

IBM Finans Norge AS
Condensed Interim Financial Statements
30 September 2017

IBM Finans Norge AS

Condensed Interim Financial Statements

For the Quarter Ended 30 September 2017

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IBM Finans Norge AS

Condensed Interim Statement of Comprehensive Income

For the Quarter Ended 30 September 2017

	Notes	Three months ended		Nine months ended		Year ended
		30 September 2017 NOK'000	30 September 2016 NOK'000	30 September 2017 NOK'000	30 September 2016 NOK'000	2016 NOK'000
		Unaudited		Unaudited		Audited
Finance income	2	11,314	1,864	140,439	6,509	27,145
Finance cost	3	(4,023)	(225)	(56,559)	(511)	(12,816)
Net finance income		7,291	1,639	83,880	5,998	14,329
Other income and expense						
Other income / (expense)	4	(6,189)	(746)	(17,456)	(1,702)	(4,888)
Total other income and expense		(6,189)	(746)	(17,456)	(1,702)	(4,888)
Profit before income tax		1,102	893	66,424	4,296	9,441
Income tax expense		(264)	(223)	(15,941)	(1,076)	(2,360)
Profit for the period / Total comprehensive income		838	670	50,483	3,220	7,081
Other comprehensive income / (loss)						
<i>Items that will not be reclassified subsequently to profit and loss:</i>						
Actuarial gain / (loss) on defined benefit scheme		-	-	9	-	940
Deferred tax in respect of defined benefit scheme		-	-	(3)	-	(216)
Other comprehensive income / (loss) for the period, net of income tax		0	0	6	0	724
Total comprehensive income / (loss) for the period		838	670	50,489	3,220	7,805

All operations are classified as continuing.

The notes on pages 6 to 14 form part of these financial statements.

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Condensed Interim Statement of Financial Position

As at 30 September 2017

		30 September 2017 NOK'000 Unaudited	31 December 2016 NOK'000 Audited	30 September 2016 NOK'000 Unaudited
Current assets				
Cash and cash equivalents	12	8,888	1,116	-
Receivables from related parties	12	289	867	547
Finance receivables	6	329,373	553,745	244,846
Prepayments and other current assets		2,783	9,758	-
		341,333	565,486	245,393
Non-current assets				
Finance receivables	6	52,623	676,113	-
Property, plant and equipment	11	36,278	30,941	-
Deferred tax asset		-	-	-
		88,901	707,054	-
Total assets		430,234	1,272,540	245,393
Current liabilities				
Loans and borrowings	7, 12	146,459	232,126	135,677
Payables to related parties	12,13	39,902	200,971	7,244
Trade and other payables	8	33,507	53,651	16,964
Tax payables		17,101	1,413	3,439
Deferred income		2,258	2,309	193
Other liabilities (employees)		1,135	743	-
		240,362	491,213	163,517
Non-current liabilities				
Deferred tax liability		1,375	1,117	54
Retirement benefit obligation		2,264	2,143	-
Loans and borrowings	7, 12	-	642,323	-
		3,639	645,583	54
Total liabilities		244,001	1,136,796	163,571
Net assets		186,233	135,744	81,822
Issued capital and reserves				
Share capital		45,000	45,000	45,000
Retained profits		141,233	90,744	36,822
Total equity		186,233	135,744	81,822

The notes on pages 6 to 14 form part of these financial statements.

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Condensed Interim Statement of Changes in Equity

As at 30 September 2017

	Issued capital NOK'000	Other paid-in capital NOK'000	Retained earnings NOK'000	Total equity NOK'000
At 1 January 2017	45,000	64,217	26,527	135,744
Profit for the period	-	-	50,483	50,483
Other comprehensive income	-	-	6	6
Total contribution by and distribution to owners of the company	-	-	-	-
At 30 September 2017 (unaudited)	45,000	64,217	77,016	186,233
At 1 January 2016	45,000	14,880	18,722	78,602
Profit for the period / Total comprehensive income	-	-	3,220	3,220
Total contribution by and distribution to owners of the company	-	-	-	-
At 30 September 2016 (unaudited)	45,000	14,880	21,942	81,822
At 1 January 2016	45,000	14,880	18,722	78,602
Profit for the period	-	-	7,081	7,081
Other comprehensive income	-	-	724	724
Total group contribution to owners of the company	-	(6,663)	-	(6,663)
Total capital contribution by owners of the company	-	56,000	-	56,000
At 31 December 2016 (audited)	45,000	64,217	26,527	135,744

The notes on pages 6 to 14 form part of these financial statements.

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Condensed Interim Statement of Cash Flows

For the Quarter Ended 30 September 2017

	Nine months ended		Year ended
	30 September 2017 NOK'000 Unaudited	30 September 2016 NOK'000	31 December 2016 NOK'000 Audited
Profit for the period	50,483	3,221	7,081
Adjustments for			
Income tax	15,941	1,074	2,360
Depreciation	11 11,732	-	2,584
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution	131	-	3,083
Income tax paid	-	-	-
Income tax transfer	-	-	(2,464)
Decrease / (Increase) in receivables from related parties	12 579	(400)	(720)
Decrease / (Increase) in finance receivables	6 847,862	(9,435)	(994,446)
(Decrease) / Increase in payables to related parties	12 (161,069)	(55,924)	137,803
(Decrease) / Increase in trade and other payables	8 (20,144)	13,203	49,697
(Decrease) / Increase in other liabilities	340	-	3,052
Decrease / (Increase) in prepayments	6,976	-	(9,759)
Net cash flow from operating activities	752,831	(48,261)	(801,729)
Cash flows from investing activities			
Purchase of property, plant and equipment	11 (19,914)	-	(35,034)
Proceeds from sale of property, plant and Equipment	11 2,845	-	1,510
Cash flows from investing activities	(17,069)	-	(33,524)
Cash flow from financing activities			
Capital increase	-	-	56,000
Group contribution	-	-	(6,663)
(Decrease) / Increase in borrowing	7 (727,990)	48,261	787,032
Net cash flow from financing activities	(727,990)	48,261	836,369
Net increase in cash and cash equivalents	7,772	-	1,116
Cash and cash equivalents at beginning of year	1,116	-	-
Cash and cash equivalents at end of the period	8,888	-	1,116

The notes on pages 6 to 14 form part of these financial statements.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2017

1. Statement of compliance, basis of preparation, and significant accounting policies

General information

IBM Finans Norge AS (the 'company') is a limited company incorporated in Norway. The ownership of the company was transferred from International Business Machines AS (IBM) to IBM Global Financing investments II B.V. in March 2017. The company's ultimate parent entity is International Business Machines Corporations ('IBM Corporation'), a company registered in the United States of America.

Basis of preparation

These condensed interim financial statements for the quarter ended 30 September 2017 have been prepared on a historical cost basis and in accordance with IAS 34 Interim financial reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

In preparing these condensed interim financial statements, the required significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

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

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2017

2. Finance income

	Three months ended		Nine months ended		Year ended
	30 September 2017	30 September 2016	30 September 2017	30 September 2016	31 December 2016
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Factoring income	4,327	1,861	9,807	6,488	10,761
Operating lease income	4,503	-	13,871	-	3,182
Capital lease income	1,532	-	114,077	-	11,783
Interest income	150	3	199	21	236
Other operating income	802	-	2,485	-	1,183
	11,314	1,864	140,439	6,509	27,145

For commercial financing, the interest for the extended period is fixed above Base rate. Base Rate is the one-month NIBOR rate published by Norges Bank on the first working day of a calendar month, the Base Rate will be changed to NIBOR appearing for the last working day of the previous calendar month. If at any time, NIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following working day. In case of negative Base Rate, a minimum Base Rate of 0 % will be used.

3. Finance costs

	Three months ended		Nine months ended		Year ended
	30 September 2017	30 September 2016	30 September 2017	30 September 2016	31 December 2016
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
Cost of operating leases	4,710	-	13,173	-	3,020
Cost of capital leases	(2,092)	-	33,522	-	6,108
Interest expense	841	225	8,036	511	2,456
Cost of other operating income	564	-	1,828	-	1,232
	4,023	225	56,559	511	12,816

For commercial financing, the interest for the extended period is fixed above Base rate. Base Rate is the one-month NIBOR rate published by Norges Bank on the first working day of a calendar month, the Base Rate will be changed to NIBOR appearing for the last working day of the previous calendar month. If at any time, NIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following working day. In case of negative Base Rate, a minimum Base Rate of 0 % will be used.

For client Financing, we operate with fixed interest rate.

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4. Other expenses

	Three months ended		Nine months ended		Year ended
	30 September 2017 NOK'000	30 September 2016 NOK'000	30 September 2017 NOK'000	30 September 2016 NOK'000	31 December 2016 NOK'000
Employee expenses	1,869	-	6,582	-	2,141
Other expenses	4,320	746	10,807	1,671	2,716
Audit services (excl. VAT)- Statutory audit	-	-	67	31	31
	6,189	746	17,456	1,702	4,888

5. Income tax expense

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2017 is 24% (the estimated tax rate for the six months ended 30 September 2016 was 25 %).

6. Finance receivables

	30 September 2017 NOK'000	31 December 2016 NOK'000	30 September 2016 NOK'000
Current			
Factored receivables	251,332	296,202	245,028
Lease receivables	55,748	56,341	-
Customer loans	76,487	879,126	-
Less: provision for impairment of receivables	(1,571)	(1,811)	(182)
	381,996	1,229,858	244,846
Current	329,373	553,745	244,846
Non-current	52,623	676,113	-
	381,996	1,229,858	244,846

Finance lease receivables are for leases that relate principally to the company's equipment and are generally for terms ranging from two to seven years. Customer loans are provided by the company to clients to finance the purchase of IBM's software and services.

Finance lease and customer loan receivables include invoiced amounts not paid at the end of quarter. The average contractual credit period on invoiced amounts is 0 to 30 days. Thereafter, interest is charged at market rates on the outstanding balance.

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6. Finance receivables (continued)

Before entering into a finance lease arrangement, the company undertakes a credit assessment on the proposed transaction, either through the IBM Credit Team or, for certain transactions of a lower size, a credit scoring system based on external credit agency information, to assess the customer's credit quality and define credit limits by customer.

Credit limits for most customers are valid for no more than six months, and are re-assessed if required to be extended. The balances on leases for hardware are usually secured over the leased equipment.

In determining the recoverability of finance receivables, the company considers any change in the credit quality of the receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and diverse. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment of trade receivables.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

The finance lease receivables are effectively collateralized by the leased assets as the right to the asset reverts to the company in case of the counterparty's default. Such finance lease receivables are secured by hardware assets.

7. Loans and borrowings

	30	31	30
	September	December	September
	2017	2016	2016
	NOK'000	NOK'000	NOK'000
<i>Current</i>			
Loans due to related parties (note 12)	146,459	232,126	135,677
Term loans	-	-	-
	<u>146,459</u>	<u>232,126</u>	<u>135,677</u>
<i>Non-current</i>			
Loans due to related parties (note 12)	-	642,323	-
Term loans	-	-	-
	<u>-</u>	<u>642,323</u>	<u>-</u>

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8. Trade and other payables

	30 September 2017 NOK'000	31 December 2016 NOK'000	30 September 2016 NOK'000
Trade payables	29,882	52,940	16,657
Social security and other taxes	3,301	708	-
Other payables	324	3	307
	<u>33,507</u>	<u>53,651</u>	<u>16,964</u>

9. Contingencies

At 30 September 2017, the company had contingent liability in respect of bank guarantees in amount of NOK 30 000 000 (31 December 2016: NOK 30 000 000) with joint liability of IBM group companies in Norway.

10. Events after balance sheet date

There were no other material events after balance sheet date.

11. Property, plant and equipment

	Buildings and equipment NOK'000	Plant and Fixtures and equipment NOK'000	fittings NOK'000	Lease assets NOK'000	Total NOK'000
Cost					
As at 1 January 2016	-	-	-	-	-
Additions	-	52	-	34 982	35 034
Disposals	-	-	-	(1 157)	(1 157)
Other, reclassifications, transfers	-	-	-	(4 110)	(4 110)
As at 31 December 2016	-	<u>52</u>	-	<u>29 715</u>	<u>29 767</u>
Additions	-	109	-	19 805	19 914
Disposals	-	-	-	(8 500)	(8 500)
Other, reclassifications, transfers	-	-	-	(12 575)	(12 575)
As at 30 September 2017	-	<u>161</u>	-	<u>28 445</u>	<u>28 606</u>
Accumulated depreciation					
As at 1 January 2016	-	-	-	-	-
Additions	-	-	-	(2 584)	(2 584)
Disposals	-	-	-	967	967
Other, reclassifications, transfers	-	-	-	2 791	2 791
As at 31 December 2016	-	-	-	<u>1 174</u>	<u>1 174</u>
Additions	-	(23)	-	(11 709)	(11 732)
Disposals	-	-	-	7 234	7 234
Other, reclassifications, transfers	-	(114)	-	11 110	10 996
As at 30 September 2017	-	<u>(137)</u>	-	<u>7 809</u>	<u>7 672</u>
Net book value					
At 30 September 2017	-	<u>24</u>	-	<u>36 254</u>	<u>36 278</u>
At 31 December 2016	-	<u>52</u>	-	<u>30 889</u>	<u>30 941</u>

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12. Financial instruments

Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management programme in place aligned to the programmes applied within the consolidated group of the company's ultimate parent company, International Business Machines Corporation.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the annual financial statements as at 31 December 2016. There have been no changes in the risk management department since year end or in any risk management policies.

Categories of financial instruments

	30	31	30
	September	December	September
	2017	2016	2016
	NOK'000	NOK'000	NOK'000
Financial assets			
<i>Loans and receivables</i>			
Cash and cash equivalents	8,888	1,116	-
Receivables from related parties	289	867	547
Finance receivables	381,996	1,229,858	244,846
	<u>391,173</u>	<u>1,231,841</u>	<u>245,393</u>
Financial liabilities			
<i>Amortised costs</i>			
Borrowing	146,459	874,449	135,677
Payables to related parties	39,902	200,971	7,244
Trade and other payables	30,206	52,940	17,157
	<u>216,567</u>	<u>1,128,360</u>	<u>160,078</u>

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Other financial assets and financial liabilities, excluding derivative financial instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management consider that the carrying amount of financial assets and financial liabilities in the condensed interim financial statements approximate their fair values. There are no financial assets and/or liabilities that were already recognised at fair value through profit and loss.

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Notes to the Condensed Interim Financial Statements

For the Quarter Ended 30 September 2017

13. Related party transactions

The following transactions were carried out with related parties, and were made on commercial terms and conditions:

Class of related party/Transaction type	Three months ended		Nine months ended		Year ended
	30	30	30	30	31
	September 2017	September 2016	September 2017	September 2016	December 2016
	NOK'000	NOK'000	NOK'000	NOK'000	NOK'000
<i>Other related undertakings</i>					
Sales	1,272	546	4,826	1,559	3,534
Purchases	(246)	-	(789)	-	(1,058)
Other expenses	-	-	-	-	-
Interest paid	(842)	(225)	(8,036)	(511)	(2,455)
Royalties	946	-	2,839	-	-
Interest received	150	-	198	11	165
<i>Immediate parent</i>					
Sales	-	399	-	1,293	1,906
Purchases	-	-	-	-	-
Other expenses	-	(409)	-	(1,228)	(1,365)
Interest paid	-	-	-	-	-
Interest received	-	3	-	10	71
Group contribution paid	-	-	-	-	(6,663)
Capital contribution received	-	-	-	-	56,000

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13. Related party transactions (continued)

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

Class of related party	Transaction type	30	31	30
		September 2017	December 2016	September 2016
		NOK'000	NOK'000	NOK'000
Other related undertakings	Cash equivalents	-	-	-
	Receivables due from related parties	188	189	-
	Deposit held with related parties	101	-	-
	Loans due to related parties	146,459	874,449	135,677
	Payables to related parties	39,902	183,747	6,199
Immediate parent	Deposits held with related party	-	678	547
	Borrowing from related party	-	-	-
	Loans due to related parties	-	-	-
	Payables to related parties	-	17,224	1,046

Interest on amounts owed by fellow subsidiary undertakings are charged at variable rates based on NIBOR.

The amounts outstanding on these balances are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties

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Notes to the Condensed Interim Financial Statements

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14. Capital coverage

Reporting to the Financial supervisory authority of Norway (no: Finanstilsynet) any asset class is weighted at 100%.

	30/09/17	31/12/16
	NOK'000	NOK'000
100 % weighted: Finance receivables	159 148	450 718
50 % weighted: Finance receivables	113 099	375 958
20 % weighted: Finance receivables	50 665	50 734
Base for 8% credit risk	322 912	877 410
Responsible capital	135 744	135 744
Credit risk	25 833	70 192
Operational risk	1 823	1 547
Coverage of responsible capital	108 088	64 005
Buffer:		
Preservebuffer	8 072	21 935
Countercyclical capital buffer	4 843	13 161
Systemriskbuffer	9 687	26 322
	22 602	61 418
Coverage less requirement after the buffer requirement	85 486	2 587