

SIEMENS FINANCIAL SERVICES LIMITED
Annual report and financial statements
Registered number 00646166
September 30, 2019



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SIEMENS FINANCIAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

The directors of Siemens Financial Services Limited ("the Company") present the annual report containing a strategic report, directors' report and the financial statements for the year ended September 30, 2019.

STRATEGIC REPORT

Principal activities

Siemens Financial Services Limited is engaged in leasing, instalment credit facilities and receivables financing to clearly defined markets in the UK within the business to business, healthcare and public sectors. The Company is authorised and regulated by the Financial Conduct Authority in relation to consumer credit and insurance intermediary activities.

General business review - Statement of Income

The performance in 2019 is in line with the expectations of the directors, and the directors believe the results for the year reflect the ongoing trading performance of the Company.

The Company made a net income for the financial year, net of taxation of £27.5m (2018: £27.7m). Performance remains strong with operating profit falling slightly from the previous year, primarily due to a normalising credit environment following years of relatively low levels of bad debts.

The directors work closely with management to anticipate risks from economic or global factors and plan accordingly. The Company has remained vigilant over the warning signs exhibited in the global economy and uncertainty in the UK economy, which is partly due to the future trading arrangements given that Brexit has now occurred. An evaluation of the potential impact of market factors is undertaken regularly by the management so that the Company can respond appropriately. With regards to Brexit, the Company has assessed the potential impact on its business on a short-to-medium term view only, particularly with regards to a so called 'no deal' outcome, which remains a possibility at the end of 2020. While the broad parameters of the future EU-UK relationship is clearer, it is impossible to take a longer-term view of the impact of Brexit until the final outcome of the forthcoming trade negotiations between the two sides is known, most likely by the end of the year. Nonetheless, we will continue to monitor developments and prepare.

The directors continue to continuously monitor all aspects of the COVID-19 situation, evaluating all new developments, risks and taking measures to protect the Company and its employees. The Company has robust Business Continuity provisions and has implemented measures which aim to minimise business disruption with continued operations and support to its customers and partners during these challenging times including a recognised need for appropriate forbearance with the circumstances faced. The health and safety of the Company's employees and partners remains a top priority and the Company will continue to follow Government advice as the situation develops.

General business review - Statement of Financial Position

The Company's growth strategy of focusing on existing channels whilst developing strategically important channels has continued to be met with success in focussing on Siemens channels and Siemens proximate markets. Overall new business bookings exceed the budget driven by continued growth in the Vendor Finance and Vendor Referred channels. The Invoice Finance channel continues to grow but at a slower pace.

Total Assets increased by 0.3% to £1,670.5m (2018: £1,665.3m) despite a reduction in assets in the Vendor Referred channel following the early termination of specific loan contracts. As with previous years, the concentration risk in the portfolio is acknowledged with the financing of a large infrastructure project, supporting the activities of Siemens, representing approximately 19% of year end assets.

The Company continues its prudent approach to credit management. Bad debt losses, although 41% higher than the previous year, are better than budget and have normalised to 0.3% of earning assets (2018: 0.2%) following historically low levels in recent years. Total impairment allowances provided at the year-end amount to 1.28% (October 1, 2018: 1.23%) of Financial Assets.

Management intend to maintain and further develop business in chosen channels with continued financing of opportunities from the wider Siemens Group where commercially appropriate and continued growth in Invoice Finance channel. The business expects to broaden further its served markets by capitalising on the growing technology sector as well as ensuring the diversity of the portfolio is maintained. The business will also seek to strengthen competitive advantage and continue to drive customer centric focus and standards across all channels with rigorous benchmarking and monitoring of service levels. There is also continued planned investment in technology going forward with a focus on the upgrading IT infrastructure, the implementation of digital processes and the roll out of digital products both internally and external facing. The Company will continue its focus on the training and development of its employees alongside its inclusive and open culture.

Analysis of Financial Key Performance Indicators

Siemens Financial Services Limited measures its performance on a number of key performance indicators, including revenue, profit from operations and net cash from operations as discussed above. The company remains strongly capitalised with gearing of 80% (2018: 81%). In addition, new orders received for Finance leases of £353.4m (2018: £319m), Operating leases of £98.9m (2018: £123m); Loans of £91.1m (2018: £110m) and Invoice financing of £17.5m (2018: £49m) are considered to be a key performance indicator.

SIEMENS FINANCIAL SERVICES LIMITED

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Principal risks and uncertainties

The Company has implemented a co-ordinated set of risk management and control systems, including strategic planning and management reporting, to help anticipate, measure, monitor and manage its exposure to risk. Risks which the Company faces include price and product competition, compounded with entrants in the sectors in which we operate from both established finance institutions and investment vehicles viewing these markets as providing attractive returns, performance risks under long term fixed price contracts, loss of supply of product components, changes in the regulatory and legal environment, and credit and market risks, which may increase due to the global shortage of credit.

The Company has a diversified range of customers and revenue streams across a broad spectrum of industry types and business sectors and provides products and services that support central and local government public services including public transportation and healthcare.

Based on the Company's forecasts, the directors consider that the Company will continue to trade profitably and generate positive cash flows from operations over the next 12 months. Additionally, Siemens AG operates a cash pooling facility across its worldwide Group. Cash balances generated by entities are passed to Siemens AG and companies are able to draw down on these facilities if required.

For 2019, based on their assessment of the Company's financial position, future performance, liquidity and risks, the directors have a reasonable expectation that the Company has adequate resources to adopt the going concern basis of preparation for the financial statements.

Signed by order of the board of directors



R. T. Britton
Company Secretary

Approved by the directors on July 28th, 2020

Registered office:

Sefton Park
Bells Hill
Stoke Poges
Buckinghamshire
SL2 4JS

SIEMENS FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

DIRECTORS' REPORT

The directors who served the Company during the year and subsequently were as follows:

J. Andrew	Terminated October 26, 2018
J. E. Murnieks	
M. Klein	
R. A. Hargraves	
J. M. Hobbs	

None of the directors holding office at September 30, 2019 had notified a beneficial interest in any contract to which the Company or its subsidiary undertakings were a party during the financial year.

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

DIVIDENDS

The directors recommended and paid a dividend of £20.0m representing £0.39 per share, for the year ended September 30, 2019 (2018: £20.0m).

FINANCIAL INSTRUMENTS

Siemens Financial Services Limited's financial risk management objectives and policies, including the exposure to market risk, credit risk and liquidity risk are set out in note 3 to the financial statements.

SUBSEQUENT EVENTS

As noted in the Strategic Report, the directors continue to continuously monitor all aspects of the COVID-19 situation, evaluating all new developments, risks and taking measures to protect the Company and its employees. The World Health Organization did not declare the COVID-19 outbreak to be a public health emergency until January 2020, any significant changes in business and economic events due to COVID-19 would be considered a non-adjusting subsequent event. The Company considers that the impact of forbearance measures, and the broader economic consequences of the crisis could result in a detrimental effect on operating results in the future; however, it is too early to reliably estimate the impact at this time.

GROUP POLICIES

Employee participation

The directors continue to encourage employee participation within the Company. The Siemens Leadership Framework and Management Development Programmes underpin the various methods for encouraging an open and participative style of management and communication that has been introduced in recent years; these include team briefings, intranet information and notices, staff forums and employee elections to the Siemens Europe Committee and the European Works Council. We encourage suggestions and innovations for improving business performance, business suggestion schemes and the staff dialogue process.

Environmental

As a leading global company, Siemens has a responsibility to comply with the highest ethical and legal standards while protecting the environment and benefiting society as a whole. There are a number of initiatives, such as the Siemens corporate responsibility award, to highlight and honour those individuals and employee teams whose projects highlight the Company's commitment to making the world a better place.

Equal opportunities

The Company is committed to equal opportunities for all, free from discrimination and harassment. Siemens values the contribution of all employees. All job applicants and employees, customers, visitors or contractors will receive equal treatment regardless of sex, race, disability, sexual orientation, religion or belief, age, colour, marital status, trade union membership, nationality or ethnic or national origins.

Within Siemens, applicants and employees will be recruited, selected, trained and promoted on objective grounds, i.e. on the basis of their abilities to contribute most effectively to the success of the Company. Wherever possible, we will assist disabled employees to enable them to work for the Company and maximise their contribution and performance.

Business Stakeholders

Business relationships with the customers, suppliers, and other business partners are fundamental to Siemens. Siemens maintains business relationships only with reputable partners who comply with the law. Siemens protects the interests of its customers through the careful selection of suppliers and other business partners and through the standards set for own actions. Siemens only works with suppliers who are prepared to eliminate problems or implement risk reduction measures. The Siemens Code of Conduct is based on the UN Global Compact and the principles of the International Labour Organisation, and it reflects the Siemens Business Conduct Guidelines.

SIEMENS FINANCIAL SERVICES LIMITED

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POLITICAL DONATIONS

No political donations were made during the current or preceding year.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who held office at the date of approval of this annual report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all steps that ought to have been taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

In accordance with section 487(2) of the Companies Act 2006, Ernst & Young LLP will continue in office as auditor of the Company.

Signed by order of the board of directors



R. T. Britton
Company Secretary

Approved by the directors on July 28th, 2020

Registered office:
Sefton Park
Bells Hill
Stoke Poges
Buckinghamshire
SL2 4JS

SIEMENS FINANCIAL SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework" (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The directors have elected to prepare the financial statements in accordance with UK GAAP. In preparing those financial statements, the directors are required to:

- ▶ Select suitable accounting policies and then apply them consistently;
- ▶ Make judgements and estimate 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; and
- ▶ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIEMENS FINANCIAL SERVICES LIMITED

Opinion

We have audited the financial statements of Siemens Financial Services Limited for the year ended 30 September 2019 which comprise the Statement of Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 1 of the financial statements, which describes the consequences the Company is facing as a result of COVID-19 which is impacting the market demand credit quality. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 44, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Opinions on other matters 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- *the strategic report and directors' report have been prepared in accordance with applicable legal requirements.*

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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 auditor's 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.



Gary Adams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 July 2020

SIEMENS FINANCIAL SERVICES LIMITED

STATEMENT OF INCOME

For the years ended September 30, 2019 and 2018 (in thousands of £)

	Note	2019	2018
Revenue under effective interest rate method	4	76,642	77,608
Other Revenue	4	87,801	82,775
Cost of sales	5	(103,938)	(99,385)
Gross profit		60,505	60,998
Other operating expenses	6	(42,061)	(43,571)
Other operating income	9	15,948	16,966
Operating profit		34,392	34,393
Interest income/(expenses) from pension plans and similar commitments, net	10	63	(61)
Income before tax		34,455	34,332
Income tax expenses	11	(6,968)	(6,620)
Net income for the financial year		27,487	27,712

The notes on pages 12 to 44 form an integral part of these financial statements. All amounts relate to continuing operations.

SIEMENS FINANCIAL SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the years ended September 30, 2019 and 2018 (in thousands of £)

	Note	2019	2018
Net income for the financial year		27,487	27,712
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans gains / (losses)	19	12,415	(2,420)
Deferred tax (expense)/credit on remeasurement gains / (losses)	11	(2,111)	411
		10,304	(2,009)
Total items that will not be reclassified to profit or loss		10,304	(2,009)
Other comprehensive income / (expense), net of income taxes		10,304	(2,009)
Total comprehensive income		37,791	25,703
Attributable to: Owners of the Company		37,791	25,703

The notes on pages 12 to 44 form an integral part of these financial statements. All amounts relate to continuing operations.

SIEMENS FINANCIAL SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION

As of September 30, 2019 and 2018 (in thousands of £)

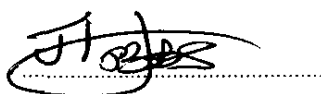
	Note	2019	2018 Restated*
ASSETS			
Cash and cash equivalents		4,494	1,667
Trade and other receivables	12	21,494	19,576
Loans and advances to customers	13	1,323,022	1,330,991
Other intangible assets	14	-	-
Property, plant and equipment	15	306,672	302,667
Post-employment benefits	19	7,163	-
Deferred tax assets	11	7,666	10,374
Total assets		1,670,511	1,665,275
LIABILITIES AND EQUITY			
Trade payables	16	1,417,313	1,415,410
Current provisions	18	-	86
Current income tax liabilities		12,233	7,460
Other current liabilities	17	19,295	25,428
Post-employment benefits	19	-	5,259
Total liabilities		1,448,841	1,453,643
Equity			
Share capital	20	51,945	51,945
Retained earnings		169,725	159,687
Total equity		221,670	211,632
Total liabilities and equity		1,670,511	1,665,275

* Restated due to movement between deferred tax and current tax. See Note 11 for further details.

These financial statements were approved and authorised for issue by the board of directors on July 28th, 2020 and were signed on their behalf by:



J. E. Murnieks
Director



J. M. Hobbs
Director

Registered number: 00646166
Siemens Financial Services Limited

SIEMENS FINANCIAL SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the years ended September 30, 2019 and 2018 (in thousands of £)

	Note	Share capital	Retained earnings	Total equity
Brought forward October 1, 2017		51,945	153,984	205,929
Net income for the financial year		-	27,712	27,712
Other comprehensive expense, net of income taxes		-	(2,009)	(2,009)
Total comprehensive income for the financial year		-	25,703	25,703
Dividends to equity holders		-	(20,000)	(20,000)
Balance at September 30, 2018 (as previously reported)		51,945	159,687	211,632
Brought forward October 1, 2018		51,945	159,687	211,632
Effect of retrospectively adopting IFRS 9	2	-	(7,753)	(7,753)
Balance as of October 1, 2018		51,945	151,934	203,879
Net income for the financial year		-	27,487	27,487
Other comprehensive income, net of income taxes		-	10,304	10,304
Total comprehensive income for the financial year		-	37,791	37,791
Dividends to equity holders		-	(20,000)	(20,000)
Balance at September 30, 2019		51,945	169,725	221,670

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

1. Basis of presentation

The accompanying financial statements present the operations of the Company and have been prepared and approved by the directors in accordance with Financial Reporting Standard 101 ("FRS 101"), 'Reduced Disclosure Framework' and applied in accordance with the Companies Act 2006. FRS 101 sets out reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS"). The financial statements are generally prepared on the historical cost basis, except as stated in note 2.

The Company is a qualifying entity for the purposes of FRS 101. The Company's date of transition is October 1, 2018.

The following disclosure exemptions under FRS101 have been considered and applied where deemed to be applicable:

- IAS 7 cash flow statements and related notes;
- IAS 8 the listing of or revised standards that have not been adopted (and information of their likely impact) may be omitted;
- IAS 24 related party disclosure for intra-group transactions and disclosure of key management compensation;
- IAS 1 the requirement to present comparatives in roll-forward reconciliations for movements on share capital, property plant and equipment and intangible assets.

The impact of adopting IFRS 9 'Financial Instruments' is explained further in notes 2 and 3. The remaining standards adopted did not have a material impact on the financial statements.

The Company is a member of the Finance and Leasing Association and is compliant with the Finance and Leasing Association SORP.

Siemens Financial Services Limited has prepared and reported its financial statements in Great British Pounds (GBP or £) and the financial information is disclosed in thousands of £, except where stated otherwise. 'k' denotes thousands of £, 'm' denotes millions of £ and 'bn' denotes billions of £. Siemens Financial Services Limited is a United Kingdom based company incorporated in England and Wales and is engaged in leasing, instalment credit facilities and receivables financing to clearly defined markets in the UK within the business to business, healthcare and public sectors.

In these financial statements, the term 'Group' refers to all companies for whom the ultimate parent undertaking is Siemens AG. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company has net current liabilities due to *Amounts due to Group companies* balances being held as current and being contractually payable on demand. Historically other Group companies have not demanded repayment of these intercompany balances and are not expected to demand repayment in the foreseeable future even though they are classified as current. Furthermore, based on the assessment of the Company's financial position, future performance, as well as the economic uncertainty caused by the subsequent events set out in note 24, liquidity and risks, the directors have a reasonable expectation that the Company has adequate resources to adopt the going concern basis of preparation for the financial statements.

2. Summary of significant accounting policies and critical accounting estimates

Revenue recognition — The company recognizes revenue, when or as controlled over distinct services are transferred to the customer: i.e. when the customer is able to direct the use of the transferred service and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account the company's customer's creditworthiness. Revenue is the transaction price Siemens expects to be entitled to. Revenue is recognized for each performance obligation either at a point in time or over time.

Income from lease arrangements: Operating lease income for equipment rentals is recognised on a straight-line basis over the lease term. An arrangement that is not in the legal form of a lease is accounted for as a lease if it is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Receivables from finance leases, in which Siemens as the lessor transfers substantially all the risks and rewards incidental to ownership to the customer are recognised at an amount equal to the net investment in the lease. Finance income is subsequently recognised based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest rate method. Profit from sale and leaseback transactions is recognised immediately if significant risks and rewards of ownership have passed to the buyer, the leaseback results in an operating lease and the transaction is established at fair value.

Lease incentives and initial costs are amortised against the lease margin over the lease term. Receipts that were not fixed at lease inception are booked as income when earned. Surrender premiums received in the period are included in rental income.

Dividends: Dividends are recognised when the right to receive payment is established.

Income from interest: Interest is recognised using the effective interest rate method.

Other intangible assets — The Company amortises intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

Property, plant and equipment — Property, plant and equipment, is valued at cost less accumulated depreciation and impairment losses. Depreciation expense is recognised using the straight-line method. The estimated useful lives are assumed:

Furniture & office equipment	5 to 10 years
Equipment leased to others	generally 3 to 5 years

Residual values — Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset its residual value will fluctuate because of the uncertainty of the future market for that asset as well as general economic conditions. Residual values are set at the commencement of the lease based upon management's expectation of future sale proceeds. During the course of the lease, residual values are monitored so as to identify any changes. The monitoring takes account of the company's past history for residual values and projections of the likely future market for each group of assets. Any variance in the residual value is recognised by the Company and charged or credited to the statement of income over the remaining lives of the operating leases of the assets concerned.

Assets subject to operating leases — Depreciation on assets subject to operating leases is provided to write off the cost of the assets less the estimated residual value on a straight-line basis over the term of the lease.

Impairment of property, plant and equipment and other intangible assets — The Company reviews property, plant and equipment and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets with indefinite useful lives as well as intangible assets not yet available for use are subject to an annual impairment test. Impairment testing of property, plant and equipment and other intangible assets involves the use of estimates in determining the assets' recoverable amount which can have a material impact on the respective values and ultimately the amount of any impairment.

The Company's property, plant and equipment and other intangible assets to be disposed of are recorded at the lower of carrying amount or fair value less costs to sell and depreciation is ceased.

Income taxes — Siemens AG and its subsidiaries operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognised if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that all or a portion of a deferred tax asset cannot be realized, a corresponding valuation allowance is taken into account.

The Company applies IAS 12, Income Taxes. Under the liability method of IAS 12, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognised in the statement of income, unless related to items directly recognised in equity, in the period the new laws are enacted or substantively enacted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Provisions — A provision is recognised in the Statement of Financial Position when it is probable that the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognised at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. When a contract becomes onerous, the present obligation under the contract is recognised as a provision.

Significant estimates are involved in the determination of provisions related to onerous contracts, warranty costs, asset retirement obligations, legal and regulatory proceedings. The Company records a provision for onerous sales contracts when current estimates of total contract costs exceed expected contract revenue. Onerous sales contracts are identified by monitoring the progress of the project and updating the estimate of total contract costs which also requires significant judgement relating to achieving certain performance standards, as well as estimates involving warranty costs and estimates regarding project delays including the assessment of responsibility splits between the contract partners for these delays.

Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, considerable judgement is part of determining whether it is probable that there is a present obligation as a result of a past event at the end of the reporting period, whether it is probable that such a legal proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Internal and external counsels are generally part of the determination process. Due to new developments, it may be necessary, to record a provision for an ongoing legal proceeding or to adjust the amount of a previously recognised provision. Upon resolution of a legal proceeding, the Company may incur charges in excess of the recorded provisions for such matters. The outcome of legal proceedings may have a material effect on the Company's financial position, its results of operations and or its cash flows.

For further explanation of the movement in provisions in the year see note 18.

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Financial instruments — A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Based on their contractual cash flow characteristics and the business model they are held in, financial instruments are classified as financial assets and financial liabilities measured at cost or amortised cost and financial assets and financial liabilities measured at fair value and as receivables from finance leases. For additional information refer to note 3.

Regular way purchases or sales of financial assets are accounted for at the trade date.

Initially, financial instruments are recognised at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognised in determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. Receivables from finance leases are recognised at an amount equal to the net investment in the lease. Subsequently, financial assets and liabilities are measured according to the category to which they are assigned to.

The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a business objective. Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The Company has concluded that all its financial assets are held within this business model.

For financial assets held within such a business model, the nature of their contractual cash flows must also be considered during classification – this is the so-called SPPI (solely payments of principal and interest) criterion. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending agreement. The Company has concluded that all financial assets within the business model hold-to-collect satisfy the SPPI criterion.

Financial assets measured at amortised cost – Loans, receivables and other debt instruments held in a hold-to-collect business model with contractual cash flows that represent solely payments of principal and interest are measured at amortised cost using the effective interest method less valuation allowances for expected credit losses.

Valuation allowances are set up for expected credit losses, representing a forward-looking estimate of future credit losses involving significant judgment. Expected credit loss is the gross carrying amount less collateral, multiplied by the probability of default and a factor reflecting the loss in the event of default. The movement on the valuation allowance is given in note 13. Valuation allowances are not recognised when the gross carrying amount is sufficiently collateralised. Probabilities of default are mainly derived from rating grades. A simplified approach is used to assess expected credit losses from trade receivables and lease receivables by applying their lifetime expected credit losses. The valuation allowance for loans and other long-term debt instruments are measured according to a three-stage impairment approach:

Stage 1: At inception, 12-month expected credit losses are recognised based on a twelve months probability of default.

Stage 2: If the credit risk of a financial asset increases significantly without being credit-impaired, lifetime expected credit losses are recognised based on a lifetime probability of default. A significant increase in credit risk is determined for each individual financial instrument using credit ratings. A rating deterioration does not trigger a transfer into Stage 2, if the credit rating remains within the investment grade range. Financial Instruments that have more than 30 days past due payments will not be transferred into Stage 2, if the delay is not credit-risk-related.

Stage 3: If the financial asset is credit-impaired, valuation allowances equal lifetime expected credit losses. A financial asset is considered credit-impaired when there is observable information about significant financial difficulties and a high vulnerability to default, however, the definition of default is not yet met. Impairment triggers include liquidity problems, a request for debt restructuring or a breach of contract. A credit-risk driven contractual modification always results in a credit-impaired financial asset.

Financial assets are written off as uncollectible if recovery appears unlikely. Generally, if the limitation period expired, when a debtor's sworn statement of affairs is received, or when the receivable is not pursued due to its minor value. Receivables are written off when bankruptcy proceedings close.

Derivative financial instruments are measured at fair value through profit or loss. The Company does not apply hedge accounting.

A financial asset is derecognised when the rights to cash flows expire or the financial asset is transferred to another party. Significant modifications of contractual terms of a financial asset measured at amortized cost result in derecognition and recognition of a new financial asset.

The Company measures financial liabilities, except for derivative financial instruments, at amortised cost using the effective interest method.

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The quantitative impact of applying IFRS 9 as at October 1, 2018 is disclosed below.

The retrospective effect of applying IFRS 9 had a total impact of £7.8m to equity. IFRS 9 increased valuation allowances by £9.3m, mostly for lease receivables. Transition effects from adopting IFRS 9 were recognised cumulatively in Equity as of October 1, 2018.

The effect of adopting IFRS 9 as at October 1, 2018 was as follows:

	IAS 39 September 30, 2018	Remeasurement	IFRS 9 October 1, 2018
Loans and advances to customers	1,330,991	(9,264)	1,321,727
<i>Provision contained in loans and advances above</i>	<i>(7,384)</i>	<i>(9,264)</i>	<i>(16,648)</i>
Trade and other receivables	19,576	(77)	19,499
Deferred tax asset	7,772	1,588	9,360

Loans, receivables and other debt instruments held in a hold-to-collect business model with contractual cash flows that represent solely payments of principal and interest are measured at amortised cost.

Upon adoption of IFRS 9 the Company recognised an additional impairment on the Company's Loans and advances to customers of £9.3m.

Cash and cash equivalents — The Company considers all highly liquid investments with less than three months maturity from the date of acquisition to be cash equivalents. Cash and cash equivalents are measured at cost. The Company is part of a cash pooling arrangement across the worldwide Siemens Group. Balances within this facility are classified as *Receivables from Group companies* and *Amounts due to Group companies*.

Leases — Leases where substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. All others are deemed operating leases.

- Leases in which the Company is the lessee:

Under finance leases, the minimum lease obligation, or if lower, the asset's fair value, is capitalised within property, plant and equipment at the commencement of the lease and depreciated over the shorter of the useful economic life and the lease term. The rental obligation is recorded as a borrowing at a similar amount. Each lease payment is allocated between liability repayment and finance charges in a way so as to achieve a constant effective interest rate on the balance outstanding. Under operating leases, the asset does not appear in property, plant and equipment and lease payments are charged to the Statement of Income on a straight-line basis over the lease term.

- Leases in which the Company is the lessor:

Under finance leases, the asset leased out is not shown in the Company's property, plant and equipment. Receivables from finance leases, in which the Company as lessor transfers substantially all the risks and rewards incidental to ownership to the customer are recognised at an amount equal to the net investment in the lease. Finance income is subsequently recognised based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest method. Under operating leases, the asset leased out appears in property, plant and equipment and lease income is credited to the Statement of Income on a straight-line basis over the lease term.

Pension costs and other post-retirement benefits

Defined contribution plan — The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the Statement of Income represents the contributions payable to the scheme in respect of the accounting period and represents the full extent of the Company's liability.

Defined benefit plans — The Company measures the entitlements by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered. In determining the net present value of the future benefit entitlement for service already rendered (Defined Benefit Obligation (DBO)), the expected rates of future salary increase and expected rates of future pension progression are considered. The assumptions used for the calculation of the DBO as of the period-end of the preceding financial year are used to determine the calculation of service cost and interest income and expense of the following year. The net interest income or expense for the financial year will be based on the discount rate for the respective year multiplied by the net defined liability (asset) at the preceding financial year's period-end date.

Service cost and past service cost for post-employment benefits and administration costs unrelated to the management of the plan assets are allocated among functional costs. Past service costs and settlement gains and losses are recognised immediately in the Statement of Income. For unfunded plans, the amount of the line item Post-employment benefits equals the DBO. For funded plans, the Company offsets the fair value of the plan assets with the DBO. The Company recognises the net amount, after adjustments for effects relating to any asset ceiling.

Remeasurements comprise of actuarial gains and losses, as well as the difference between the return of plan assets and the amounts included in net interest on the net defined benefits liability or asset. They are recognised by the Company in the Statement of Comprehensive Income, net of income taxes.

Actuarial valuations rely on key assumptions including discount rates, expected compensation increases, rates of pension progression and mortality rates. Discount rates used are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available discount rates are based on government bonds yields. Due to changing market, economic and social conditions the underlying key assumptions may differ from actual developments. For a discussion of the current funded status see note 19.

NOTES TO THE FINANCIAL STATEMENTS

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Borrowing costs — The Company pays or receives interest on some of its intercompany cash balances. These are recognised within interest in the Statement of Income when incurred or receivable. All costs directly attributable to the cost of a qualifying asset are capitalised.

Guarantees — In the ordinary course of business, the Company provides financial guarantees, consisting of letters of credit, guarantees and facility commitments. Financial guarantees are initially recognised in the financial statements (within 'trade and other payables') at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the Statement of Income or recoverable value. The premium received is recognised in the Statement of Income in 'revenue' on a straight-line basis over the life of the guarantee. For additional information please refer to note 22.

Commissions — Commissions payable in respect of operating leases, loans and finance leases and other initial direct costs that are deemed to be part of the cost of new business assets are capitalised and amortised against the operating leases, loans and finance lease margin over the lease term. Other commission is charged as incurred.

Foreign currency transactions — Transactions that are denominated in a currency other than the functional currency of an entity, are recorded at that functional currency applying the spot exchange rate at the date when the underlying transactions are initially recognised. At the end of the reporting period, foreign currency denominated monetary assets and liabilities are re-valued to functional currency applying the spot exchange rate prevailing at that date. Gains and losses arising from these foreign currency revaluations are recognised in the Statement of Income. Those foreign currency-denominated transactions which are classified as non-monetary are remeasured using the historical spot exchange rate.

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For the years ended September 30, 2019 and 2018 (in thousands of £)

3. Financial instruments

The following table presents the carrying amounts of each category of financial assets and financial liabilities:

	2019	September 30, 2018
Financial assets		
Cash and cash equivalents	4,494	1,667
Loans and advances to customers		
Total finance lease and other loans and advances	1,323,022	1,330,991
Total	1,327,516	1,332,658
Trade and other receivables		
Amounts due from Group companies	-	1
Trade receivables from the sale of goods and services	10,684	12,621
Other receivables	10,810	6,954
Total financial assets	1,349,010	1,352,234
Financial liabilities		
Trade and other payables		
Amounts owed to Group companies – current	506,843	472,878
Amounts owed to Group companies - non current	904,291	933,884
Total amounts owed to Group companies	1,411,134	1,406,762
Trade and other payables	25,475	39,335
Provision	-	86
Total financial liabilities	1,436,609	1,446,183

The fair values of cash and cash equivalents, loans and advances, trade and other receivables, overdrafts, Group payables and other payables approximate their carrying amount largely due to the short-term maturities of these instruments.

The value of long-term (non-current) fixed-rate and variable-rate assets and liabilities are evaluated by the Company based on parameters such as interest rates and the risk characteristics of the contracts. At September 30, 2019 and September 30, 2018, the carrying amounts of such receivables, net of allowances, approximate their fair values due to low interest rates and net matched funding in line with the Company's strategy to hold to maturity. The financial income and expenses for the above financial assets and liabilities are disclosed in notes 4, 5 and 9.

NOTES TO THE FINANCIAL STATEMENTS

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Risk management framework

The following is a summary of the Company's risk management strategies and the effect of these strategies on the financial statements.

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The policies are aligned with the established Siemens framework on which there is regular reporting. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Audit governance and risk issues are formally reported to the Board on a quarterly basis with executive management considering these issues in monthly meetings. The board recognises it is important to encourage and safeguard the highest standards of integrity, financial reporting, corporate governance, risk management and internal control.

The Company seeks to maintain profitability, a strong Statement of Financial Position in terms of low credit risk and strong collateral and asset positions and liquidity, such that in a severe and exceptional event, capital and retained reserves together with net positive cash flows are more than adequate to meet any losses and repayment of liabilities. Liquidity is provided by the wider Siemens Group with other risks supported locally through operational policies aligned to the strategy of the business, supported by adequate capital resources.

(i) Credit risk

Credit risk is defined as an unexpected loss in financial instruments if the contractual partner is failing to discharge its obligations in full and on time or if the value of collateral declines.

The effective monitoring and controlling of credit risk through credit evaluations and ratings is a core competency of our risk management system. In this context, Siemens has implemented a binding credit policy for which the Company's Risk Department is responsible for implementing and addresses:

- *Implementing credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities.
- *Reviewing and assessing credit risk.* The Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Developing and maintaining the company's risk ratings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the company in the management of credit risk.
- *Monitoring and management of structured financing* which is monitored on an ongoing basis to ensure that any changes in credit quality are identified in a timely manner and appropriate measures taken.

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Measurement of Expected Credit Losses (ECL)

Financial assets, specifically loans and advances to customers, are accounted for at amortised cost and are evaluated for impairment on a basis described in the accounting policy note (see note 2).

Ratings and individually defined credit limits are based on generally accepted rating methodologies, with information obtained from customers, external rating agencies, data service providers and Siemens' credit default experiences. The credit model considers appropriate forward-looking information relevant to the specific financial instrument like expected changes in the debtor's financial position, ownership, management or operational risks, as well as broader forward-looking information, such as expected macroeconomic, industry-related and competitive developments. The ratings also consider a country-specific risk component derived from external country credit ratings. Ratings and credit limits for financial institutions as well as the Company's public and private customers, which are determined by internal risk assessment specialists, are continuously updated and considered in determining the conditions under which direct or indirect financing will be offered to customers.

To analyse and monitor credit risks, the Company applies various systems and processes. A main element is a central IT application that processes data from operating businesses together with rating and default information and calculates an estimate, which may be used as a basis for individual bad debt provisions. Additionally, qualitative information is considered to particularly incorporate the latest developments.

On 1st October 2018 the Company adopted IFRS 9 'Financial Instruments' and recognised the ECL provision in accordance with this accounting standard from that date. IFRS 9 accounting policies and the transitional disclosures are outlined in note 2. Below are the key judgements and estimates made by management surrounding the measurement of ECL.

Significant increase in credit risk (SICR)

The Company applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a significant increase in credit risk and should therefore be moved to Stage 2.

- Quantitative criteria: A significant increase in credit risk is determined for each individual financial instrument using credit ratings. A rating deterioration does not trigger a transfer into Stage 2, if the credit rating remains within the investment grade range. Financial Instruments that have more than 30 days past due payments will not be transferred into Stage 2, if the delay is not credit-risk-related.
- Qualitative criteria: Additionally, qualitative information is considered to particularly incorporate the latest developments.

Model calculation

The definitions of the ECL calculations are outlined below and the key elements are as follows:

- PD - The Probability of Default ('PD') is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default ('EAD') is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments in full, continued repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default ('LGD') is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

ECL is the EAD, multiplied by the PD and the LGD.

Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process.

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Credit exposure

The following shows the maximum exposure to credit risk at September 30, 2019 and September 30, 2018:

	2019	September 30, 2018
Loans and advances to customers		
Finance lease and other loans and advances	1,323,022	1,330,991
	1,323,022	1,330,991
Amounts due from Group companies	-	1
Cash and cash equivalents	4,494	1,667
Trade receivables from the sale of goods and services	10,684	12,621
Other receivables	10,810	6,954
	1,349,010	1,352,234
Financial assets subject to credit risk	8,661	12,579
Guarantees and commercial commitments		
Total financial assets subject to credit risk	1,357,671	1,364,813

The Company's principal financial assets are balances with Group companies, loans and advances to customers and other receivables. The credit risk is primarily attributable to the Company's loans and advances to customers.

The Company has mitigated this financial risk by seeking various forms of collateral and/or security. In some cases further counterparty guarantees are obtained.

The carrying amount is the maximum exposure to a financial asset's credit risk, without taking account of any collateral. Collateral reduces the valuation allowance to the extent it mitigates credit risk. Collateral needs to be specific, identifiable and legally enforceable to be taken into account.

An exposure is considered defaulted if the debtor is unwilling or unable to pay its credit obligations. A range of internally defined events trigger a default rating, including the opening of bankruptcy proceedings, receivables being more than 90 days past due, or a default rating by an external rating agency.

Credit exposure by market

The Company is subject to market concentration risk. This risk is mitigated through maintaining a diverse portfolio across a variety of market channels. Management reviews the exposure by channel and, in respect of the loans and advances to customers, the split between market channels is as follows:

	Invoice Finance	Vendor Finance	Vendor Referred	Structured Finance	Other	Total
2019	84,051	534,574	286,454	328,136	89,807	1,323,022
2018	79,599	507,776	320,699	338,277	84,640	1,330,991

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Credit quality of financial assets

No allowances are provided against intercompany debts. For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk have been analysed at September 30, 2019 and September 30, 2018 as follows:

	Finance leases and other loans and advances to customers	Trade and other receivables	Total
2019			
Financial assets with no impairment allowance	416,296	21,494	437,790
Financial assets with a collective impairment allowance	923,398	405	923,803
Financial assets with an individual impairment allowance	218	-	218
	1,339,912	21,899	1,361,811
Impairment allowances	(16,890)	(405)	(17,295)
Total carrying amount	1,323,022	21,494	1,344,516
2018	Finance leases and other loans and advances to customers	Trade and other receivables	Total
Financial assets with no impairment allowance	488,422	19,576	507,998
Financial assets with a collective impairment allowance	849,713	-	849,713
Financial assets with a specific impairment allowance	240	-	240
	1,338,375	19,576	1,357,951
Impairment allowances	(7,384)	-	(7,384)
Total carrying amount	1,330,991	19,576	1,350,567

The credit risk is managed by the application of a credit risk rating which is designed by the ultimate parent Company. There are monthly reviews of large arrears balances which are subsequently reclassified to indicate higher risk of loss, to limit the financial impact.

(a) Financial assets with a collective impairment allowance

The following table sets out the Companies gross receivables and ECL provision for lease receivables under simplified approach:

Gross lease receivables-Simplified approach

	September 30, 2019	October 1, 2018
Investment Grade Ratings	394,766	359,804
Non-investment Grade Ratings	450,208	431,183
Gross Carrying Amount	844,974	790,987
Trade Receivables	21,899	20,011
Gross Exposure	866,873	810,998
ECL	(16,305)	(15,714)
Net Exposure	850,568	795,284

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The following table sets out the Companies loans and advances by credit risk category (general approach):

Gross loans and advances to customers-General approach

	Stage 1	Stage 2	Stage 3	September 30, 2019	October 1, 2018
Investment Grade Ratings	43,241	307,767	-	351,008	420,591
Non-investment Grade Ratings	136,073	7,282	575	143,930	126,797
Gross Carrying Amount	179,314	315,049	575	494,938	547,388

The following table sets out the reconciliation of movement in instalment finance receivables and related ECL provision (General approach)

Gross loans and advances to customers

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2018	224,544	322,415	429	547,388
Stage Transfers	(111)	85	26	-
New Business	80,048	853	-	80,901
Receivables repaid or written off	(125,167)	(8,304)	120	(133,351)
Balance at September 31, 2019	179,314	315,049	575	494,938

ECL Allowance

	Stage 1	Stage 2	Stage 3	Total
Balance at October 1, 2018	739	67	128	934
Stage Transfers	(51)	-	51	-
New Business	426	5	-	431
Change in valuation allowances	(312)	(49)	47	(314)
Receivables repaid or written off	-	-	(61)	(61)
Balance at September 31, 2019	802	23	165	990

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(b) Past due financial assets

An asset is considered past due when an obligor has failed to make a payment by the contractual due date. The following assets are past due as at September 30, 2019 and September 30, 2018.

	Not past due	Past due less than 1 month	Past due greater than 1 month but less than 2 months	Past due greater than 2 months but less than 3 months	Past due greater than 3 months	Total
2019						
Loans and advances to customers						
Finance lease and other loans and advances to customers	1,313,541	3,201	1,404	748	4,128	1,323,022
Total	1,313,541	3,201	1,404	748	4,128	1,323,022

	Not past due	Past due less than 1 month	Past due greater than 1 month but less than 2 months	Past due greater than 2 months but less than 3 months	Past due greater than 3 months	Total
2018						
Loans and advances to customers						
Finance lease and other loans and advances to customers	1,316,489	8,443	919	618	4,522	1,330,991
Total	1,316,489	8,433	919	618	4,522	1,330,991

(c) Financial assets that are impaired

Details of the specific and collective impairment allowances on loans and advances to customers are disclosed in note 13.

(ii) Market risk

(a) Residual value risk

Residual value risk arises to the extent that the market value of leased assets held falls below the expected recoverable amount of the assets.

A part of the Company's portfolio comprises operating leases, in which the Company retains a residual exposure to the equipment after the lessee's minimum rental payment obligations have expired. The expectation (based on the lease structure and the Company's experience of operating leasing in the local authority sector) is that the equipment will be re-leased, either to the original lessee or to a new lessee, or that the equipment can be sold to the original supplier or on the open market, all to the effect that the residual exposure will be repaid without loss of principal, interest or margin to the Company. Additionally the Company has secured insurances or guarantees through third parties for an element of the assumed residual value for certain lease and equipment category types. Experience to date demonstrates that realised values consistently exceed assumed values. The Company also has a low percentage of residual risk in certain finance leases.

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Residual value positions as at September 30, 2019 and September 30, 2018 are disclosed below:

2019	Within 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Operating leases, exposure by asset type					
Medical	2,768	2,777	5,119	-	10,664
Reprographics and Information technology	3,231	3,033	5,611	1	11,876
Vehicles	16,011	10,105	35,405	11,344	72,865
Others	1,510	2,538	11,589	8,504	24,141
At September 30, 2019	23,520	18,453	57,724	19,849	119,546
2018	Within 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Operating leases, exposure by asset type					
Medical	4,553	2,312	7,263	62	14,190
Reprographics and Information technology	3,660	4,308	7,460	1	15,429
Vehicles	7,489	14,485	33,030	10,951	65,954
Others	1,019	768	10,447	6,066	18,300
At September 30, 2018	16,721	21,873	58,200	17,080	113,874
2019	Within 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Finance lease, exposure by asset type					
Medical	183	487	5,410	4,706	10,786
Reprographics and Information technology	1,076	1,532	8,092	67	10,767
Vehicles	1,962	550	1,443	3,369	7,324
Others	356	266	3,164	3,274	7,060
At September 30, 2019	3,577	2,835	18,109	11,416	35,937
2018	Within 1 year	Between 1-2 years	Between 2-5 years	More than 5 years	Total
Finance lease, exposure by asset type					
Medical	119	153	4,134	3,385	7,791
Reprographics and Information technology	1,399	1,320	7,756	70	10,545
Vehicles	1,037	1,915	1,380	2,955	7,287
Others	431	348	2,077	2,947	5,803
At September 30, 2018	2,986	3,736	15,347	9,357	31,426

Finance leases include unguaranteed residual values of £27,603k (2018: £21,596k).

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

(b) Interest rate risk

Interest rate risk arises from the sensitivity of financial assets and liabilities to changes in market interest rates.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments were:

	2019	September 30, 2018
Fixed rate instruments		
Financial assets	1,322,368	1,330,732
Financial liabilities	1,411,134	1,406,762
Variable rate instruments		
Financial assets	654	259
Financial liabilities	-	-

Sensitivity analysis for fixed and variable rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Company does not hold derivatives (interest rate swaps) as hedging instruments under a fair value or cash flow hedge accounting model.

The Company seeks to mitigate the risk of change in interest rates by entering into a corresponding asset or liability with matching terms from the parent company where appropriate. At September 30, 2019 if interest rates had been 100bp higher or lower there would not have been any significant effect on profit or equity on the basis that the assets are match funded.

(c) Investment risk

The Company does not hold investments for trading purposes and has no trading book. It does not hold investments in publicly traded companies or non-publicly traded companies.

(d) Foreign currency exchange rate risk

Foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. Where the Company is conducting business with international counterparties that leads to future cash flows denominated in a currency other than its functional currency, it is exposed to the risk from changes in foreign exchange rates. This risk is mitigated by financing the assets with funding from the parent in the same currency. The Company does not borrow or invest in foreign currencies on a speculative basis.

The tables below show the net foreign exchange transaction exposure by major currencies as of September 30, 2019 and September 30, 2018:

	US\$	Euro	Total
2019			
Net Statement of Financial Position exposure	242	(483)	(241)
<i>Thereof: Financial assets</i>	5,014	6,469	11,483
<i>Thereof: Financial liabilities</i>	(4,772)	(6,952)	(11,724)
Change in future cash flows resulting from 10% appreciation of GBP	24	(48)	(24)
2018			
Net Statement of Financial Position exposure	243	(417)	(174)
<i>Thereof: Financial assets</i>	4,060	6,579	10,639
<i>Thereof: Financial liabilities</i>	(3,817)	(6,996)	(10,813)
Change in future cash flows resulting from 10% appreciation of GBP	24	(42)	(17)

It is Siemens AG's Group policy to use 10% to analyse the sensitivity of currency fluctuations.

The amount of foreign exchange recognised in the Statement of Income was a gain of £61k (2018: £13k loss). The Company makes no use of derivative financial instruments.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

(iii) Liquidity risk

Liquidity risk results from the Company's potential inability to meet its financial liabilities, e.g. for the settlement of its financial debt, paying its suppliers and settling finance lease obligations. In addition to having implemented effective working capital and cash management, the Company mitigates liquidity risk by arranged credit facilities with other Siemens companies. Current account balances with other Group companies are repayable on demand or due to certain triggering events. Historically other Siemens companies have not demanded repayment of these intercompany balances.

The following table reflects all contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 year and 5 years	After 5 years
2019					
Financial liabilities					
Amounts owed to Group companies	1,411,134	2,170,286	518,887	959,750	691,649
Trade and other payables	25,475	25,475	25,475	-	-
Total	1,436,609	2,195,761	544,362	959,750	691,649
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 year and 5 years	After 5 years
2018					
Financial liabilities					
Amounts owed to Group companies	1,406,762	1,525,225	511,941	948,933	78,291
Trade and other payables	39,335	39,335	39,335	-	-
Total	1,446,097	1,578,500	551,276	948,933	78,291

Contractual cash outflows for financial liabilities without fixed amount or timing, including interest, are based on the market conditions existing at September 30, 2019.

Trade payables and amounts owed to Group companies mainly originate from the financing of loans and advances to customers.

To monitor existing financial assets and liabilities as well as to enable effective control of future risks, Siemens has established comprehensive risk reporting covering its worldwide business units.

The following table reflects the calculation of the Company's net liquidity:

	September, 30	
	2019	2018
Cash and cash equivalents	4,494	1,667
Loans and advances to customers – current	357,416	307,847
Amounts due from Group companies – current	-	1
Trade receivables from the sale of goods and services	10,684	12,621
Other receivables	10,810	6,954
	383,404	329,090
Amounts owed to Group companies – current (note 16)	506,843	472,878
Other payables	25,475	39,335
	532,318	512,213
Net debt	(148,914)	(183,123)

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

In line with the funding strategy adopted for all wholly owned Siemens AG Group companies, funding is effected through the ultimate parent wherever and whenever possible. Siemens AG have granted a Revolving Credit facility for an amount of £100m for an indefinite period to the Company. The board's concern is that should the ultimate parent be faced with a liquidity issue of its own, it may not be able to fulfil this commitment. The board is of the view that this is not currently of material concern, since the holding company, at September 30, 2019, is rated A+ with a market capitalisation of Euro 98.25bn (2018: Euro 92.61bn). However, should this change with negative implications, or should any other adverse event or condition materialise, the board would have to immediately review the implications of such an event and act accordingly. The strength of the parent is formally reviewed annually.

(iv) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and business lines.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures to meet Siemens Internal Guidelines;
- requirements for the annual assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Siemens and regulatory standards is supported by a programme of annual reviews undertaken by Group internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Siemens AG audit committee and senior management of the company.

Collateral

The Company does not hold any collateral that can be sold or re-pledged in the absence of default by the owner on contractual terms. Nor does the company pledge its financial assets as collateral to third parties.

Financial and non-financial assets obtained:

Balance as at September 30, 2019 (in thousands of £)

Nature of asset obtained	Carrying amount of asset	Policy
Finance Leases	235	Sale of assets on bad debt cases.

Balance as at September 30, 2018 (in thousands of £)

Nature of asset obtained	Carrying amount of asset	Policy
Finance Leases	331	Sale of assets on bad debt cases.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

4. Revenue

Revenue is the aggregate of operating lease income, earnings from finance leases and earnings from loans and advances to customers. The policy for revenue recognition is set out in note 2 above.

	Year ended September 30,	
	2019	2018
Finance lease income	46,085	46,372
Income from other loans and advances to customers	30,557	31,236
Operating lease rental income	87,801	82,775
	<u>164,443</u>	<u>160,383</u>

5. Cost of goods sold and services rendered

In relation to finance leases, operating leases and loans and advances to customers, cost of goods sold and services rendered represents interest payments and similar costs together with any commission payable.

Interest payable and similar costs included within the cost of goods sold and services rendered is as follows:

	Year ended September 30,	
	2019	2018
Interest on finance lease and instalment finance agreements	29,246	28,446
Depreciation on assets leased under operating leases	74,480	70,260
Other	212	679
	<u>103,938</u>	<u>99,385</u>

6. Other operating expenses

	Year ended September 30,	
	2019	2018
Administrative expenses	13,066	15,919
Operating lease payments	1,726	1,586
Impairment allowances	4,340	3,571
Auditor's remuneration for audit services	234	212
Personnel expenses	22,695	22,283
	<u>42,061</u>	<u>43,571</u>
Total other operating expenses		

Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £nil (2018: £nil).

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

7. Staff numbers and costs

	Year ended September 30,	
	2019	2018
Wages and salaries	18,021	18,207
Social security costs	3,062	2,647
Expenses relating to pension plans and employee benefits	1,612	1,429
	<u>22,695</u>	<u>22,283</u>

Expenses relating to pension plans and employee benefits include service costs for the period. Expected return on plan assets and interest costs are included in *interest income* and *interest expense* respectively.

The average number of employees (including executive directors) during 2019 and 2018 was 269 and 254, respectively. Part-time employees are counted as full units. The employees were engaged in the following activities:

	Year ended September 30,	
	2019	2018
	Average Number	Average Number
Administration and general services	166	157
Sales and marketing	103	97
	<u>269</u>	<u>254</u>

8. Directors' emoluments

The directors' aggregate emoluments, including pension contributions, in respect of qualifying services were:

	Year ended September 30,	
	2019	2018
Emoluments receivable	1,013	1,320
Employer contributions to money purchase schemes	24	18
	<u>1,037</u>	<u>1,338</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £436,584 (2018: £892,713). Two of the directors are a member of the defined contributions scheme. None of the directors are members of a defined benefit scheme. Two of the directors have qualifying services shares receivable from a long-term incentive scheme.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

9. Other operating income

	Year ended September 30,	
	2019	2018
Proceeds from sale of leased assets	61,945	74,883
Cost of sale of leased assets sold	(59,707)	(69,733)
	<hr/>	<hr/>
Profit on sale of leased assets	2,238	5,150
Management fees received from other Group companies	3,334	3,105
Insurance related fees	5,665	5,451
Other fee income	3,236	3,054
Gain on settlement of loans	1,475	206
	<hr/>	<hr/>
Total other operating income	15,948	16,966
	<hr/>	<hr/>

10. Interest income and interest expense

Interest expense is all for financial assets or liabilities that are not at fair value through the Statement of Income.

The total amounts of interest income and expense were as follows:

	Year ended September 30,	
	2019	2018
Interest income from pension plans and similar commitments	1,541	1,376
Interest expense from pension plans and similar commitments	(1,478)	(1,437)
	<hr/>	<hr/>
Interest income/(expense) from pension plans and similar commitments	63	(61)
	<hr/>	<hr/>

Service cost for pension plans and similar commitments are allocated among functional costs (*Cost of sales and administrative expenses*).

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

11. Taxes

The analysis below is in reference to the total tax expense included in the Statement of Income.

	Year ended September 30,	
	2019	2018
Current tax:		
UK corporation tax	4,258	6,273
Foreign income taxes	12	106
Adjustments for prior years	513	1,161
	<u>4,783</u>	<u>7,540</u>
Deferred tax:		
Origination and reversal of temporary differences - current year	2,176	350
Origination and reversal of temporary differences - prior years	9	(1,270)
	<u>2,185</u>	<u>(920)</u>
Tax expense	<u>6,968</u>	<u>6,620</u>

Of the deferred tax expense in 2019 and the deferred tax income in 2018, £2,185k and £920k, respectively, relate to the origination and reversal of temporary differences.

For the years ended September 30, 2019 and 2018, the Company was subject to UK corporation tax at a rate of 19%.

The company has identified that the treatment of certain leases for tax purposes has resulted in a misallocation between those for which relief is claimed in line with the accounts treatment (long funding leases) and those for which relief is claimed through capital allowances (tax based leases). The error relating to these timing differences has resulted in equal and opposite adjustments of the current and deferred tax positions as at 1 October 2018 of £2,902k. For deferred tax this forms part of the net increase in the recognised asset of £2,602k excluding IFRS 9 restatement effects, when combined with other estimation true ups to lease classifications. For current tax this forms part of the net increase in liability of £2,602k. There is an increase in the current year period tax charge of £513k from these effects.

The total tax expense differs from the amounts computed by applying the statutory UK tax rate as follows:

	Year ended September 30,	
	2019	2018
Net income before tax (continuing operations)	34,455	34,332
Tax at 19%	6,546	6,523
Increase / (decrease) in income taxes resulting from:		
Non-deductible losses and expenses	146	161
Over provided in prior years - deferred tax	9	(1,270)
Over provided in prior years - current tax	513	1,161
Irrecoverable foreign tax	10	86
Rate change adjustment difference between Corporation Tax and Deferred Tax rate	(256)	(41)
	<u>6,968</u>	<u>6,620</u>
Total income tax expense for the year	<u>6,968</u>	<u>6,620</u>

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the Statement of Financial Position date.

The Finance Act 2016, included a reduction in the corporate tax rate to 19% (effective from April 2017) and to 17% (effective from April 2020). Deferred tax assets and liabilities have been measured at the enacted tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

Deferred tax assets and liabilities on a gross basis are summarised as follows:

	2019	September 30, 2018
Assets:		
Property, plant and equipment	8,676	9,325
Pension plans and similar commitments	-	894
Liabilities	208	155
	<hr/>	<hr/>
Deferred tax assets	8,884	10,374
	<hr/>	<hr/>
Liabilities:		
Pension plans and similar commitments	(1,218)	-
	<hr/>	<hr/>
Deferred tax liabilities	(1,218)	-
	<hr/>	<hr/>
Total deferred tax assets, net	7,666	10,374
	<hr/>	<hr/>

Management considers to what extent it is probable that the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carry forwards become deductible.

Deferred tax balances and expenses (benefits) developed as follows in the current and previous financial year:

	2019	September 30, 2018
Deferred tax assets balance as at October, 1	11,962	9,043
Income tax presented in the Statement of Income	(2,185)	920
Changes in items of the Statement of Comprehensive Income	(2,111)	411
	<hr/>	<hr/>
Deferred tax assets balance as at September, 30	7,666	10,374
Adoption of IFRS 9	-	1,588
	<hr/>	<hr/>
Deferred tax assets balance as at October, 1	7,666	11,962
	<hr/>	<hr/>

As part of Budget 2020, the Government announced that the reduction in the corporate income tax rate to 17%, that was previously enacted to be effective from 1 April 2020, would be cancelled. The cancellation has been made effective by way of Budget Resolution. Consequently, the corporate income tax rate remains at 19%. The proposed change was not substantively enacted at the balance sheet date and therefore does not impact on the carrying value of deferred tax assets and liabilities in the financial statements.

For indicative purposes only, the effect of the cancelled corporate income tax rate reduction on the deferred tax balance as at 30 September 2019 is shown below.

	Deferred tax asset
Deferred tax position at 17%	7,666
Deferred tax position at 19%	8,568

As of September 30, 2019 the Company had £nil (2018: £nil) of gross tax loss carry forwards.

SIEMENS FINANCIAL SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the years ended September 30, 2019 and 2018 (in thousands of £)****12. Trade and other receivables**

	September 30,	
	2019	2018
Trade receivables from the sale of goods and services	10,684	12,621
Receivables from Group companies	-	1
Other receivables	10,810	6,954
	<hr/> 21,494 <hr/>	<hr/> 19,576 <hr/>

Trade receivables from the sale of goods and services are all payable within 14 days. None of the balance bears interest.

SIEMENS FINANCIAL SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

13. Loans and advances to customers

	September 30, 2019	2018
Loans and advances to customers	1,323,022	1,330,991

Loans and advances to customers at net investment

	Net Investment 2019	Impairment allowance 2019	Carrying amount 2019	Net Investment 2018	Impairment allowance 2018	Carrying amount 2018
Finance leases	763,535	(15,900)	747,635	711,527	(6,989)	704,538
Instalment finance agreements	576,782	(1,395)	575,387	626,848	(395)	626,453
	<u>1,340,317</u>	<u>(17,295)</u>	<u>1,323,022</u>	<u>1,338,375</u>	<u>(7,384)</u>	<u>1,330,991</u>

Movements in provision for expected credit losses

	Loans, Receivables and other debt instruments measured at amortized cost			Lease Receivables	
	Loan and other debt instruments under the general approach			Trade receivables and other debt instruments under the simplified approach	
	Stage 1	Stage 2	Stage 3		
Valuation allowance as of October 1, 2018	739	67	128	1,081	15,016
Change in valuation allowances recorded in the Consolidated Statements of Income in the current period	13	(46)	149	(1,071)	4,704
Write-offs charged against the allowance	-	-	(74)	(100)	(4,015)
Recoveries of amounts previously written off	-	-	13	496	195
Stage transfers	51	-	(51)	-	-
Valuation allowance as of September 30, 2019	803	21	165	406	15,900

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

Loans and advances

Loans and advances to customers include the following receivables:

	2019	September 30, 2018
Less than one year	357,416	307,847
Between one and five years	692,909	735,246
More than five years	289,992	295,282
Impairment allowance	(17,295)	(7,384)
	<u>1,323,022</u>	<u>1,330,991</u>

Finance lease receivables – Minimum lease payments

The following minimum lease payments are receivable on finance leases:

	2019	September 30, 2018
Within one year	264,509	248,002
After one year but not more than five years	498,275	456,168
More than five years	28,657	30,530
	<u>791,441</u>	<u>734,700</u>

The following table shows a reconciliation of minimum future lease payments to the gross and net investment in lease payments receivable:

	2019	September 30, 2018
Minimum future lease payments / gross investment in leases	791,441	734,700
Less: Unearned finance income	(27,906)	(23,173)
	<u>763,535</u>	<u>711,527</u>

14. Other intangible assets

The gross cost and accumulated amortisation of other intangible assets (all of which relate to software) as at 30 September 2018 and 2019, is £6,615k; the net book value as at these dates was £nil.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

15. Property, plant and equipment

	Equipment leased to others	Furniture & office equipment	Total property, plant & equipment
Cost			
At 1 October 2018	462,065	135	462,200
Additions	93,588	-	93,588
Disposals	(80,243)	(24)	(80,267)
At 30 September 2019	475,410	111	475,521
Accumulated depreciation and impairment			
At 1 October 2018	159,398	135	159,533
Charge for the year	70,177	-	70,177
Disposals	(60,837)	(24)	(60,861)
At 30 September 2019	168,738	111	168,849
Net book value at 1 October 2018	302,667	-	302,667
Net book value at 30 September 2019	306,672	-	306,672

Includes fully depreciated assets with cost and accumulated depreciation of £111k (2018: £135k).

As of September 30, 2019 and 2018, the minimum future lease payments receivable that the Company, as a lessor, is expecting to receive under non-cancellable operating leases as follows:

	2019	September 30, 2018
Not later than one year	92,629	86,473
Later than one year and not later than five years	215,882	217,122
Later than five years	30,882	29,514
	339,393	333,109

16. Trade and other payables

	2019	September 30, 2018
Trade payables	6,179	8,648
Amounts due to Group companies	1,411,134	1,406,762
	1,417,313	1,415,410

Of the amounts due to group companies £904,291k (2018: £933,884k) is expected to be due over more than one year but can be repayable on demand.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

17. Other current liabilities

	September 30,	
	2019	2018
Other current liabilities	19,295	25,428
	<hr/>	<hr/>
	19,295	25,428
	<hr/>	<hr/>

£7m (2018: £7m) of which, are employee related accruals for vacation payments, overtime and service anniversary awards.

18. Provisions

	2019	2018
Balance at beginning of year	86	500
Additions	-	86
Utilised	-	(500)
Reversals	(86)	-
	<hr/>	<hr/>
Balance at end of year	-	86
	<hr/>	<hr/>

£nil (2018: £86k). This is for other provisions relating to estimated obligations for dilapidations. £86k provision reversal in the year relates to the asset retirement obligation.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

19. Post-employment benefits

Post-employment benefits provided by the Company are organised through defined benefit plans as well as defined contribution plans.

Siemens Benefits Scheme

Defined benefit plan

Siemens Benefits Scheme ("Scheme") is a defined benefit scheme with assets held in separate trustee administrated funds. The amount of contributions to be paid is decided jointly by the employer and the trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The Scheme's investment strategy is decided by the trustees, in consultation with the employer. The board of trustees must be composed of representatives of the employer and Scheme participants in accordance with the Scheme's legal documentation. The Company is one of a number of companies that participate in this Scheme, which provides benefits based on final pensionable pay.

All members and their respective defined benefit obligations are allocated to individual participating employers, and assets are allocated on a similar basis. These allocations allow net defined benefit costs to be charged to each company. Contributions for ongoing accrual in respect of active members are based on each company's payroll, whilst the distribution of deficit and lump sum payments is the responsibility of the principal and main participating employers.

The Company's share of the Scheme is analysed below:

Movement in the Company's share of the net amount recognised:

	2019	September 30, 2018
Company's share of the net amount recognised of the Scheme at beginning of year	(5,259)	(2,778)
Past service cost	(56)	-
Other finance income / (cost)	63	(61)
Remeasurements included in Statement of Comprehensive Income	12,415	(2,420)
Company's share of the net amount recognised of the Scheme at end of year	7,163	(5,259)

The disclosures which follow are for the Siemens Benefits Scheme as a whole.

The movement in the Scheme surplus is split between operating charges and finance items, which are charged to the Statement of Income, and remeasurement gains and losses, which are charged to the Statement of Comprehensive Income.

The numbers shown in this disclosure have been based on calculations carried out by a qualified independent actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the Scheme at September 30, 2019. The Scheme's assets are stated at their market values at September 30, 2019.

The Scheme covers 27,455 participants, including 1,050 active employees, 14,905 former employees with vested benefits and 11,500 retirees and surviving dependents.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Siemens Benefits Scheme (SBS) as at September 30, 2019. The present values of the defined benefit obligation ("DBO"), the related current service cost and any past service costs were measured using the projected unit credit method.

The defined benefit sections of the Scheme are largely closed to new entrants. It should therefore be noted that under the projected unit method that is required under IAS 19 the current service cost will increase as the members of the Scheme approach retirement.

Remeasurement gains and losses have been recognised in the period in which they occur, (but outside the Statement of Income), through the Statement of Comprehensive Income.

Reconciliation of funded status to Statement of Financial Position:

	2019	September 30, 2018
Fair value of Scheme assets	5,114,790	4,356,845
Present value of funded defined benefit obligations	(4,263,140)	(3,830,765)
Surplus recognised in the Statement of Financial Position	851,650	526,080

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

Defined benefit costs are as follows:

	Year ended September 30,	
	2019	2018
Current service cost	524	568
Past service cost/(gain)	3,768	(4,100)
Net interest expense	100,060	104,649
Net interest income	(113,951)	(116,970)
	<hr/>	<hr/>
Components of defined benefit cost recognised in the Statement of Income	(9,599)	(15,853)
	<hr/>	<hr/>
Return on Scheme assets (excluding amounts included in net interest expense and net interest income)	(775,536)	113,623
Remeasurement gains and losses	473,877	(107,538)
	<hr/>	<hr/>
Remeasurements of defined benefit scheme recognised in the Statement of Comprehensive Income	(301,659)	6,085
	<hr/>	<hr/>
Defined benefit costs	(311,258)	(9,768)
	<hr/>	<hr/>

The past service cost in 2019 relates to the additional liability for equalising pension benefits for men and women in relation to guaranteed minimum pension benefits.

Changes to the present value of the defined benefit obligation during the year:

	September 30,	
	2019	2018
Defined benefit obligation at beginning of year	3,830,765	4,220,952
Current service cost	524	568
Past service cost/(gain)	3,768	(4,100)
Interest expense	100,060	104,649
Remeasurements:		
Remeasurement gains from changes in demographic assumptions	(99,216)	(49,469)
Remeasurement losses/(gains) from changes in financial assumptions	598,386	(69,060)
Experience (gains)/losses	(25,293)	10,991
Scheme participants' contributions	13,422	14,493
Benefits paid	(159,276)	(165,316)
Business combinations, disposals and other	-	(232,943)
	<hr/>	<hr/>
Defined benefit obligation at end of year	4,263,140	3,830,765
	<hr/>	<hr/>

The total DBO at the end of the year 2019 includes £329,114k for active employees (2018: £234,254k), £1,742,163k for former employees with vested benefits (2018: £1,622,273k) and £2,191,863k for retirees and surviving dependents (2018: £1,974,238k).

The weighted average duration of the DBO was 17.6 years (2018: 17.2 years).

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

Changes to the fair value of Scheme assets during the year:

	September 30,	
	2019	2018
Fair value of Scheme assets at beginning of year	4,356,845	4,645,097
Interest income	113,951	116,970
Remeasurements:		
Return on Scheme assets excluding amounts included in interest income and interest expense	775,536	(113,623)
Employer contributions	14,312	113,777
Scheme participants' contributions	13,422	14,493
Benefits paid	(159,276)	(165,316)
Business combinations, disposals and other	-	(254,553)
Fair value of Scheme assets at end of year	5,114,790	4,356,845

Actuarial assumptions:

The main assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below.

The assumptions used for the calculation of the DBO as of the period-end of the preceding fiscal year are used to determine the calculation of service cost and interest income and interest expense of the following year. The interest income and interest expense for the fiscal year will be based on the discount rate at the beginning of the respective year multiplied by the net of the fair value of Scheme assets and the DBO at the preceding fiscal year's period-end date. The fair value of Scheme assets and DBO, and thus the interest income on Scheme assets and the interest expense on DBO, are adjusted for significant events after the fiscal year end, such as a supplemental funding, Scheme changes or business combinations and disposals.

Assumed discount rates, compensation increase rates, pension progression rates used in calculating the DBO vary according to the economic conditions.

Main financial assumptions:

	Year ended September 30,	
	2019	2018
	% p.a.	% p.a.
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.00	2.10
Rate of general long-term increase in salaries	3.50	3.70
Rate of increase to pensions in payment		
- inflation capped at 5% (RPI)	2.90	3.10
- inflation capped at 3% (RPI)	2.40	2.50
- inflation capped at 5% (CPI)	2.00	2.10
- inflation with a floor of 3% and a cap of 5% (RPI)	3.50	3.60
Discount rate for Scheme liabilities	1.97	2.90

Mortality assumptions:

The post-retirement mortality assumptions used in valuing the liabilities of the Scheme are based on the standard SAPS tables scaled by a factor of 86.0% (2018: 86.0%) for males and 91.0% (2018: 91.0%) for females. In addition, there is an allowance for future longevity improvements in line with the central CMI2018 (2018: CMI2017) projections with a long term rate of improvement of 1.25% p.a (2018: 1.25%). The changes in mortality assumptions were adopted to reflect up-to-date conditions as of the remeasurement date.

Sensitivity analysis:

A one-half-percentage-point change of the established assumptions mentioned before, used for the calculation of the DBO as of September 30, 2019, would result in the following increase (decrease) of the DBO:

	Effect on DBO as of September 30,	
	2019 due to	
	One-half %	One-half %
	Increase	Decrease
Discount rate	(341,212)	384,212
Rate of compensation increase	9,222	(7,206)
Rate of pension progression	311,687	(280,856)

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For the years ended September 30, 2019 and 2018 (in thousands of £)

In order to determine the longevity risk the mortality rates were reduced by 10% for all beneficiaries. The impact on the DBO amounts to £139,671k as of September 30, 2019. i.e. the adjustment of the mortality rates by 10% results in an increase of life expectancy depending on the individual age of each beneficiary. That means for example, that the life expectancy of a male Siemens employee aged 55 years as of September 30, 2019, increases by 0.8 years.

When calculating the sensitivity of the DBO to significant actuarial assumptions the same method (present value of the DBO calculated with the projected unit credit method) has been applied as when calculating the pension obligation recognised in the Statement of Financial Position. Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the DBO do not have a symmetrical effect on the DBO primarily due to the compound interest effect created when determining the net present value of the future benefit. If more than one of the assumptions were changed simultaneously, the cumulative impact would not necessarily be the same as if only one assumption was changed individually. Furthermore, the sensitivities reflect a change in the DBO only for a change in the assumptions in this exact magnitude, i.e. 0.5%. If the assumptions change at a different level, the effect on the DBO is not necessarily linear.

There were no changes in the methods used in preparing the sensitivity analyses.

Disaggregation of Scheme

assets:

£000s

	September 30, 2019			September 30, 2018		
	Quoted market price in active market	No quoted market price in active market	Total	Quoted market price in active market	No quoted market price in active market	Total
Asset Class						
Equity securities:						
<i>International equities</i>	-	-	-	151,385	-	151,385
	-	-	-	151,385	-	151,385
Fixed income securities:						
<i>Government bonds</i>	2,140,108	-	2,140,108	1,398,562	54,344	1,452,906
<i>Corporate bonds</i>	449,229	-	449,229	302,123	11,507	313,630
<i>Other</i>	-	364,900	364,900	-	364,700	364,700
	2,589,337	364,900	2,954,237	1,700,685	430,551	2,131,236
Alternative investments:						
<i>Hedge Funds</i>	-	357,974	357,974	-	402,767	402,767
<i>Real estate</i>	-	57,374	57,374	-	77,783	77,783
	-	415,348	415,348	-	480,550	480,550
Multi strategy funds	342,570	-	342,570	232,232	-	232,232
Derivatives:						
<i>Interest risk</i>	-	(18,543)	(18,543)	-	(24,578)	(24,578)
<i>Credit, Inflation and Price risk</i>	-	19,214	19,214	-	29,315	29,315
	-	671	671	-	4,737	4,737
Cash and other assets	93,592	1,308,372	1,401,964	107,697	1,249,008	1,356,705
Total	3,025,499	2,089,291	5,114,790	2,191,999	2,164,846	4,356,845

The Scheme assets do not include any transferable financial instruments of the Company or property occupied by the Company.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

The trustee of the Scheme has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. This statement sets out the trustee's investment objectives and strategy. The trustee sets investment strategy taking into account the Scheme's liabilities, the strength of the funding position and the trustee's appetite to risk, after taking appropriate investment advice. The trustee has allocated the Scheme's assets to a mix of asset classes, primarily bonds (fixed and index-linked gilts and other non-gilt bonds), but also other investments including (but not limited to) qualifying insurance policies, hedge funds, infrastructure and property. Derivative contracts are used to manage a portion of the interest rate and inflation exposure of the liabilities and separately to manage exchange rate risk arising from the Scheme's investments outside of the UK.

Future cash flows:

Employer contributions expected to be paid to the Scheme in 2020 are £1,306k and employer deficit funding contributions expected to be paid to the Scheme in 2020 are nil.

Under the Pension Act 2004, every UK defined benefit scheme is subject to a statutory funding objective which requires the scheme to hold sufficient and appropriate assets to cover its "technical provisions". These provisions are determined at least every three years following agreement between the Company and the trustees of the scheme upon the assumptions to be used in the valuation. Assumptions agreed in this triennial process are not necessarily the same as those used in the annual IAS 19 calculations, where the directors of the Company select the assumptions to be used.

Any technical provisions' shortfall arising is required to be remedied, and a recovery plan is agreed between the trustees and the Company, which will take into account financial and demographic factors for each scheme, as well as the financial strength (covenant) of participating employers. The timing and length of any recovery plan reflects the circumstances of each scheme, and results in a Schedule of Contributions which is signed by both Company and trustees (the employer contributions expected to be paid for the following year are stated above).

The effective date of the most recent triennial valuation for the Siemens Benefit Scheme was September 30, 2017.

A proportion of the employee contributions are made via a salary sacrifice arrangement. For the purposes of these disclosures, these notional employee contributions have been excluded from the service cost as have expected Age Related Rebates. They have also been excluded from the estimate of next year's employer contributions set out above.

Expected pension benefit payments:

	<u>Year ended September 30,</u>
2019	159,276
2020	112,536
2021	112,216
2022	117,935
2023	122,456
2024	128,428
2025-2029	752,345

Defined contribution plan

The Company participates in a defined contribution pension plan. The pension cost charge for the period represents contributions payable by the Company to the Scheme and amounted to £1,556k (2018: £1,429k).

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

20. Share capital

	2019	September 30, 2018
Authorised share capital		
75,000,000 of £1 each	75,000	75,000
Allotted, called up and fully paid:		
	2019	September 30, 2018
51,944,523 (2018: 51,944,523) Ordinary Shares of £1 each	51,945	51,945

21. Commitments and contingencies

As of September 30, 2019 future payment obligations under non-cancellable operating leases are as follows:

	2019 Total	2018 Total
Within one year	715	723
After one year but not more than five years	1,594	1,391

Total operating rental expense for the years ended September 30, 2019 and 2018 was £1.726k and £1.586k respectively.

The Company has a forward sell contract with Siemens AG to sell \$2m on March 30, 2020. This is to secure future cashflows.

22. Guarantees and commercial commitments

	2019	September 30, 2018
Guarantees and commitments	8,661	12,579

During the normal course of business Siemens Financial Services Limited enters into commitments to provide credit facilities for leasing and for future purchase of receivables. As at September 30, 2019 the value of undrawn facilities to which the Company is committed to was £6m (2018: £5m). Where applicable, refinancing facilities are in place to naturally hedge material positions to avoid interest and liquidity risk.

Amounts provided as credit guarantees for unfunded risk participations total £7m (2018: £7m). As a significant proportion of these guarantees are expected to expire without being drawn upon, the total of the nominal principle amounts is not representative of future liquidity requirements.

SIEMENS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended September 30, 2019 and 2018 (in thousands of £)

23. Capital management

The primary objective of the Company's capital management is to ensure that it maintains sufficient capital in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and strategic objectives. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or seek a capital injection from the parent company. No changes were made in the objectives, policies or processes during the years ended September 30, 2019 and 2018 with the business remaining adequately capitalised.

The Company monitors capital using a number of metrics including a gearing ratio, which is long term liabilities divided by capital plus long term liabilities.

	2019	September 30, 2018
Long term debt	874,713	924,276
Share capital	51,945	51,945
Reserves	169,725	159,687
Total equity	221,670	211,632
Gearing ratio	80%	81%

The Company's policy is to review capital adequacy to ensure it reflects an adequately capitalised business with reference to the following:

- The credit quality of the portfolio;
- Operational risks existing within business channels; and
- Other identified risks including interest rate, foreign currency exchange and tax risk, concentrations, residual positions and sensitivity to changing legal, market and economic conditions.

This analysis is based on internal models utilising current credit metrics and Group policies consistently applied across the Group's financial services Sector. Capital adequacy will also be considered with regard to dividend policy and future growth expectations linked to the company's annual budgeting exercise to ensure it remains adequately capitalised for the foreseeable future.

24. Subsequent events

As noted in the Strategic Report, the directors continue to continuously monitor all aspects of the COVID-19 situation, evaluating all new developments, risks and taking measures to protect the Company and its employees. The World Health Organization did not declare the COVID-19 outbreak to be a public health emergency until January 2020, any significant changes in business and economic events due to COVID-19 would be considered a non-adjusting subsequent event. The Company considers that the impact of forbearance measures, and the broader economic consequences of the crisis could result in a detrimental effect on operating results in the future; however, it is too early to reliably estimate the impact at this time.

25. Ultimate parent undertaking

The ultimate parent undertaking is Siemens AG, incorporated in Germany. Siemens AG is the only Group undertaking of which the Company is a member for which Group financial statements are prepared. Copies of the Group financial statements are available on the internet at www.siemens.com/annualreport or obtained from:

Siemens AG
Werner-von-Siemens-Strasse 1
D-80333 Munich
Germany

The immediate parent undertaking is Siemens Financial Services Holdings Limited, a company incorporated in England and Wales.