation to its services agreements and its strategic partnership agreements. There have been no claims under the guarantees during the year. The likelihood of the guarantees being called upon is deemed remote and it is not possible to estimate any potential liability in the case of one or more of the guarantees being called upon.

The company has two financial guarantees (2018: two) over property rental agreements. The maximum credit risk on these guarantees is deemed to be £105.4 million as at 31 December 2019 (2018: £116.3 million).

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

12 Related party transactions (continued)

Pensions

The company's subsidiary IBM United Kingdom Limited was a defendant in approximately 285 individual actions before the Employment Tribunal and brought in 2010 by participants of the defined benefits plans who left IBM United Kingdom Limited. These actions had been stayed, but were reactivated following the 2017 final judgment of the Appeal Court in London declaring that the company (and IBM United Kingdom Limited) acted lawfully in 2010 in closing its UK defined benefit plans to future accruals for most participants and in implementing a new retirement policy. In October 2019 the parties agreed confidential settlement terms and the Tribunal confirmed withdrawal of the claims, thereby concluding this litigation.

13 Events after the reporting date

Late in 2019, news first emerged from China about the Covid 19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally.

The health and well-being of our employees- and that of our clients and partners - is very important to the company. This is why our IBM Crisis Management Team, with Corporate Health & Safety are actively monitoring the Covid 19 disease outbreak and its implications. In March 2020 we closed most of our offices and encouraged employees to work from home. Our operations remain fully active and are operating smoothly in the current environment.

The company is working to support the many companies in the United Kingdom that have been forced to make extraordinary changes to the way they conduct their daily business. We have seen IBMers working around the clock to keep the mission-critical systems of our clients running. Furthermore, with this crisis the importance of hybrid cloud and AI remains a top priority and businesses are continuing to transform their operating models.

The company is unable to accurately assess the full impact of Covid 19 on its future financial position and the results of operations. Management will continue to monitor Covid 19 and will act responsibly to avoid unexpected implications for the company. Management has reassessed the outlook, including various scenario analyses, and determined that the company's cash balances, the expected net cash flow from operations and access to funds available within the wider IBM group will be sufficient to meet its liquidity needs for a period of at least 12 months from the date of approval of these financial statements.

There were no other material events after the balance sheet date.

IBM United Kingdom Holdings Limited

Notes to the Financial Statements

For the Year Ended 31 December 2019

14 Share capital

Allotted, called up and fully paid

	Number of shares	Ordinary shares £m	Preference shares £m	Share premium £m	Total £m
At 1 January 2018	490,000,075	240.0	250.0	1,038.2	1,528.2
At 31 December 2018	490,000,075	240.0	250.0	1,038.2	1,528.2
At 31 December 2019	490,000,075	240.0	250.0	1,038.2	1,528.2

There was no share issue during the current or prior year.

In the event of a winding up the holder of the preference shares shall be entitled to £1 per share, in preference to all other classes of shareholders. The payment of a dividend on the preference shares is at the discretion of the directors of the company. The company has the right to redeem all or any preference shares for an amount equal to its nominal value together with arrears and accruals of the preference dividend payable as applicable.

The holder of the preference shares has no right to vote at meetings, unless the business of the meeting includes a resolution for the liquidation of the company, a reduction of the capital of the company or a resolution adversely altering any of the special rights and privileges attached to the preference shares.

All issued share capital is classified as equity.

15 Ultimate parent company

The company's immediate parent undertaking is IBM North Region Holdings, which is incorporated in Great Britain and registered in England and Wales.

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 the financial statements of this undertaking may be obtained from IBM Corporate Headquarters, New Orchard Road, Armonk, New York 10504.