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### IBM Germany Business & Technology Services GmbH

Ehningen

#### Annual financial statements for the business year from 01/01/2019 to 12/31/2019

#### MANAGEMENT REPORT FOR THE 2019 FISCAL YEAR

##### PRINCIPLES AND BUSINESS MODEL

The IBM Germany Business & Technology Services GmbH, Ehningen, (IBM D B&TS) offers all kinds of IT outsourcing, infrastructure operation and other IT project services within the range of services of the IBM group. In addition to taking on responsibility for the entire IT operation or the operation of individual sub-areas, the offer also includes advice on IT projects and application development, especially for medium-sized and large customers.

In accordance with the performance responsibility in the IBM group, new customer contracts have generally been concluded since 2008 by IBM Deutschland GmbH, Ehningen (IBM D) and fulfilled by IBM D B&TS as the service provider. The company's sales have shifted from customer sales to group sales.

##### ECONOMIC REPORT

##### MACROECONOMIC AND SECTOR-RELATED FRAMEWORK CONDITIONS

The German economy continued to grow in 2019, although the economic dynamism weakened. The increase in the price-adjusted gross domestic product (GDP) for 2019 was announced by the Federal Statistical Office at 0.6% and was thus below the increase in the previous year (1.5%). The growth continued to be driven by consumer demand and investments. On the production side of GDP, growth in services and construction is offset by a significant slump in manufacturing, especially in the automotive industry.

The labor market continued to develop positively in 2019 and reached a new high in the workforce. The state budgets again achieved a clear surplus. The annual average increase in consumer prices in 2019 was 1.4% below the previous year's level (1.8%).

The IT market served by IBM Germany maintained its dynamic in 2019 and grew again by around 6% compared to the previous year. As in previous years, the strongest increases were recorded in the various cloud segments and in the Solutions area (integrated solutions). The market for traditional IT services and hardware, on the other hand, stagnated or declined slightly.

##### BUSINESS DEVELOPMENT

The business development in 2019 was to be classified as difficult with regard to new contracts with corresponding pressure on the sales side, so that further cost optimizations to stabilize margins were pushed. The focus was on the fulfillment and expansion of existing contracts. A very important element for further cost optimization and flexibility was the vendorization of parts of the company and the associated transfer of around 290 employees to a business partner. The implementation took place on April 1, 2019 and already showed a positive development in costs and greater flexibility in the first year to adjust the resources depending on the respective quantitative and qualitative requirements.

As in 2018, the focus was increasingly on project business, on the one hand to generate additional profitable sales in the short term and, on the other hand, to create a basis for long-term contracts with new customers through this project business. The basis created in 2018 materialized in 2019 through new opportunities and further contracts, albeit on a low basis.

Furthermore, the creation of the GTS Accelerate structure was started in 2019, which will start operational in 2020. The main difference to the previous structure, which was based on delivery processes, will be a very strongly customer-oriented organization with end-to-end responsibility.

Automation solutions that had already been started in previous years, as well as the relocations to global delivery centers, were further intensified. Other existing customers were transferred to cloud solutions in line with the IBM strategy. In this area, the acquisition of Red Hat is also important for IBM D B&TS, as both automation and migration to private / public cloud platforms will increasingly be based on Red Hat technologies. As a result of the organizational and structural changes, the number of employees has continued to decrease compared to the previous year.

##### EARNINGS, ASSETS AND FINANCIAL POSITION

##### Earnings situation

As expected, total sales of € 458 million decreased compared to the previous year due to a lower billing volume (previous year: € 509 million).

The cost of materials increased compared to the previous year due to higher costs for purchased services. Personnel expenses fell sharply compared to the previous year due to the employee transfer, with the sharp decline in wages and salaries being exacerbated by lower pension expenses. The other operating expenses decreased compared to the previous year, which is mainly due to lower expenses for building costs.

Taking into account the financial result, mainly from the addition of interest to the pension provisions, the result for the year is € 14 million (previous year: € 47 million), which was transferred to IBM D on the basis of the existing control and profit and loss transfer agreement.

##### Assets and financial position

The balance sheet total decreased compared to the previous year, which on the assets side is mainly due to lower fixed assets due to larger asset sales and disposals as well as lower receivables from affiliated companies. The decrease on the liabilities side results from lower liabilities to affiliated companies. Increased pension provisions and

other provisions had the opposite effect.

There is a cash pooling agreement with IBM D as part of the IBM Group's cash management, through which the company's financing is handled.

## RISK REPORT

### Risk management and control system

With regard to general business risks such as price and credit risks, the company is integrated into the management and control system of the IBM Group. Accordingly, reactions to additional risks are essentially subject to the Group's decision.

An essential component of the management and control system is inventory and contract controlling with the aim of identifying financial risks in good time and counteracting them in addition to the qualitative performance level control. Critical deviations are analyzed and evaluated, process improvements and solutions are developed and a decision is made in regular management reviews.

Due to the inclusion in the scope of consolidation of the IBM Corporation, Armonk, New York / USA, the SOX (Sarbanes-Oxley-Act) checkpoints required by the American Securities and Exchange Commission apply to the organizational and business processes as well as to the responsibilities management reporting.

In addition, audits and reviews are carried out as part of the internal audit and business controls activities. From these reports and records, identified or potential risks are analyzed and assessed by the IBM management and implemented in appropriate actions to prevent or eliminate risks. The reviews also apply to the integrity and objectivity of management reporting. In the reference area of GTS IS DACH Delivery as a whole and thus also for the German portfolio of IBM D B&TS, the identified risks were assessed in 2019 by means of the MSAC rating (management self assessment).

The processes and control instruments required for controlling, as well as their effectiveness, are subject to ongoing monitoring by the IBM management and are continuously developed.

### Risks and Opportunities

The IBM D B&TS does not bear any serious risks due to the branch mix in the existing portfolio and the permanent refocusing of the sales resources of the IBM D to the market requirements. With its corporate function, however, the company is also dependent on the business development of IBM D's new customer business.

The business success of IBM D B&TS will largely depend on the extent to which IBM, with its product and solution portfolio, is able to adapt to the significantly changing customer expectations and needs. This applies in particular to the shift from classic IT outsourcing to the public cloud business, as IT operations here essentially take place outside the GTS IS Delivery and thus also the IBM D B&TS. In addition, business success in 2020 will depend on the course of the economy and the closely related spending behavior of customers and their willingness to invest in new, future-proof IT products and solutions.

At the end of 2019, news came from China for the first time about the COVID-19 virus (coronavirus). By the end of the year, the situation 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 around the world. IBM regards this outbreak as a value-creating event in 2020, which is why it has no impact on the recognition and valuation of assets and liabilities in the annual financial statements as of December 31, 2019. The company is currently not in a position to assess the full impact of the COVID-19 virus on its future asset, financial and earnings position.

Further risks lie in recognizing and reacting to the constantly changing structure of customer requirements for IT products, services and solutions. In addition to the possible risks with the hybrid cloud and the considerable opportunities from the cloud computing business, the risks involved in fulfilling employee skills should be mentioned. Skills must be made available more broadly, in depth and with a high degree of flexibility. Skill development must at least catch up with the speed of changes in the infrastructure and the associated services for IBM customers. 2020 will show the success of the trend reversal that began in 2019, or to what extent additional measures will be necessary for improved resource management. The aforementioned vendorization of delivery will open up opportunities in terms of flexibility, skills and speed in fulfilling orders.

Thus, the own depth of added value of the IBM D B&TS changes through the relocation of workloads to cloud infrastructures, automation, vendorization and the sourcing mix. The business focus shifts to a service integrator role. At the same time, the requirements to ensure regulatory and legal requirements end to end are increasing, regardless of where or by whom the service is provided.

With its flexible and innovative product portfolio, which enables customers to achieve significant efficiency gains and cost savings, IBM is positioned to support and accompany customers in their own transformation and in securing and expanding their competitiveness in the global environment over the long term.

In addition, there are no particular risks to be seen that would stand in the way of positive business development and long-term corporate success.

## FORECAST REPORT

In the annual economic report published in January, the federal government still expected a slight macroeconomic recovery for 2020 and assumed an increase in price-adjusted GDP of 1.1%. Positive impulses were expected from consumer demand and the construction industry. The global downturn in industrial activity, caused by political and economic uncertainties, was seen as a burden on the demand for capital goods. The new type of coronavirus, which has been spreading since the beginning of 2020, will have serious negative effects on overall economic development worldwide. In economic effects on economic development in Germany are difficult to assess at the time the management report is being prepared. Initial forecasts anticipate a decline in economic output in the mid to higher single-digit percentage range, whereby the extent of the decline will depend crucially on when economic activity stabilizes and recovers.

For the IT market served by IBM in Germany, significant growth of around 5% was expected for 2020 at the beginning of the year. The dynamic growth was seen in particular in the various cloud solutions. For traditional IT offerings, on the other hand, business was expected to decline slightly or grow only moderately. In view of the effects of the coronavirus, a significantly weaker development is now also expected for the IT market, which is also difficult to assess and is likely to turn out differently in the individual IT service offerings.

The aim of IBM is to support its customers in the digital transformation towards open multi-cloud solutions using AI. The IBM combines innovative technologies such as hybrid cloud platforms, artificial intelligence and blockchain, with extensive industry knowledge as well as trust and security and thus sees itself well positioned for the future.

The goals of IBM D for the 2020 financial year are geared towards revenue growth, growth in service order intake and improved results, which will also have an impact on the business results of IBM D B&TS. The range of products and solutions defined by IBM, such as cloud computing and big data, are also part of the range of services offered by IBM D B&TS, due to the infrastructure requirements. The focus continues to be on the management of complex and critical contracts.

In support of the goals of IBM D, the introduction of GTS Accelerate will have a positive impact. A list according to sectors (portfolio tribes), the associated approach to the client unit and the end-to-end responsibility of the tribes towards the accounts will be reflected in the reduction of interfaces, an increased focus on customer needs and thus a more clearly assigned responsibility. The implementation of GTS Accelerate will start on February 1, 2020 and will extend over the whole year as part of a transition and transformation.

As in the past, with a view to the positive development of the operating result, there will be a strong focus on increasing efficiency and productivity, in particular through further automation, in the coming financial year. In addition to relocating tasks to global centers, relocations to partners will also have an impact on the provision of services by IBM D B&TS. All measures increase efficiency and flexibility and strengthen know-how. Due to the changes, the result of the IBM D B&TS was originally estimated to be lower than 2019. At the same time, the overall effect for GTS was assessed as balanced due to new value creation and delivery models. However, it is to be expected that the COVID-19 crisis will have a negative impact on the future asset, financial and earnings position, but the specific effects are difficult to assess.

## Balance sheet as of December 31, 2019

**assets**

	December 31, 2019 T €	December 31, 2018 T €
Capital assets		
Intangible assets	321	0
Property, plant and equipment	132.072	149.973
Financial assets	1,483	1,483
	133,876	151,456
Current assets		
Receivables and other assets		
Requests from deliveries and services	3,622	606
Receivables from affiliated companies	254.078	289.780
Other assets	4,477	4,714
	262.177	295,100
Bank balances	4,006	2,821
	266.183	297.921
Prepaid expenses	3,880	1,537
	403.939	450.914

**liabilities**

	December 31, 2019 T €	December 31, 2018 T €
Equity		
Subscribed capital	3,000	3,000
Capital reserve	153,939	153,939
Other retained earnings	767	767
retained profit	1,347	1,347
	159.053	159.053
accruals		
Provisions for pensions and similar obligations	189,170	185.873
Other provisions	28,819	25,527
	217.989	211,400
liabilities		
Liabilities to affiliated companies	24,998	77,767
Other liabilities	1,734	2,531
	26,732	80,298
Prepaid expenses	165	163
	403.939	450.914

**Income statement for the 2019 financial year**

	2019 T €	2018 T €
Sales	457.894	508.511
Other company income	2,208	1,150
	460.102	509,661
Cost of materials	-242,993	-216,867
Personnel expenses	-90,617	-118.070
Depreciation on intangible fixed assets and on property, plant and equipment	-43,081	-46.065
Other operating expenses	-63,648	-72,872
	19,763	55,787
Investment result	599	605
Interest income	-6,182	-9,145
	-5,583	-8,540
Taxes on income and earnings	-17	0
Result after taxes	14,163	47,247
Other taxes	-184	-245
	13,979	47.002
Profit transferred on the basis of a profit and loss transfer agreement	-13,979	-47.002
Annual surplus	0	0
Profit brought forward from previous year	1,347	1,347
retained profit	1,347	1,347

**APPENDIX FOR THE 2019 FISCAL YEAR**

IBM GERMANY BUSINESS &amp; TECHNOLOGY SERVICES GMBH, EHNINGEN

**Commercial register: HR B - No. 17122 Stuttgart District Court****LEGAL BASIS**

As of December 31, 2019, IBM Deutschland Business & Technology Services GmbH, Ehningen, is a large corporation in accordance with Section 267 (3) of the German Commercial Code (HGB). The financial year is the calendar year. The annual financial statements are prepared in accordance with the provisions of the German Commercial Code (HGB), including the supplementary provisions of Sections 264 et seq. The income statement (P&L) is based on the total cost method in accordance with Section 275 (2) of the German Commercial Code (HGB).

According to Section 265, Paragraph 7, No. 2 of the German Commercial Code (HGB), some items in the balance sheet and income statement are combined in order to improve the clarity of the presentation. The combined items are shown and explained in detail in the notes. Information to be given in the balance sheet or in the profit and loss account, or optionally in the notes, is listed in total in the notes.

**CURRENCY CONVERSION**

Receivables and liabilities in foreign currencies are generally recorded at the rate at the time of the first posting. Short-term foreign currency receivables and liabilities (remaining term of one year or less) are converted at the mean spot exchange rate on the balance sheet date. In the case of long-term receivables and liabilities in foreign currencies, losses from exchange rate changes between the time of first posting and the balance sheet date are taken into account.

**EXPLANATIONS TO THE INDIVIDUAL ITEMS BALANCE SHEET****CAPITAL ASSETS**

The breakdown and development of FIXED ASSETS is shown in a separate overview (schedule of fixed assets).

**INTANGIBLE ASSETS**

INTANGIBLE ASSETS are valued at acquisition cost, which is depreciated on a straight-line basis according to their expected useful life between 3 and 5 years.

Only acquired software licenses are shown in this position.

**PROPERTY, PLANT AND EQUIPMENT**

PROPERTY, PLANT AND EQUIPMENT are valued at acquisition cost less scheduled straight-line depreciation.

Other equipment and fixtures and fittings are generally depreciated over a period of 3 to 12 years. Movable, wear-and-tear assets are recorded in full in expenses up to an amount of € 800.

**FINANCIAL ASSETS**

The valuation of the FINANCIAL ASSETS, exclusively shares in an affiliated company, is carried out at acquisition cost, if necessary less depreciation to the lower fair value. If the reasons for the depreciation no longer exist, corresponding write-ups are made.

The SHARES IN AFFILIATED COMPANIES are listed in a separate overview (shareholdings).

**PLANT LEVEL**

in thousands of €	01/01/2019	Acquisition or manufacturing costs			December 31, 2019
		Accesses	Departures	Rebookings	
Intangible assets					
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	0	386	0	21,166	21,552
Total intangible assets	0	386	0	21,166	21,552
Property, plant and equipment					
Land and buildings	45	0	0	0	45
Other equipment, factory and office equipment	369.206	36,307	49.091	-21,166	335.256
Total property, plant and equipment	369.251	36,307	49.091	-21,166	335,301
Financial assets					
Shares in affiliated companies	1,483	0	0	0	1,483
Total financial assets	1,483	0	0	0	1,483
Capital assets	370.734	36,693	49.091	0	358.336
in thousands of €			Depreciation		
	Cumulative depreciation as of 01/01/2019	Accesses	Departures	Rebookings	Cumulative depreciation as of December 31, 2019
Intangible assets					
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	0	80	0	21,151	21,231
Total intangible assets	0	80	0	21,151	21,231
Property, plant and equipment					
Land and buildings	45	0	0	0	45
Other equipment, factory and office equipment	219.233	43.001	37,899	-21,151	203.184
Total property, plant and equipment	219.278	43.001	37,899	-21,151	203.229
Financial assets					
Shares in affiliated companies	0	0	0	0	0
Total financial assets	0	0	0	0	0
Capital assets	219.278	43,081	37,899	0	224,460
in thousands of €			Residual book values		
			December 31, 2019	December 31, 2018	
Intangible assets					

in thousands of €	Residual book values	
	December 31, 2019	December 31, 2018
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	321	0
Total intangible assets	321	0
Property, plant and equipment		
Land and buildings	0	0
Other equipment, factory and office equipment	132.072	149.973
Total property, plant and equipment	132.072	149.973
Financial assets		
Shares in affiliated companies	1,483	1,483
Total financial assets	1,483	1,483
Capital assets	133,876	151,456

**SHAREHOLDINGS IN IBM D B&TS GMBH, EHNINGEN****Direct participation in society**

Name, seat	Share of capital in%	currency	Equity in thousands	Result in thousands
Affiliates				
IBM Business Services Asset GmbH, Ehningen (1)	99.6	EUR	1,483	-

(1) A control and profit and loss transfer agreement exists with this company.

**CURRENT ASSETS****RECEIVABLES AND OTHER ASSETS**

RECEIVABLES AND OTHER ASSETS are valued at their nominal values, taking into account all identifiable individual risks and the general risk of receivables. A general bad debt allowance of 1% (previous year 1%) is applied to trade receivables.

in thousands of €	2019	2018
Requests from deliveries and services	3,622	606
Receivables from affiliated companies	254.078	289.780
(of which to shareholders)	(229,438)	(273,364)
Other assets	4,477	4,714
(of which with a remaining term > 1 year)	(4,464)	(4,704)
	262.177	295,100

As in the previous year, all receivables have a remaining term of up to one year.

RECEIVABLES FROM AFFILIATED COMPANIES essentially contain receivables from the delivery and service transactions as well as the central cash management with IBM Deutschland GmbH, Ehningen.

In the process, essential receivables and liabilities are offset against each other if the netting situation is given, whereby cash pool receivables and payables are also included.

OTHER ASSETS essentially contain capital values of reinsurance policies for pensions. The reinsurance claims are valued on the basis of notifications from the insurers with the respective asset value as of the balance sheet date. Reinsurance policies that serve exclusively to meet retirement benefits and similar obligations and are not accessible to third parties (so-called cover assets) are paid for in the amount of € 151 thousand in accordance with Section 246 (2) sentence 2 of the German Commercial Code (HGB) with the corresponding pension obligations (settlement amount) in The amount of 403 T € will be charged.

**BANK BALANCES**

In accordance with the statutory provisions, credit balances of € 4,006 thousand (previous year: € 2,821 thousand) have been deposited in trust with a bank for the company's promised partial retirement obligations. Liquid funds are stated at their nominal value on the balance sheet date.

**ACCRUED INCOME**

PREPAID EXPENSES AND ACCRUED INCOME mainly includes prepaid license fees for the use of program products and prepaid services.

**EQUITY**

SUBSCRIBED CAPITAL is stated at the nominal amount.

There is a control and profit and loss transfer agreement with IBM Deutschland GmbH, Ehningen.

The net profit will be carried forward to the new account.

**ACCRUALS**

The PENSION PROVISIONS contain the portion of the company pension obligations that is not borne by IBM Deutschlandützungskasse GmbH, Ehningen, and IBM Deutschland Pensionsfonds AG, Ehningen. The valuation (of PENSION PROVISIONS) is based on the projected unit credit method in accordance with Section 253, Paragraph 2, Clause 1 of the German Commercial Code (HGB) to calculate the provisions for pension obligations. Accordingly, the provision is calculated on the basis of an average market interest rate resulting from the past ten financial years - for an assumed remaining term of 15 years - and published by the Bundesbank at 2.71% as of the balance sheet date. The difference in accordance with Section 253 (6) sentence 3 of the new version of the German Commercial Code (HGB) from the provision based on an average market interest rate that results from the past seven financial years and was published at 1.97% as of the balance sheet date is € 18,687 thousand and is, in accordance with Section 253, Paragraph 6 sentence 2 HGB new version, barred from distribution. In addition, a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G mortality tables, Heubeck-Richttafeln GmbH, Cologne 2018' are used as a basis for the assessment of the pension obligations placed. The effects on earnings from the change in the discount rate are recorded in the operating result. F. on the provision based on an average market interest rate, which results from the past seven financial years and was published at 1.97% as of the balance sheet date, amounts to € 18,687 thousand and is blocked from distribution in accordance with Section 253 (6) sentence 2 of the new version of the German Commercial Code (HGB). In addition, the assessment of pension obligations is based on a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G, Heubeck-Richttafeln GmbH, Cologne 2018' mortality tables placed. The effects on earnings from the change in the discount rate are recorded in the operating result. F. on the provision based on an average market interest rate, which results from the past seven financial years and was published at 1.97% as of the balance sheet date, amounts to € 18,687 thousand and is blocked from distribution in accordance with Section 253 (6) sentence 2 of the new version of the German Commercial Code (HGB). In addition, the assessment of pension obligations is based on a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G, Heubeck-Richttafeln GmbH, Cologne 2018' mortality tables placed. The effects on earnings from the change in the discount rate are recorded in the operating result. for the provision based on an average market interest rate, which results from the past seven

financial years and was published at 1.97% as of the balance sheet date, amounts to € 18,687 thousand and is blocked from distribution in accordance with Section 253 (6) sentence 2 of the new version of the German Commercial Code (HGB). In addition, a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G mortality tables, Heubeck-Richttafeln GmbH, Cologne 2018' are used as a basis for the assessment of the pension obligations placed. The effects on earnings from the change in the discount rate are recorded in the operating result. for the provision based on an average market interest rate, which results from the past seven financial years and was published at 1.97% as of the balance sheet date, amounts to € 18,687 thousand and is blocked from distribution in accordance with Section 253 (6) sentence 2 of the new version of the German Commercial Code (HGB). In addition, the assessment of pension obligations is based on a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G, Heubeck-Richttafeln GmbH, Cologne 2018' mortality tables placed. The effects on earnings from the change in the discount rate are recorded in the operating result. 97% was published as of the balance sheet date, amounts to € 18,687 thousand and is blocked from distribution in accordance with Section 253 (6) sentence 2 of the new version of the German Commercial Code (HGB). In addition, a salary trend of 2.05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G mortality tables, Heubeck-Richttafeln GmbH, Cologne 2018' are used as a basis for the assessment of the pension obligations placed. The effects on earnings from the change in the discount rate are recorded in the operating result. 05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G mortality tables, Heubeck-Richttafeln GmbH, Cologne 2018'. The effects on earnings from the change in the discount rate are recorded in the operating result. 05%, a pension trend of 1.8% as well as fluctuation probabilities and the biometric calculation bases according to the 'RT 2018 G mortality tables, Heubeck-Richttafeln GmbH, Cologne 2018'. The effects on earnings from the change in the discount rate are recorded in the operating result.

The item includes assets transferred to a trustee as part of a CTA (Contractual Trust Arrangement) to secure promised pension obligations, which are valued at their market value on the balance sheet date. The assets that serve exclusively to fulfill the pension and similar obligations and are not accessible to third parties (so-called cover assets) are in the amount of 9,297 T € in accordance with Section 246 (2) sentence 2 of the German Commercial Code (HGB) with the corresponding obligations in the amount of 9,552 T € (settlement amount) charged. The plan assets are valued at fair value. The acquisition costs amount to € 9,004 thousand.

In the course of the reorganization of the pension scheme and implementation path in 2010, IBM Deutschland GmbH, Ehningen, granted a debt contribution for failing services of the pension providers.

The valuation of OTHER PROVISIONS is based on prudent business judgment in the amount of the expected settlement amounts. The item mainly contains provisions for severance payments, partial retirement programs, outstanding supplier invoices, variable remuneration and vacation entitlements.

## LIABILITIES

LIABILITIES, with the exception of a discounted long-term liability to the pension insurance association (PSV), are stated at their settlement amount.

in thousands of €	2019	2018
Liabilities to affiliated companies	24,998	77,767
(of which to shareholders)	(0)	(39,299)
Other liabilities	1,734	2,531
(of which with a remaining term of <1 year)	(1,661)	(2,388)
(of which with a remaining term > 1 year)	(73)	(143)
(of which from taxes)	(1,356)	(1,809)
(of which in the context of social security)	(145)	(215)
	26,732	80,298

LIABILITIES TO AFFILIATED COMPANIES mainly contain liabilities from deliveries and services.

As in the previous year, they have a remaining term of up to one year.

With regard to the offsetting of liabilities to affiliated companies, reference is made to the statements on receivables from affiliated companies.

OTHER LIABILITIES essentially contain liabilities from wage and church taxes as well as from PSV premiums that have not yet been paid.

## ACCRUED INCOME

PREPAID AND ACCRUED INCOME mainly income from customers for maintenance and other service contracts.

## CONTINGENT LIABILITIES

CONTINGENT LIABILITIES do not exist as of the balance sheet date.

## OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date, OTHER FINANCIAL OBLIGATIONS exist exclusively to affiliated companies from long-term rental agreements and from vehicle leasing amounting to € 4,443 thousand.

## EXPLANATIONS TO THE INDIVIDUAL ITEMS OF THE PROFIT AND LOSS ACCOUNT

### SALES REVENUE

SALES REVENUE mainly include services for affiliated companies and include foreign sales of € 94,554 thousand.

### OTHER COMPANY INCOME

OTHER OPERATING INCOME essentially includes income from the release of provisions and from currency translation. The income from currency conversion amounts to € 411 thousand (previous year: € 556 thousand).

The item contains income from other accounting periods in the amount of € 1,639 thousand, in the financial year only income from the reversal of provisions.

### MATERIAL CONSUMPTION

The item MATERIAL EXPENSES exclusively contains expenses for services purchased from third parties and affiliated companies for the provision of customer-related services.

### PERSONNEL EXPENSES

in thousands of €	2019	2018
Wages and salaries	68,485	90,872
Social security and pension and support expenses	22,132	27,198
(of that for pensions)	(13,192)	(14,883)
	90,617	118,070

The SOCIAL CHARGES AND EXPENSES FOR PENSION PENSIONS AND FOR SUPPORT contain, in addition to the mandatory statutory contributions, essentially expenses from the addition to the pension provisions.

#### **OTHER OPERATING EXPENSES**

OTHER OPERATING EXPENSES mainly include communication expenses, disposals from property, plant and equipment, license fees, travel expenses and charges for external services. The expenses from currency conversion amount to € 434 thousand (previous year: € 906 thousand).

The item contains expenses unrelated to the accounting period from the disposal of fixed assets in the amount of € 4,875 thousand.

#### **INVESTMENT RESULT**

EARNINGS FROM INVESTMENTS contain the income from the profit transfer of IBM Business Services Asset GmbH, Ehningen.

#### **INTEREST INCOME**

in thousands of €	2019	2018
Other interest and similar income	-1,036	-1,232
(of which from affiliated companies)	(-1,071)	(-1,311)
Interest and similar expenses	-5,146	-7,913
(of which to affiliated companies)	(-76)	(-881)
(of which from compounding pension provisions)	(-5,981)	(-6,549)
	-6,182	-9,145

OTHER INTEREST AND SIMILAR INCOME in this financial year include expenses to affiliated companies for negative interest on credit balances of € 1,071 thousand.

INTEREST AND SIMILAR EXPENSES essentially include the compounding of accruals. The income from the plan assets to be offset in the amount of € 911 thousand was offset against the expenses from the compounding of the pension provision in the amount of € 5,981 thousand in accordance with Section 246, Paragraph 2, Clause 2, Clause 2 of the German Commercial Code.

#### **PROFIT PAYED ON THE BASIS OF A PROFIT AND LOSS TRANSFER AGREEMENT**

The profit of € 13,979 thousand achieved in the financial year will be transferred to IBM Deutschland GmbH, Ehningen, on the basis of the existing control and profit and loss transfer agreement.

#### **SUBSEQUENT EVENTS**

At the end of 2019, news came from China for the first time about the COVID-19 virus (coronavirus). By the end of the year, the situation 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 around the world. The company regards this outbreak as a value-creating event in 2020, which is why it has no impact on the recognition and valuation of assets and liabilities in the annual financial statements as of December 31, 2019. The company is currently unable to assess the full impact of the COVID-19 virus on its future asset, financial and earnings position.

Otherwise, no special events occurred after the balance sheet date.

### **OTHER INFORMATION**

#### **MANAGEMENT REPORT**

In accordance with Section 286 (4) of the German Commercial Code (HGB), the REMUNERATION OF THE MANAGEMENT is not stated.

#### **TOTAL AUDITOR'S FEE**

The TOTAL FEE OF THE AUDITOR for the audit of the company's annual financial statements in the financial year amounts to € 25 thousand.

#### **NUMBER OF EMPLOYEES**

In the financial year, an average of 627 people were employed, of which 523 are full-time employees.

#### **SUPREME PARENT AND AFFILIATED COMPANIES, CONSOLIDATED FINANCIAL STATEMENTS**

The group of affiliated companies of the company includes the ultimate parent company, IBM Corporation, Armonk, New York / USA, and all subsidiaries of this parent company.

Since the company and its subsidiaries are included in the consolidated financial statements of IBM Corporation, IBM Deutschland Business & Technology Services GmbH, Ehningen, has decided not to prepare subgroup financial statements.

The consolidated financial statements of the IBM Corporation, Armonk, New York / USA, are prepared and audited in accordance with the US Generally Accepted Accounting Principles (US-GAAP). Differences between US-GAAP and the German commercial law accounting regulations arise mainly from the accounting and valuation of fixed assets, the recognition and valuation of provisions and deferred taxes as well as the point in time when profits are realized.

The consolidated financial statements of the IBM Corporation, which prepares the consolidated financial statements for the largest and smallest group of companies, are available in Armonk, New York / USA, or from IBM Deutschland GmbH, Ehningen, and are available under IBM Central Holding GmbH, Ehningen, published in the electronic Federal Gazette.

#### **MANAGEMENT OF IBM DEUTSCHLAND BUSINESS & TECHNOLOGY SERVICES GMBH, EHNINGEN**

Dr. Thomas Wolter  
Global Technology Services IS Delivery Executive (DA-CH)  
Sven Schooß  
SL Leader Hybrid Compute Services DACH Market, GF IBM D B&TS GmbH

Ehningen, April 24, 2020

*The Board*  
*Dr. Thomas Wolter*  
*Sven Schooß*

### **INDEPENDENT AUDITOR'S REPORT**

To IBM Germany Business & Technology Services GmbH, Ehningen  
Examination Opinions

We have prepared the annual financial statements of IBM Deutschland Business & Technology Services GmbH, Ehningen, - consisting of the balance sheet as of December 31, 2019 and the income statement for the financial year from January 1 to December 31, 2019 as well as the notes, including the Presentation of accounting and valuation methods - checked. In addition, we have audited the management report of IBM Deutschland Business & Technology Services GmbH for the fiscal year from January 1 to December 31, 2019.

In our opinion, based on the knowledge gained during the audit

- The attached annual financial statements comply in all material respects with German commercial law regulations and, in compliance with German generally accepted accounting principles, give a true and fair view of the company's assets and financial position as of December 31, 2019, as well as its earnings position for the financial year from January 1 to as of December 31, 2019 and
- the attached management report gives an overall accurate picture of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with Section 322, Paragraph 3, Clause 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

Basis for the examination results

We carried out our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code (HGB), taking into account the generally accepted German auditing principles established by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these regulations and principles is further described in the section "Responsibility of the auditor for the audit of the annual financial statements and the management report" of our auditor's report. We are independent of the company in accordance with the German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe

Responsibility of the legal representatives for the annual financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German commercial law in all essential respects, and for ensuring that the annual financial statements give a true and fair view of the assets, financial and earnings position of the in compliance with the German principles of proper bookkeeping Society mediates. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles in order to enable the preparation of annual financial statements that are free from material - intended or unintentional - misstatements.

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue business operations. They are also responsible for disclosing issues relating to the going concern of the company, if relevant. In addition, they are responsible for accounting for the going concern basis of accounting, unless actual or legal circumstances conflict with this.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides an accurate picture of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have considered necessary to enable the preparation of a management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the management report can.

Auditor's responsibility for the audit of the annual financial statements and the management report

Our objective is to obtain sufficient certainty as to whether the annual financial statements as a whole are free of material - intended or unintentional - misstatements and whether the management report as a whole gives an accurate picture of the company's position and, in all material matters, with the annual financial statements as well is in line with the knowledge gained during the audit, complies with German legal requirements and correctly presents the opportunities and risks of future development, as well as issuing an auditor's report that includes our audit opinions on the annual financial statements and the management report.

Adequate security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) in compliance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misstatement. Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of the addressees made on the basis of these annual financial statements and management report.

During the examination, we exercise our due discretion and maintain a critical attitude. Furthermore

- We identify and assess the risks of material - intentional or unintentional - misrepresentations in the annual financial statements and the management report, plan and carry out audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations can involve fraudulent cooperation, falsifications, intentional incompleteness, misleading representations or the overriding of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these Systems of society.
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and the related information.
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the company's ability to continue as a going concern can raise. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the annual financial statements and in the management report in the auditor's report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the company can no longer continue its business activities.
- We assess the overall presentation, structure and content of the annual financial statements, including the information, as well as whether the annual financial statements present the underlying business transactions and events in such a way that the annual financial statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the asset, financial and the company's earnings.
- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the picture it provides of the company's position.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the management report. On the basis of sufficient suitable audit evidence, we particularly review the significant assumptions on which the future-oriented information is based by the legal representatives and assess the appropriate derivation of the future-oriented information from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. There is a considerable unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

Stuttgart, April 24, 2020

**PricewaterhouseCoopers GmbH**  
auditing company

*Jürgen Schwehr, auditor*

*ppa. Jens Rosenberger, auditor*

The annual financial statements as of December 31, 2019 were adopted on August 31, 2020.

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