

Registered number:08938584

010414 UK Limited

Financial Statements

31 December 2016

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010414 UK Limited

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010414 UK Limited

Company Information

Director	I Ferguson
Company secretary	A Sullivan
Registered number	08938584
Registered office	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
Independent auditors	Roffe Swayne Statutory Auditors & Chartered Accountants Ashcombe Court Woolsack Way Godalming Surrey GU7 1LQ

010414 UK Limited

Director's Report For the Year Ended 31 December 2016

The director presents his annual report and the audited financial statements for the year ended 31 December 2016.

Principal activities and business review

010414 UK Limited (the company) was incorporated on 13 March 2014 and its accounting period shortened to 31 December 2014 to bring it into line with other entities within the group.

The company paid \$19,000,000 to purchase intellectual property software rights from a fellow subsidiary undertaking, Daeja Image Systems Limited, on 1 April 2014 and the company was incorporated for this purpose. The intellectual property rights represent the exclusive rights to document and image viewing solutions and know-how for enterprise content management developed by Daeja Image Systems Limited. The purchase of the intellectual property software rights was funded by a loan from the company's parent undertaking, IBM International Group B.V.. During the year 2015, the company continued to exploit the intellectual property rights and carry out specific research and development activities to further develop its software solutions portfolio. The company has granted exclusive and non-transferable sub-licences to group undertakings and earned royalty income on commercial transactions made under these licences.

On 23 December 2015, the company sold the intellectual property rights to IBM International Group B.V. for \$10,100,000. Following the sale, the company has ceased to trade. On 29 June 2016, the company issued one £1 ordinary share at a premium of \$10,349,999. Subsequently, on 1 July 2016, the company fully settled its loan obligation towards IBM International Group B.V. in amount of \$9,146,574 (principal plus interest).

Results and dividends

The profit for the year, after taxation, amounted to \$36,733 (2015 - loss \$9,699,319).

The director does not recommend payment of a dividend.

Strategic report

The company has taken advantage under Section 414B of the Companies Act 2006 from including a Strategic Report in its financial statements.

Director

The director who served during the year was:

I Ferguson

Principal risks and uncertainties

The principal risks of the company relate to the marketability and demand for the software products and the resulting impact this could have on the valuation of the intellectual property software rights. However, as the intellectual property rights were sold on 23 December 2015, this no longer poses an issue for the company.

Financial risk management

The operations of the company do not expose it to material financial risk including the effects of change in debt market prices, credit risk and liquidity risk. The interest rate on the loan from the parent company, IBM International Group B.V., to the company was fixed at 0.95597% (until 01 April 2016) and at 0.7751% (from 01 April 2016 to 01 July 2016) minimising the exposure to interest risk and the loan was repaid on 01 July 2016.

**Director's Report (continued)
For the Year Ended 31 December 2016**

Key performance indicators

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

Going concern

Following the sale of intellectual property rights to IBM International Group B.V. on 23 December 2015, the company ceased to generate income from the intellectual property or carry out research and development activities. The company has been reviewed as part of group corporate restructuring and consideration is being given to potential liquidation of the company in the foreseeable future. As a result, the financial statements were prepared on a basis other than that of a going concern. The director does not consider there to be a significant difference between the break up value of the company and the going concern value.

Qualifying third party indemnity provisions

As permitted by the Articles of Association, the director has 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 director 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 director against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

Disclosure of information to auditors

The director at the time when this Director's Report is approved has confirmed that:

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

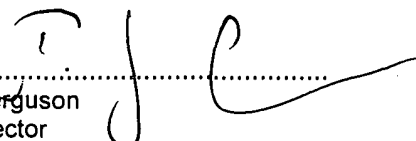
Post balance sheet events

There have been no significant events affecting the company since the year end.

Independent auditors

Roffe Swayne have expressed their willingness to continue in office as auditor.

This report was approved and signed by:


.....
I Ferguson
Director

Date: 27 June 2017

**Director's Responsibilities Statement
For the Year Ended 31 December 2016**

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the director must not approve the financial statements unless he is satisfied that he gives 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 these financial statements, the director is required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

Independent Auditors' Report to the Members of 010414 UK Limited

We have audited the financial statements of 010414 UK Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Director's Responsibilities Statement set out on page 4 the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

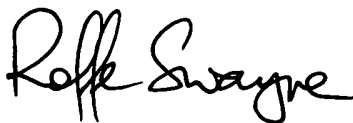
Independent Auditors' Report to the Members of 010414 UK Limited

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Jeremy Gardner BSc FCA (Senior statutory auditor)

for and on behalf of
Roffe Swayne
Statutory Auditors & Chartered Accountants
Ashcombe Court
Woolsack Way
Godalming
Surrey
GU7 1LQ

Date: 4 July 2017

010414 UK Limited

Statement of Comprehensive Income
For the Year Ended 31 December 2016

	Note	2016 \$	2015 \$
Turnover		-	2,559,871
Cost of sales		-	(3,460,028)
Gross profit/(loss)		-	(900,157)
Administrative expenses		-	(2,714,286)
Other operating income		88,406	-
Operating profit/(loss)	3	88,406	(3,614,443)
Loss on disposal of intellectual property		-	(4,150,000)
Interest receivable and similar income	6	399	2,588
Interest payable and similar expenses	7	(41,529)	(137,492)
Profit/(Loss) on ordinary activities		47,276	(7,899,347)
Taxation on ordinary activities	8	(10,543)	(1,799,972)
Profit/(loss) for the financial year		36,733	(9,699,319)
Total comprehensive income/(expense) for the year		36,733	(9,699,319)

There were no recognised gains and losses for 2016 or 2015 other than those included in the statement of comprehensive income.

The notes on pages 10 to 17 form part of these financial statements.

010414 UK Limited
Registered number 8938584

Statement of Financial Position
As at 31 December 2016

	Note	2016 \$	2015 \$
Current assets			
Debtors: amounts falling due within one year	9	<u>149,362</u>	<u>1,559,195</u>
		149,362	1,559,195
Creditors: amounts falling due within one year	10	<u>-</u>	<u>(11,796,566)</u>
Net current assets/(liabilities)		<u>149,362</u>	<u>(10,237,371)</u>
Total assets less current liabilities		<u>149,362</u>	<u>(10,237,371)</u>
Net assets/(liabilities)		<u>149,362</u>	<u>(10,237,371)</u>
Capital and reserves			
Called up share capital	12	3	2
Share premium account		10,349,999	-
Profit and loss account		<u>(10,200,640)</u>	<u>(10,237,373)</u>
		<u>149,362</u>	<u>(10,237,371)</u>

The financial statements were approved and authorised for issue by the director:


.....
I Ferguson
Director

Date: 27 Feb 2017

The notes on pages 10 to 17 form part of these financial statements.

010414 UK Limited

Statement of Changes in Equity
For the Year Ended 31 December 2016

	Called up share capital \$	Share premium account \$	Profit and loss account \$	Total equity \$
At 1 January 2015	2	-	(538,054)	(538,052)
Loss and total comprehensive expense for the financial year	-	-	(9,699,319)	(9,699,319)
At 1 January 2016	2	-	(10,237,373)	(10,237,371)
Total comprehensive income for the financial year	-	-	36,733	36,733
Shares issued during the year	1	10,349,999	-	10,350,000
At 31 December 2016	3	10,349,999	(10,200,640)	149,362

The notes on pages 10 to 17 form part of these financial statements.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. Accounting policies

1.1 Basis of preparation of financial statements

010414 UK Limited (the company) is a private company limited by shares and is incorporated and domiciled in Great Britain and registered in England & Wales under the Companies Act 2006. The address of its registered office is shown on page 1 of these financial statements.

These financial statements have been prepared under the historical cost convention as disclosed in the accounting policies below. The financial statements have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ("FRS 102") and the Companies Act 2006.

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 the financial statements in compliance with FRS 102 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.

1.2 Turnover

The company receives royalty income from licensing group undertakings to use its intellectual property. Royalty income, exclusive of Value Added Tax, is presented as Turnover in the financial statements and is recognised only if it is probable that future economic benefits will flow to the company and that these benefits can be measured reliably.

The company has granted sub-licences to International Business Machines Corporation and royalties are earned based on a percentage of gross charges received by International Business Machines Corporation for each copy of the software programmes which they authorised, licensed or distributed to a customer. Royalty income is recognised in full in the calendar quarter when the licence was granted.

All royalty income is derived from outside the United Kingdom.

1.3 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102:

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d); and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. Accounting policies (continued)

1.4 Going concern

The company has been reviewed as part of group corporate restructuring and consideration is being given to potential liquidation of the company in the foreseeable future. As a result, the financial statements were prepared on a basis other than that of a going concern. The director does not consider there to be a significant difference between the break up value of the company and the going concern value.

1.5 Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities, including amounts owed by and to group undertakings.

Financial assets

Basic financial assets are initially recognised at transaction price and are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period, they are assessed for objective measurement of impairment and any impairment loss is recognised in the income statement.

Amounts owed by group undertakings

Amounts owed by group undertakings receivable within one year are recorded at transaction price. At the end of each reporting period, they are assessed for objective measurement of impairment and any impairment loss is recognised in the income statement.

Financial liabilities

Basic financial liabilities are initially recognised at transaction price and are subsequently carried at amortised cost using the effective interest method.

Effective interest rate method

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Amounts owed to group undertakings

Amounts owed to group undertakings are initially recognised at transaction price and are subsequently measured at amortised cost using the effective interest method.

1.6 Foreign currency translation

The financial statements of the company are presented in US Dollars, which is the functional currency of the company.

Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. Accounting policies (continued)

date. Foreign exchange differences are recognised in the income statement in the year of settlement of these items.

At each reporting date, monetary items denominated in currencies other than US Dollars are translated at the rates prevailing at the reporting date. The resulting foreign exchange differences are recognised in the income statement for the year.

1.7 Intangible assets and amortization

The acquired intellectual property software rights have been capitalized as an intangible asset at cost. The intellectual property is being amortized on a straight line basis over the estimated life of 7 years, with an amortization cost being recorded in the income statement under administrative expenses.

1.8 Research and development costs

The company carries out specific research and development activities to further develop its software solutions portfolio. The expenditure incurred on such activities has been recognised in full in the statement of comprehensive income in the year in which it was incurred.

1.9 Interest

Interest expense and income is recognised on an accrual basis using the rate of interest specified in the underlying agreement.

1.10 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.11 Related party transactions

The company discloses transactions with related parties which are not wholly owned within the same group. It is exempt from disclosing other related party transactions as they are with parties that are wholly owned within the group.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

2. Judgements in applying accounting policies and key sources of estimation uncertainty

The application of accounting standards and policies requires the director to make estimates, assumptions and judgements 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 director considers 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. Due to the nature of the limited transactions of the company, the director considers that there are no significant accounting estimates and assumptions.

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2016	2015
	\$	\$
Development expenditure	-	3,460,028
Amortisation of intangible assets, including goodwill	-	2,714,286
Exchange differences	(88,406)	-
	<u> </u>	<u> </u>

4. Auditors' remuneration

Auditors' remuneration in respect of the audit of the company's financial statements of £ 6,000 (2015: £11,000) was borne by a fellow subsidiary, IBM United Kingdom Limited, and is excluded from the results of the company. There are no fees payable for other services (2015: £nil). The results of IBM United Kingdom Limited are presented in British Pounds Sterling (£), therefore the auditors' remuneration presented above is also in British Pounds Sterling.

5. Employees

The company did not have any employees in the current year or preceding period.

The director received no emoluments for his services to the company (period ended 31 December 2015: \$nil) as his service to this company represents a very small part of his service to the group as a whole.

010414 UK Limited

Notes to the Financial Statements
For the Year Ended 31 December 2016

6. Interest receivable and similar income

	2016 \$	2015 \$
Interest receivable from group companies	399	1,533
Other income	-	1,055
	<u>399</u>	<u>2,588</u>

7. Interest payable and similar charges

	2016 \$	2015 \$
Interest payable on loan from group undertakings	39,887	137,263
Interest payable to other related parties	1,642	229
	<u>41,529</u>	<u>137,492</u>

8. Taxation

	2016 \$	2015 \$
Corporation tax		
Current tax on profit for the year/period	9,455	1,835,650
Adjustments in respect of previous period	1,088	(35,678)
Tax on profit/ (loss) on ordinary activities	<u>10,543</u>	<u>1,799,972</u>

010414 UK Limited

Notes to the Financial Statements
For the Year Ended 31 December 2016

8. Taxation (continued)

Factors affecting tax charge for the year/ period

The tax assessed for the year is higher than (2015 - higher than) the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016 \$	2015 \$
Profit/(loss) on ordinary activities before tax	47,276	(7,899,347)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%)	9,455	(1,599,618)
Effects of:		
Expenses not deductible for tax purposes	-	3,435,268
Adjustments in respect of previous period	1,088	(35,678)
Total tax charge for the year	10,543	1,799,972

Factors that may affect future tax charges

Finance (No.2) Act 2015 included legislation to reduce the main rate of corporation tax from 20% to 19% with effect from 1 April 2017. Finance Act 2016 included legislation to further reduce the rate to 17% with effect from 1 April 2020. The impact of these changes is reflected in any closing deferred tax balances.

9. Debtors

	2016 \$	2015 \$
Amounts owed by group undertakings	134,381	1,559,195
Tax recoverable	14,981	-
	149,362	1,559,195

Amounts owed by group undertakings are unsecured and repayable on demand. Interest is earned on amounts owed by IBM Ireland Treasury Centre at a variable rate of LIBOR less 15 basis points. The IBM Ireland Treasury Centre balance owed is \$134,381 (2015: \$725,327). All other amounts owed by group undertakings are non interest bearing.

010414 UK Limited

Notes to the Financial Statements
For the Year Ended 31 December 2016

10. Creditors: amounts falling due within one year

	2016 \$	2015 \$
Amounts owed to group undertakings	-	9,960,916
Corporation tax	-	1,835,650
	<u>-</u>	<u>11,796,566</u>

Included within amounts owed to group undertakings in 2015 is a \$9,106,688 loan from the parent company, IBM International Group B.V.. The loan is unsecured and interest bearing at 0.95597% (until 01 April 2016) and at 0.7751% (from 01 April 2016 to 01 July 2016). The loan was fully repaid on 1 July 2016. The remaining amount of \$854,228 owed to group undertakings were unsecured, non interest bearing and repayable on demand.

11. Financial instruments

	2016 \$	2015 \$
Financial assets		
Financial assets measured at amortised cost	<u>134,381</u>	<u>1,559,195</u>
	<u>134,381</u>	<u>1,559,195</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>-</u>	<u>9,960,916</u>
	<u>-</u>	<u>9,960,916</u>

Financial assets measured at amortised cost comprise amounts owed by group undertakings (note 9).

Financial liabilities measured at amortised cost in 2015 comprise amounts owed to group undertakings (note 10).

010414 UK Limited

Notes to the Financial Statements
For the Year Ended 31 December 2016

12. Called up share capital

	2016	2015
	\$	\$
Shares classified as equity		
Allotted, called up and fully paid		
2 (2015 - 1) Ordinary shares of £1 each	<u>3</u>	<u>2</u>

On 13 March 2014, one ordinary share with a nominal value of £1 was issued to IBM International Group B.V. for consideration of £1.

On 29 June 2016, the company issued one ordinary share to IBM International Group B.V. with a nominal value of £1 at a premium of the sterling equivalent of \$10,349,999.

13. Related party transactions

The company is exempt from disclosing related party transactions with other companies that are wholly owned within the group. There are no transactions to disclose with related parties which are not wholly owned within the same group.

14. Controlling party

The company's immediate parent undertaking is IBM International Group B.V., which is registered in the Netherlands.

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, USA.