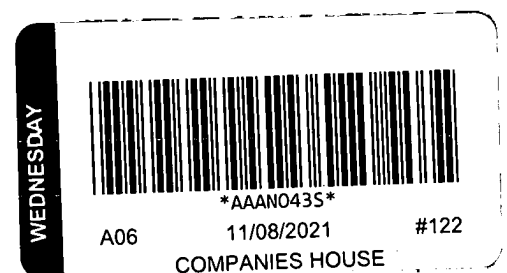


Company Registration Number 741598

# **IBM United Kingdom Limited**

## **Financial Statements**

**31 December 2020**



# **IBM United Kingdom Limited**

## **Financial Statements**

**For the Year Ended 31 December 2020**

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# **IBM United Kingdom Limited**

## **Company Information**

**For the Year Ended 31 December 2020**

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<b>Company registration number</b>	741598
<b>The board of directors</b>	S Visvanathan S Bagshaw C Cook T Eagle W Kelleher
<b>Company secretary</b>	E Wright
<b>Registered office</b>	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Savannah House 3 Ocean Way Southampton Hampshire SO14 3TJ
<b>Bankers</b>	National Westminster Bank Plc 69 High Street Cosham Hampshire PO6 3DA

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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The directors present their strategic report of IBM United Kingdom Limited for the year ended 31 December 2020.

### Review of the business

IBM United Kingdom Limited ('the company' or 'IBM UK') is a subsidiary of International Business Machines Corporation ('IBM').

IBM is a global leader in hybrid cloud and artificial intelligence ('AI') operating in more than 170 countries. More than 2,800 clients use IBM's hybrid cloud platform to accelerate their digital transformation journeys and, in total, more than 30,000 of them have turned to IBM to unlock value from their data — including nine out of ten of the world's largest banks, and a number of organisations in healthcare, retail and a cross section of other industries. Following the acquisition of Red Hat in 2019, IBM leverages Red Hat OpenShift as the leading platform to address IBM clients' business needs: a hybrid cloud platform that is open, flexible and secure. Guided by principles of trust, transparency and supporting a more inclusive society, IBM also is committed to being a responsible steward of technology and a force for good in the world.

Hybrid Cloud and AI are the two next great shifts in the technology landscape, and IBM UK, in line with the IBM Corporation, is positioning itself to play a key role in this swift and massive transformation. The company has a platform centric approach, a vast software portfolio modernised to run cloud native anywhere, and world class Global Business Services ('GBS') expertise to help clients on their hybrid cloud journeys. All of these capabilities are supported by the systems and cloud infrastructure, which allows IBM to build industry specific clouds (to date, these are: IBM Cloud for Financial Services and IBM Cloud for Telecommunications). This is all underpinned by IBM's prized research, development and technical talent around the world. In the UK alone, the IBM company has a number of software development laboratories which develop new products for worldwide consumption and enable IBM to offer its customers current information technology solutions to transform the client's businesses allowing them to better compete in their markets.

Over the past year, IBM and IBM UK, as a subsidiary entity, have made a series of decisive moves to support the hybrid cloud and AI strategy. IBM announced the separation of the managed infrastructure services business in October 2020 to form the independent company 'Kyndryl'. The two companies will continue to share a strong synergy as Kyndryl will remain IBM's preferred partner for infrastructure management. The impact of this transaction on the company is further disclosed in note 26. IBM has also elevated the role of partners and rapidly expanded its ecosystem by adding hundreds of new partnerships with global system integrators, independent software vendors and major third party software partners. In addition, IBM is aligning its go to market model with its hybrid cloud and AI approach, implementing a simplified client segmentation, putting IBM Garage at the centre of the experiential sales process, and working more closely with ecosystem partners so they can deliver more value to clients.

IBM has been a leader in corporate sustainability for half a century, with its first corporate environmental policy statement dating back to 1971. Today, in a year when the UK plays host to both the COP26 United Nations Climate Change summit and the G7 Summit, IBM has set a new goal to reach net zero GHG emissions by 2030.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

### Review of the business (continued)

	2020 £m	2019 £m	Yr-to-Yr
Revenue	3,515.7	3,894.9	(9.7)%
Gross profit margin	7.2 %	5.6 %	1.6 %
Administrative expenses, impairment losses on financial assets and other operating income	(221.9)	(166.9)	33.0 %
Operating profit	31.8	51.0	(37.6)%
(Loss) / profit before income tax	(114.1)	57.7	(297.7)%

*The full trading results and cash flows for the year and the company's financial position at the end of the year are shown on pages 27 to 32 of the financial statements.*

Total revenue decreased by 9.7 percent compared to 2019. Revenue from the core business units ('Home Revenue' per note 3 of the financial statements) decreased by 10.6 percent. Export revenues, which are derived from sales of services, including research and development, to companies in the IBM group overseas, decreased by 5.9 percent compared to 2019. The decline in revenue reflects the unprecedented macroeconomic environment that resulted from the COVID-19 pandemic, with the company's clients focused on operational stability, flexibility and cash preservation, in addition to continuing transformation of IBM business. Gross profit margins increased by 1.6% point year on year, which represents £35.8 million.

The decrease in profit before taxation of £171.8 million is driven by an increase in gross profit of £35.8 million, an increase in the administrative expenses of £61.3 million and by an increase in the impairment of investment charges of £20.8 million together with a decrease in income from investments of £130.6 million compared to 2019.

The company had a net cash inflow from operating activities of £426.7 million, an increase of £541.8 million compared to 2019 driven by the cash received from the capital reduction in its subsidiary. Income tax of £7.2 million has been paid during the year (2019: £5.8 million).

The decrease in the net retirement benefit asset to £170.7 million (2019: £201.9 million) resulted primarily from actuarial losses.

The financial position of the company has changed year on year to a closing net asset position of £1,969.0 million from £2,090.1 million in 2019. The decrease of £121.1 million is mainly driven by the generated loss for the year, the decrease in the retirement benefit asset and the recognition of share based payments.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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### Principal risks and uncertainties

The key business risks affecting the company are considered to relate to the economic environment, technology obsolescence and the competitive environment.

Specifically, in the coming year the key business risks will still be about the COVID-19 pandemic and the impact on the economic environment. The end of the Brexit transition period and the new working relationship with the European Union ('EU') will also have a short-term impact. The pandemic continues to rapidly evolve with new variants posing threats to current treatments and vaccine effectiveness. The new Brexit deal and the pandemic both present an opportunity for the company, for example, data-enabled healthcare initiatives, scalable digital business models, reinventing ecommerce, supply chain, data compliance and also enabling and accelerating digital collaboration.

#### *Economic Environment*

The UK's economy is one of the hardest hit by the pandemic. The UK will need to invest heavily in digital infrastructure and drive through reforms to raise productivity if it is to repair long-term economic damage left by the COVID-19 crisis and the effects of Brexit. There is also pressure from green groups to push the transition to green technology, for example by making support to businesses in polluting industries conditional on switching to cleaner processes. The overall demand for services, software and systems continues to remain strong. The company is well placed to respond to market conditions by having a mixture of offerings with long term contractual income streams as well as transaction based sales. The company also has the ability to sell its skilled resource to other companies within the IBM group.

Following the end of the transition period the UK's relationship with the EU is now governed by the terms of the Withdrawal Agreement and the EU-UK Trade and Cooperation Agreement (agreed on 24 December 2020). The new arrangements have changed the way goods are traded, the transfer of personal data between the EU and the UK, the provision of services, and the movement of people. IBM's approach to Brexit was focused on minimising disruption to the delivery of service to our clients and partners and the overall operation of our business. We have executed our plans to do this and are confident in their efficacy. We do not expect the changes to materially interrupt our business.

#### *Technology Obsolescence*

Many of the technology engagements secured by the leading suppliers of the IT industry highlight the increasing emphasis on the "New" focus areas of Digital, Platform, Cyber and Software as a Service. This is in keeping with the predominant trend across the whole of the UK Software & Services market in recent years.

Information Technology solutions are rapidly evolving and, in order to stay relevant to our clients in 2020 IBM globally invested approximately 9 percent of IBM revenue on research and development, focusing on high-growth, high-value opportunities. IBM Research works with clients and our business units through global labs on near-and mid-term innovations. IBM UK not only benefits from this research and development work but it also provides skilled UK resources to the IBM group in support of this innovation work. With over 60 years experience, Hursley Labs in the UK plays a pivotal role in research and development. It is the biggest of the company's software development labs in the UK and acts as a test bed for client software. It is home to the Hyperscale Cloud Data Centre, an "Emerging Technology" lab and an Internet of Things lab.

#### *Competitive Environment*

The company operates in a highly competitive market against many large established providers as well as new providers entering the UK market. The company continues to transform itself to remain competitive in the market and we promote our ability to innovate and integrate for our clients. The directors consider this to be a unique proposition which sets IBM apart from its competition. The company also continues to make acquisitions to enhance and diversify its offerings.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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### Key performance indicators

The company is managed by the company's board of directors along with other UK IBM entities. The performance and results for all UK entities are analysed on a worldwide IBM measurement basis, at a business unit level. For this reason, other than the figures disclosed above, the directors of the company believe that analysis using key performance indicators is not appropriate for an understanding of the development, performance or position of the business shown in these financial statements. The development, performance and position of International Business Machines Corporation, which includes the UK entities, is discussed in the Corporation's annual report for the year ended 31 December 2020, which does not form part of this report.

### Future developments

IBM is continuing its strong focus on its investment in hybrid cloud and AI because we see it as the best way to help our customers on this journey. They want the speed, efficiency and innovation that comes with moving to the cloud, without having to reinvent their entire IT infrastructure. IBM is uniquely qualified to deliver what our clients need and want. In Red Hat OpenShift we have the leading open source hybrid cloud platform.

The transformation of IBM software portfolio into a cloud-native, suite of offerings makes the company well placed to continue to deliver value to its clients and is consistent with the ongoing business transformation, attracting more developers to make the company cloud platform more successful and new products and offerings, together with expansion of the business through acquisition. The company continues to increase investment and training in key skills and build on its track record related to Artificial Intelligence, Cybersecurity, Blockchain and Quantum Computing.

### Section 172 Statement

The board of directors, in line with their duties under s.172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard to a range of matters and stakeholders when making decisions for the long term. Key decisions and matters that are of strategic importance to the company are appropriately informed by s.172 factors.

The company's strategy is in line with that of its ultimate parent, International Business Machines Corporation ('IBM'). IBM's group strategy and business model are described on pages 23-28 of IBM's annual report for the year ended 31 December 2020 (which does not form part of this report).

In addition to the governance provided by the board of directors, as a subsidiary of IBM the company is subject to extensive organisational and management systems which enable the board through its directors, and through corporate delegations, to organise and oversee governance of the day-to-day operational activities of the company. Further details of these systems are set out in the company's Corporate Governance Statement.

The board recognises that the long-term success of the company's business is dependent on the way the company interacts with stakeholders, including employees, clients, suppliers, the community and the environment.

### Employees

Through the IBM management system, the company engages with and listens to employees in many ways, including through the annual employee engagement surveys; virtual town hall meetings; internal publications; weekly updates from the General Manager; virtual round tables; fireside chats and newsletters. Through the same management system, the company maintains responsibility for safeguarding the interests of employees. In addition, the company, through the board of directors and applicable delegations, manages and oversees the company's obligations in relation to the employee pension schemes.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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During 2020 the directors and other local leaders were briefed on a range of employment matters, including employee engagement, Black Lives Matter, #Me Too, social mobility, increasing diverse representation at all levels of the business, talent, sponsorship and mentoring programmes. Employee survey results are analysed, reviewed and action plans developed as a result of the feedback; these surveys give employees an opportunity to express their views on matters of company strategy, management and employee inclusion and experience.

One of the directors, the UK General Manager, chairs the UK Inclusion Council which gives leadership on IBM's Diversity & Inclusion agenda in the UK, including support to IBM UK's diverse community of employees. In 2020, examples of matters considered by the Council included review of the company's 2020 Inclusion Plan; the rollout of training for managers and employees on harassment and bullying; support for Careers and best practices for working remotely with a best practice pledge; a focus on wellbeing and mental health and the impact of COVID-19; implementation of the company's Mental Health First Aiders programme that has trained 2% of the workforce as first aiders and communications on all the wellbeing support for pandemic lockdown measures; understanding the lived experiences of black colleagues; the launch of a new BAME Talent programme called Trailblazer that will increase diverse hiring, retention and promotions; a focus on hidden disabilities and Neurodiversity within roles created for neurodiverse applicants.

Further details on employee matters can be found in the Directors' Report on page 11 and in the Corporate Governance Statement on page 13.

### *Clients*

IBM focuses on building strong relationships with its clients and spends considerable time with them to understand their needs and views and how IBM can improve its service to them.

Under the direction of one of the directors, the company's Client Experience Team (CET) fosters and monitors effective client relationships and supports best practice engagement with clients. In 2020, the CET oversaw a wide range of matters and reported regularly on client satisfaction ratings across the IBM UK business, monitoring more than 35 touch points. The Team considered matters such as UK planning strategy, best practice; market analysis and insights and reviewed the company's progress towards its future client commitments. The Team also received in-depth progress reports on a wide range of specific areas such as Digital Updates, Cloud Integration and the application of Analytics, to best benefit IBM clients. There were working sessions on sales team enablement. The Team also focused on the company's Relationship Surveys to support ongoing long term client commitments; building the next level of collaboration with specific clients; as well as considering goals to support the company's partner ecosystem. The use of Net Promoter Score ('NPS') was further extended in 2020 to also measure and get feedback on Employee Engagement.

Led by one of the directors in his role as the UK General Manager, regular Leadership Team meetings are held throughout the year, also attended by other directors. Through this forum, in 2020 the directors considered a wide range of matters important to the company's clients, including updates on the company's Brexit readiness; the impact of COVID-19; cloud integration and cloud partnerships with various clients; and reviews of strategic partnerships and client needs.

Further details of both the Client Experience Team and the Leadership Team can be found in the Corporate Governance Statement.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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### *Suppliers*

The board recognises that the relationship with suppliers is important to the company's long term success and has signed up and adheres to the Prompt Payment Code. In 2020, the board also reviewed the company's Modern Slavery Act obligations and approved the company's Modern Slavery Act statement for publication given the importance of such matters to the IBM supply chain. In this context, consideration was also given to the impact of the company's operations on the wider community and the importance to the company of maintaining its reputation for high standards.

IBM's Procurement organisation is recognised as a leader in sustainable procurement. IBM has in place programmes with which it requires suppliers to comply, which in turn can help those suppliers to develop their own capacity to demonstrate their commitment to achieving social and environmental objectives. These programmes are directed to all IBM suppliers, whether they are global or locally based here in the UK. IBM is also driving the use of Blockchain technology to make it easier for companies to onboard with IBM as a supplier and to help reduce their own costs of managing this process.

Consideration of impact to suppliers of business operations is also reflected in IBM's collaboration with the Responsible Business Alliance and Responsible Minerals Initiative, the principles of which are embedded in local processes. Further details are given in the Corporate Governance Statement.

The board supports these measures and considers impact to suppliers, through its implementation of the management system and approved IBM Procurement processes. Further details can be found in the Corporate Governance Statement, together with those of other UK based supplier support processes and initiatives.

### *Community and Environment*

IBM UK, as a part of the broader IBM group and supported by the board, seeks to ensure that it makes a positive contribution to the communities and societies of which it is a part, and it recognises its responsibilities to those communities.

In the last year IBM investments in the UK have included continuing to strengthen IBM's P-TECH programme. The P-TECH model of schooling seeks to better prepare young people for the rapidly changing world of work and to equip them with digital and technical skills to succeed in an increasingly digital workplace. The first UK P-TECH programme began delivery with 3 schools in Leeds in 2019 and new students continue to be enrolled each academic year. Discussions were advanced regarding the launch of the next P-TECH programme at a West London school. Open P-TECH, a free digital learning platform, was launched in April 2020. It is designed for students (aged 14-20 yrs) and teachers. Content includes badges and STEM focused learning as well as professional skills in order to help learners better prepare for the world of work. IBM volunteers are working with schools to roll it out to as many students and teachers as possible.

SkillsBuild is a free digital learning platform which was launched in 2020. It seeks to serve adult job seekers who wish to up-skill and re-skill and has content arranged around career learning paths. IBM UK has partnered with a number of NPOs to ensure that under-served communities such as veterans, refugees and young people not in education have access and are encouraged to benefit from the programme. For example, IBM has been working with SaluteMyJob helping ex-military personnel re-skill as Cyber Security professionals. IBM is working with many partners in order to roll out SkillsBuild to as many learners as possible.

IBM UK has long had a very active community of employee volunteers and IBM UK seeks to support this voluntary effort in a number of ways, but principally through the provision of volunteer grants to UK charities with which employees volunteer. In response to the pandemic in April 2020, IBM partnered with Cisco Webex and over 600 IBM UK volunteers worked together to help coach school teachers and small organisations on how to move quickly and confidently to operate on this video conferencing platform.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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Further details of the company's support to its community and its approach to environmental matters can be found in the Corporate Governance Statement and in the Corporate Responsibility Report (<https://www.ibm.org/responsibility/reports-and-policies>).

The company board also recognises that trust and responsibility lie at the heart of IBM's business, and that this is the basis upon which that business operates and flourishes. All stakeholders - employees, clients, suppliers, etc. - depend on the integrity by which IBM operates. Each year all company employees undertake mandatory global business conduct training and commit to following IBM's comprehensive 'Business Conduct Guidelines'. Similarly, all employees undertake mandatory training annually on matters such as cyber security and data privacy.

### COVID-19

Throughout 2020, the health, safety and well-being of IBM UK employees, our clients, business partners and community continued to be a primary focus of the board. The board of directors are actively engaged to ensure plans and response activities continue to be aligned with recommendations of the WHO, and the local government regulations in each country. IBM UK continues to be well positioned to support our clients through this crisis.

IBM established an operational framework to guide its response and this involved the UK board of directors creating a local crisis management team (CMT) to address specific local actions required in response to the crisis, while ensuring a safe working environment for IBM employees, clients and partners for whom it was essential for them to work in IBM locations.

From early in the course of the outbreak, the board of directors took various decisions through the CMT to support the health, safety and well-being of employees by restricting travel, cancelling in-person meetings and events and transitioning nearly 95 percent of the workforce to work from home. IBM UK has a robust case management system to manage COVID-19 exposures and a comprehensive playbook on workplace health and safety measures that allow our offices to reopen when conditions improve. Employees are supported with 24/7 access to IBM's world-class Health and Safety team, education, timely updates and forums to ask questions and raise concerns.

Additionally, from the outset of the COVID-19 pandemic, IBM has focused on mental health and supporting our employees for the long run with programs shaped by frequent survey polls and employee input sessions. Such programs include: robust case management through our Employee Assistance Program to manage COVID-19 exposures and develop comprehensive guidance, training for employees on resilience and for managers on how to identify and address mental health issues and financial counseling offerings tailored to pandemic-related matters.

As set out in the Corporate Governance Statement the board appointed alternate directors to ensure a continued board oversight on behalf of all relevant stakeholders.

# IBM United Kingdom Limited

## Strategic Report

For the Year Ended 31 December 2020

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### *Brexit*

IBM UK began planning for a possible 'no deal' scenario immediately following the 2016 Brexit Referendum in which the UK voted to leave the European Union. Our main planning scenario assumed that the UK would leave the EU without concluding a free trade deal. The IBM UK board of directors convened a Brexit Steering Group chaired by the UK CFO and comprising members from across key areas of the business. IBM's approach to Brexit was focused on minimising disruption to the delivery of service to our clients and partners and the overall operation of our business.

During 2020 the Steering Group met weekly and focused on four main themes - data, people, goods and capital. The key areas of risk were identified, and expertise was applied in preparing for, and minimising any possible future disruption. Group members with relevant subject matter expertise were tasked with finding solutions to key risk areas. The experts reported on progress to the Chairman at the weekly Steering Group meetings who in turn kept the General Manager, the board of directors and the IBM UK Executive Team apprised of progress.

Throughout 2020 IBM UK representatives maintained regular contact with government ministers and officials to ensure that our plans were based on the latest information available and to update the government on our own plans. IBM UK developed training and collateral for our own staff and, as part of our external engagement, published an external website with details of our plans. We implemented a process to deal with a regular flow of questions from clients and partners and undertook an exercise to manage any risks associated with our supplier base.

Signed on behalf of the board



S Visvanathan  
Director

26 July 2021

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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The directors present their annual report and the audited financial statements of IBM United Kingdom Limited ('the company' or 'IBM UK') for the year ended 31 December 2020.

A review of the business including the results for the year, details of principal risks and uncertainties, key performance indicators and future developments of the company's business are covered in the Strategic Report.

The company has one overseas branch, which is based in Gibraltar.

### Dividends

In 2020 the directors recommended a dividend of £nil (2019: £202.0 million).

### Events after the reporting date

Subsequent events relevant to the company are disclosed in note 26.

### Financial risk management

The company is exposed to a variety of financial risks as a result of its operations which include the effects of changes in market prices, credit risk, liquidity risk, interest rate risk and currency risk. The company has a strong risk management programme in place aligned to the worldwide programme of the company's ultimate parent company, International Business Machines Corporation.

### Price risk

The financial risk posed by external vendors is managed and controlled by IBM's central procurement function. Procurement is the only business unit in IBM which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for IBM in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide IBM guidelines. The financial risk posed by sales price is managed through a central pricing team. The business only agrees to sign contracts once the appropriate pricing approval has been obtained.

### Credit risk

The company has in place policies that require appropriate credit checks on potential customers before sales are made, and regular reviews of credit limits on existing customers are carried out.

### Liquidity and interest rate risk

If required, the company has access to internal funding from IBM International Treasury Services Unlimited Company ('the Treasury Centre') in Ireland. The Treasury Centre is ultimately funded by IBM. Any borrowing is treated as short term debt finance. The company did not have any short term or long term debt finance at 31 December 2020 or 31 December 2019. Currently the company has a net cash position and deposits surplus cash to the Treasury Centre. Given the cash position, liquidity risk is minimal.

As the company invests or borrows cash balances internally, it operates daily in either a cash or overdraft position with no fixed period debt in place. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### Currency risk

As part of IBM's global hedging strategy the company operates a 12 month forward rolling hedging programme with a non UK group undertaking to hedge a proportion of its US dollar costs arising from transactions with both related companies and suppliers. Foreign currency forward contracts are entered into with a third party bank by IBM which in turn passes down the impacts of these derivatives by entering into matching intercompany derivatives with the company. The company does not apply hedge accounting for these derivatives.

### Financial instruments

Details of the company's financial risk management objectives and policies, including the use of financial instruments, are included in note 21 to the financial statements.

### Research and development

Specific product development projects are carried out at laboratories, in various locations throughout the UK, on behalf of IBM and its subsidiaries. The expenditure incurred on these projects in the year of £179.1 million (2019: £177.6 million) was recharged to other IBM group companies.

### Employee involvement

Employees receive information on the financial and economic factors affecting the performance of the business, along with product/offering announcements, details of organisational changes and all other matters of direct concern and interest to them. This information is provided by email and also shared on the company's intranet site and through an internal publication, 'Link.me'.

There is a quarterly cascade of business performance information cascaded from the Chairman and CEO, followed by a Geography analysis and then a Country analysis. This is available to every employee.

Business Leaders run virtual Town Hall meetings providing communications on current business performance, and other topics of interest.

Managers are an essential element of the communications cascade and key messages are shared on team calls and in face to face meetings. Managers were given additional resources and guidance to help them support employees working remotely.

An annual Engagement Survey evaluates employee sentiment and engagement.

Consultation bodies, consisting of representatives of the employee population who are elected to represent the views of employees and consult with the company on major areas of interest, are formed as and when required.

The company continues to support employee share ownership of IBM, through established employee share schemes, membership of which is service related. In addition, all IBM employees have the opportunity to purchase IBM shares through the IBM Employee Share Purchase Plan, which is intended to encourage employees to take active ownership in IBM and to be committed to its long term success.

In the United Kingdom, IBM launched the volunteering initiative in 2003 and continues to encourage IBMers to be active volunteers in their communities. Some IBMers volunteer in IBM programmes and partnerships focused on education and skills whereas others volunteer with organisations aligned to their own passions outside IBM. Whatever the case, IBMers are encouraged to log the time they spend volunteering in order to receive monetary credits from IBM which are then donated to charities of their choice.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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Under the 2010 Equality Act IBM's focus on disability strives to eliminate disadvantage and provide support to employees with disabilities, such that we are able to attract, develop and retain the broadest range of experience and skill.

IBM commits to providing workplace adaptations to ensure that every disabled employee is able to achieve their career potential.

Further details on the way the company interacts with employees can be found in the s.172 Statement.

### Employees with a disability

Under the 2010 Equality Act IBM's focus on disability strives to eliminate disadvantage and provide support to employees with disabilities, such that we are able to attract, develop and retain the broadest range of experience and skill.

The corporation commits to providing workplace adaptations to ensure that every disabled employee is able to achieve their career potential.

### Directors' indemnity and insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The company has granted this indemnity in favour of the directors of the company as is permitted by Section 232-235 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. IBM has purchased Directors' and Officers' liability insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

### Directors

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

W Kelleher

S Visvanathan (appointed 22 September 2020)

T Eagle

S Bagshaw (appointed 27 April 2020)

C Cook (appointed 1 April 2021)

F Sciutti (resigned 1 April 2021)

N Hill (appointed 27 April 2020, resigned 1 April 2021)

A Wilcock (appointed 27 April 2020, resigned 12 April 2021)

Pursuant to the company's Articles of association, Mrs Bagshaw, Mrs Hill and Mr Wilcock were appointed the alternate directors for the period April 2020 - April 2021. These alternates were appointed to act if their appointing director was unable to do so. On 1 April 2021 Mrs Bagshaw was appointed the principal director of the company.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### Statement of disclosure of information to auditors

Each of the persons who are directors at the date of approval of this report confirm that:

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

### Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

### Corporate Governance Statement

This section sets out the company's corporate governance controls, policies and procedures as required by The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860). The board, through its directors, implements and oversees the corporate governance of the company and the support of effective stakeholder relationships.

In this section, the board has considered the guidance provided by the Wates Principles on corporate governance published by the Financial Reporting Council in 2018.

The company benefits from global corporate governance systems put in place by its ultimate parent company, IBM. IBM is listed on the New York Stock Exchange, which is a recognised equivalent listing regime to that of the UK. As such, IBM is required to implement an equivalent corporate governance statement which can be found at: <https://www.ibm.com/investor/governance/corporate-governance-guidelines.html>.

IBM designs and deploys controls, policies and procedures into its subsidiaries around the world, including the company. This is designed to ensure, among other things, a harmonised approach to corporate governance within and across the IBM group.

For example, the IBM group has a code of ethics applicable to all employees, including directors and executive officers, the IBM Business Conduct Guidelines, which are available on the IBM website at: <https://www.ibm.com/investor/governance/business-conduct-guidelines>.

In addition, there are a number of IBM corporate directions, in the form of corporate policies, instructions and organisation documents which are issued by IBM and which provide a framework of various corporate governance principles to be applied across the IBM group.

Policies and uniform standards and practices are established by these global corporate directions which are IBM's primary method for documenting and communicating its policies, delegations and instructions to IBM local management and employees. For example, procurement matters are delegated to the local Procurement function and legal matters to the local Legal function.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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The company benefits from these centralised group directions as identifying common standards, policies, procedures and delegations to be applied, among other things, across business processes, applications, information, technology and security to ensure coordinated management and operation of IBM's business and support for clients, other trading partners and employees on a multi-jurisdictional basis. The company has not adopted a separate code of governance and implements these global controls, policies and procedures to govern and manage the activities of UK business operations. The directors are active in management and oversight of the local business, including compliance with these referenced IBM directions where applicable. Where driven by local need, the board supports additional controls, policies and procedures.

### *Purpose and Leadership*

Through the leadership and oversight of the company's directors, a clear vision of the IBM group's business purpose and overall values is articulated. This underpins and defines the values, strategy and culture of the organisation, and is communicated through the UK management system.

The directors ensure that relevant policies and controls are in place to support the company's purpose and values across the local business and drive overall engagement with UK employees, shareholders and stakeholders.

In addition, the UK General Manager (one of the board directors) has communicated, through company communication channels, a clear message across the UK business that there are three main pillars of business priority: People (the health, wellbeing and continued development of all IBM employees is a top priority); Clients (the company's unwavering commitment to client service and delivering a first class client experience); and Business (the performance of the local UK business).

More details of IBM's purpose, group strategy and business model are provided in the Strategic Report on page 2, and also in the s.172 Statement, together with details as to how IBM supports country-based operations.

### *Board Composition*

Details of the company's board of directors are given at page 13 of the Financial Statements.

Directors are chosen to reflect a balance of skills, experience and knowledge to bring meaningful contribution to board decisions. The board currently includes the UK General Manager and the UK Finance Director, who together provide robust oversight of business strategy and operations and the application of governance to the business. In addition, the board includes a senior sales and client relationship executive who is thus well placed to represent the company's interests as a business, supplier and employer, including through the critical lens of client experience.

The board does not have a permanent chair, although the UK General Manager is appointed as chair at the start of each board meeting (unless he is unavailable) and oversees and directs board matters. The board meets on a regular basis as necessary throughout the year.

The Company secretary is responsible for ensuring that board procedures are complied with and recorded as relevant and that directors are supplied with information in a timely manner. Board materials are circulated in advance of meetings and board decisions.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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Through the leadership of the UK General Manager, and consistent with the IBM management system, regular Leadership Team meetings are held throughout the year to ensure that independence of thinking is brought to the directors by a wide range of local IBM business leaders and experts who regularly attend or are specially invited, and who represent a wide range of IBM stakeholder matters. In addition the IBM UK board set up a Brexit Steering Group chaired by the UK CFO through which the directors received regular reports during 2020 on the company's Brexit readiness, to ensure coordination across the UK business in support of a smooth transition for relevant stakeholders. The Leadership Team meetings also ensure that business priorities are given attention as necessary throughout the year.

Responsive to the risks posed by the COVID-19 pandemic, in 2020, for reasons of contingency, the directors each appointed an alternate with qualified powers exercisable upon their appointing directors being unable to act. The board also set up a local Crisis Management Team and through this regularly reviewed IBM UK's response to the pandemic, with focus on all relevant stakeholders as further set out in the s.172 Statement.

### *Directors' responsibilities*

Responsibilities of the directors include understanding IBM's business and financial strategies and challenges, attending board meetings, preparing for meetings by advance review of any meeting materials, actively participating in board discussions, and making themselves available outside of board meetings for advice and consultation. As above, board members are selected based on their IBM leadership roles, business and professional experience, and their overview of the UK business operations.

The board has a clear understanding of the individual directors' accountability and responsibility, evidenced by the briefings given to the board prior to board decisions, whereby the board considers aspects relevant to the business and its stakeholders. Where the board has delegated some of its responsibilities to appropriate local management, a detailed analysis of oversight and controls has been required and reviews are conducted on renewal of the delegations; for example in carefully considering in 2020 the renewal of various delegations concerning standard contract signature. Through such measures, the board supports effective decision-making and independent challenge, yet retains overall control.

The processes and information systems established both globally and locally also provide the directors with a clear understanding and detailed insight into the company's strategies and challenges which, in turn, supports effective decision making.

In addition, the board benefits from the group Internal Audit system to ensure accountability and to support independent and objective assessments of IBM's system of internal control overseen by the directors; guidance in managing control risks for IBM stakeholders; proactive support to oversee and improve controls where relevant; independent investigations regarding allegations of violations of IBM's Business Conduct Guidelines; and independent review of IBM suppliers' contractual compliance. For example, in 2020, the board reviewed ongoing compliance with the Bribery Act and approved an updated Risk assessment and Summary of Procedures. The directors also send company wide communications to remind employees of various controls measures as necessary during the year; for example, as regards import and export controls compliance measures. The board is supported in its responsibilities by tax, accounting, legal and other advisers.

The s.172 Statement gives further details as to how the company's board takes direct responsibility for safeguarding the interests of relevant UK stakeholders and how the directors implement their duties to promote the success of the company for the benefit of its members as a whole, having regard to a range of matters and stakeholders when making decisions for the long term.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### *Opportunity*

The board's clear understanding of the group's corporate purpose and values enables it to focus on the promotion of long-term sustainable success and the identification of appropriate opportunities to create and preserve value.

The operation of the company management system delivers a detailed understanding of potential local opportunities, for example in briefings on Cloud Integration Platform, as well as strategic partnerships and opportunities arising from the company's THINK London 2020 event.

Similarly, prior to board decisions, analysis of potential opportunities (and risks) of proposed local acquisitions and divestitures follows a standard framework that ensures appropriate IBM management reviews designed to consider long term success and value of the proposal.

### *Risk*

An overall review of risks is inherent in the board's consideration of IBM's long-term strategies, including capital expenditures, acquisitions and divestitures, and financial matters. The board is responsible for overseeing management in the execution of their responsibilities and assessing the company's approach to risk management.

The board understands that it is vital to ensure a risk-aware culture across local operations. A risk-aware culture is one where all employees understand and accept the importance of risk management and the role they play in managing risks. Risk management education, training and tools are used to assess and manage risks and are viewed by the board to be critical processes.

Financial risk management is overseen by the company's Finance function. Examples of processes and controls include credit risk management, spending management and pricing delegations.

The key business risks facing the company are considered to relate to the economic environment, technology obsolescence and the competitive environment and more detail can be found in the Strategic Report included within the Financial Statements. IBM also has a strong financial risk management programme in place which is aligned with the group's global programme.

### *Remuneration*

IBM's executive compensation practices are designed specifically to meet five objectives:

1. Ensure that the interests of IBM's leaders are closely aligned with those of our investors by varying compensation based on long-term and annual business results;
2. Attract and retain highly qualified senior leaders who can drive a global enterprise to succeed in today's competitive marketplace;
3. Motivate our leaders to deliver a high degree of business performance without encouraging excessive risk taking;
4. Differentiate rewards to reflect individual and team performance;
5. Balance rewards for both short-term results and the long-term strategic decisions needed to ensure sustained business performance over time.

These objectives apply equally to the remuneration of the directors appointed to the company's board.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### *Stakeholder Relationships and Engagement*

Details of the company's key stakeholders and how it engages with them can be found in the s.172 Statement.

Trust and personal responsibility in all relationships is a core value across the IBM group, encompassing local relationships with clients, partners, communities, IBM employees and investors. These values are emphasised in the Business Conduct Guidelines certified by all IBM employees on an annual basis.

The directors are conscious of their responsibilities in engaging with all relevant stakeholders, including those mentioned below, and in considering stakeholder interests whilst adhering to the company's purpose and direction.

### Employees:

Details of how the company engages with its employees can be found in the s.172 Statement in the Strategic Report.

In 2020, the board gave specific ongoing consideration throughout the period of the COVID-19 pandemic to measures that would promote continued support to employees as regards both the physical and mental health of themselves and their families and also to the challenges of working remotely. These measures are outlined in more detail in the s.172 Statement.

IBM is an equal opportunity employer and is committed to attracting and retaining the best talent in the industry. Employment matters are delegated to the business units, supported by the local HR and Finance function. The board retains overall responsibility through the management system.

The company management system is used to foster strong and effective relationships with employees generally. There are a wide range of tools available to employees to support digital learning and career development, such as the Your Learning platform, Your Career and Coach me.

Further tools are available to employees to support open engagement, such as the Confidentially Speaking programme and the "Talk it Over@IBM" channel.

In the UK there is an Inclusion Council that is chaired by the UK General Manager (also being one of the directors). The Council is comprised of selected local IBM business leaders and the executive sponsors for each of the employee constituency groups (LGBT+, Gender, BAME, People with Diverse Abilities, Carers and Services Veterans). Further details of this Council can be found in the s.172 Statement.

### Clients:

The s.172 Statement in the Strategic Report provides details of how the company supports and builds relationships with its clients and the directors' focus on understanding client needs.

IBM operates an enterprise-wide Client Experience programme, based on Medallia and Net Promoter Score (NPS), to ensure IBM actively seeks feedback from clients and uses this to continually improve their experience of working with IBM. The company's NPS programme brings this together to give a 360 degree view of client experience and feedback. In particular, and as set out in the company's Strategic Report, the company has a Client Experience Team charged with understanding and fostering effective client relationships. Further details of recent activity of the Team can be found in the s.172 Statement.

The regular Leadership Team meetings also provide an opportunity for the directors to understand current needs of the company's clients and to target business response accordingly. Throughout the year the Leadership Team regularly considered the impact on clients of the Covid pandemic and Brexit transition. Further details of recent Team activity in this respect can be found in the s.172 Statement.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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In addition, IBM UK has a Client Innovation Centre which delivers quality services and solutions to the company's clients in areas such as Technical Support, Development and Testing, as well as business-oriented capabilities such as Data Analysis, Project Analysis and Project Management, Analytics, Cloud Computing, Blockchain, IBM Watson and Artificial Intelligence. Through this centre, which supports clients across all sectors, the company aims to provide high levels of expertise to ensure client objectives can be met.

### Business Partners:

IBM's Business Partner Code defines the standards of business conduct and practices which IBM requires from its Business Partners. The Code communicates IBM's expectation that the highest ethical principles are to be applied in all Business Partner related transactions when conducting business which includes IBM products and services. The Code addresses a range of topics, including financial integrity, competing fairly, respect and dignity, compliance, and reporting violations.

### Suppliers:

IBM's Global Procurement Policies and Practices provides the framework that address the evaluation and assessment of new and existing suppliers to verify they meet Procurement criteria for qualified suppliers (for example, financial solvency, compliance with applicable laws and regulations and IBM's social and environmental requirements).

IBM's Supply Chain organisation is responsible for overseeing IBM's governance in relation to its global network of suppliers. Central to this effort is collaboration with industry groups focused on sustainable and responsible practices such as the Responsible Business Alliance (RBA) and the Responsible Minerals Initiative (RMI). IBM was a founding member of RBA and RMI and continues its direct engagement to positively influence their evolution.

As a member, IBM endorses the RBA Code of Conduct for its own operations and extends this Code to its direct suppliers of goods and services. Fundamental to adopting the RBA Code is the understanding that a business, in all its activities, must operate in full compliance with the laws, rules, and regulations of the countries in which it operates. The Code encourages participants to go beyond legal compliance, drawing upon internationally recognised standards, in order to advance social and environmental responsibility and business ethics.

The Code consists of five sections: Labour, Health and Safety, Environment, Ethics, and Management Systems. Each section has provisions describing specific requirements associated with working hours, rest days, prevention of human trafficking, treatment of employees, safe workplace practices, conservation of resources, fair business practices, and formal processes to ensure compliance. The RBA Code encompasses for IBM suppliers the minimum social responsibility standards IBM expects from them as a condition of doing business with IBM.

IBM recognises that a diverse supplier base is integral to delivering its corporate objectives. In the UK IBM also works with organisations which certify businesses which are majority owned by women or ethnic minorities. Through close collaboration with these organisations, the company has identified diverse suppliers who are innovative, responsive and add value to the products and services IBM delivers to its clients. Utilising these suppliers allows the company to positively impact UK communities.

Further details of the company's corporate governance of its supply base can be found in the s.172 Statement.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### Community and Environment

The company practices a progressive approach to mitigating its impacts on the environment, in line with IBM's policies and practices. IBM operates a comprehensive global approach to mitigating its environmental impact, which includes seeking to reduce resource consumption, in absolute terms, on a year by year basis. Full details of IBM's policies, practices and performances can be found via the following link: <https://www.ibm.com/ibm/environment/index.shtml>

The Corporate Environmental Affairs team provides advice and monitors implementation of IBM's environmental policies, driving continual improvement.

As with IBM's environmental practices, the company follows IBM's aspirations to be a good global citizen and largely implements the global priorities and programmes at a local level within the UK. Currently, IBM has prioritised investment in the following areas: increasing educational attainment and employability; support for IBM employees to volunteer; the use of technology for good (#goodtechIBM). Further details of IBM's Corporate Social Responsibility programme can be accessed at: <https://www.ibm.org/> and are summarised in the IBM Corporate Responsibility Report <https://www.ibm.org/responsibility/2020>.

### **Streamlined energy and carbon reporting**

#### *IBM United Kingdom Limited and the Environment*

IBM's Corporate Environmental Affairs Policy calls for the company to publicly disclose information on our environmental programs and performance. IBM's annual corporate environmental reporting first began in 1990 and has continued each year since.

IBM manages its operations to minimise their potential impact on the environment. As such, buildings, processes, and activities are monitored and optimized to minimise their use of energy. IBM's corporate-level environmental management system, energy use and greenhouse gas (GHG) emissions inventories are also audited by a third-party independent verifier.

In February 2021, IBM announced its third successive goal for the use of renewable electricity, fifth successive goal to reduce greenhouse gas emissions, and set a new goal to achieve net zero greenhouse gas emissions. Specifically, these goals are:

- Procure 75% of the electricity IBM consumes worldwide from renewable sources by 2025, 90% by 2030;
- Reduce IBM's greenhouse gas emissions 65% by 2025 against base year 2010, adjusted for acquisitions and divestitures;
- Reach net zero greenhouse gas emissions by 2030 by using feasible technologies to remove emissions in an amount which equals or exceeds IBM's residual emissions. Aim for residual emissions of 350,000 mtCO<sub>2</sub>e or less by 2030, with 90% of IBM's electricity coming from renewable sources.

More information on our corporate approach to reducing our environmental impact, our group Environmental Report, as well as more information on our environmental programs, can be found online here: <https://www.ibm.com/ibm/environment/index.shtml>.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

### *Streamlined Energy & Carbon Reporting ('SECR')*

The company's total calculated energy consumption for 2020 is 155,614,263 KWH. This total energy figure includes energy associated with our operations including data centres, offices, expensed mileage where the company was responsible for purchasing the fuel, and the electricity associated with powering co-location data centres. Co-location data centres are facilities managed by third parties where IBM does not procure the energy or control the operations of the buildings.

The following tables contain greenhouse gas emissions and chosen normalisation metric for its UK-based operations for the financial year 1 January 2020 – 31 December 2020. The company's main energy-consuming activities are the operation of our data centres and offices.

The company's calculated greenhouse gas emissions for 2020 is show in the table below:

Source	Location - based	Market - based
<b>Scope 1</b>		
Use of fossil fuels for operations (tCO <sub>2</sub> e)	3,623	3,623
Use of fossil fuels for transportation (tCO <sub>2</sub> e)	775	775
<b>Scope 2</b>		
Use of electricity in IBM UK managed locations (tCO <sub>2</sub> e)	28,151	592
<b>Scope 3</b>		
Purchased goods and services - co-location data centres (tCO <sub>2</sub> e)	3,047	2,694
Business travel (category 6) - domestic ground transportation (tCO <sub>2</sub> e)	251	251
<b>Total (tCO<sub>2</sub>e)</b>	<b>35,847</b>	<b>7,935</b>

The company's normalisation metric for its greenhouse gas emissions in 2020 is shown below:

Method	Metric tCO <sub>2</sub> e/KSF
Location-based	18
Market-based	4

The company's emissions are calculated in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition). The boundaries of the GHG inventory are defined using the operational control approach. The electricity procured for the majority of buildings is certified 100% renewable. Where more than one IBM company entity operates from the same building, energy and emissions are allocated based on the proportion of employees associated with each entity at that building. In some cases, estimated to account for less than 3% of overall emissions, the company does not have access to energy meter data. For these locations, energy consumption is calculated by benchmarking the site against similar UK locations occupied by the IBM group. The emissions are calculated using the emissions factors for 2020 published by the Department for Business, Energy & Industrial Strategy.

# IBM United Kingdom Limited

## Directors' Report

For the Year Ended 31 December 2020

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### *Energy Conservation*

IBM group recognise that the most effective way to reduce greenhouse gas emissions is to make the company's operations more efficient and thereby reduce its consumption of energy. IBM continues the successful registration, since 2012, of its global energy management program to ISO 50001 at the corporate level.

In 2020, through its energy management programme, the company saved 5,092,000 kWh of energy with measures that included HVAC optimisation during decreased occupancy, upgrading to more efficient chillers in offices and data centres, and server consolidations in its data centres.

### **Signature**

Signed on behalf of the board



S Visvanathan  
Director

26 July 2021

# **IBM United Kingdom Limited**

## **Statement of Directors' Responsibilities**

**For the Year Ended 31 December 2020**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

# **IBM United Kingdom Limited**

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

**For the Year Ended 31 December 2020**

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## **Report on the audit of the financial statements**

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### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2020; the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 5, we have provided no non-audit services to the company in the period under audit.

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### **Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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# IBM United Kingdom Limited

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

For the Year Ended 31 December 2020

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### *Strategic report and Directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

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

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

# IBM United Kingdom Limited

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

For the Year Ended 31 December 2020

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### *Auditors' responsibilities for the audit of the financial statements*

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the regulatory requirements of the Bribery Act 2010, the General Data Protection Regulation, corporate tax compliance and import and export duties compliance, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- To address the risk of non-compliance with laws and regulations we have i) discussed with management, internal audit, internal legal counsel and with the company parent's auditors, including consideration of known or suspected instances of non-compliance with laws and regulations or fraud; and ii) reviewed the disclosures in the financial statements against the specific legal requirements, for example within the Directors' Report.
- To address the risk of management incentive for fraud and override of controls we have i) challenged significant accounting assumptions and judgements; ii) designed risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and tested those journals identified (if any); and iii) incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **IBM United Kingdom Limited**

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

**For the Year Ended 31 December 2020**

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### **Other required reporting**

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#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



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

29 July 2021

# IBM United Kingdom Limited

## Income Statement

For the Year Ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	3	3,515.7	3,894.9
Cost of sales	4	(3,262.0)	(3,677.0)
<b>Gross profit</b>		<b>253.7</b>	<b>217.9</b>
Administrative expenses	4	(222.0)	(160.7)
Net impairment losses on financial assets	4	(1.2)	(7.4)
Other operating income		1.3	1.2
<b>Operating profit</b>		<b>31.8</b>	<b>51.0</b>
Interest income calculated using the effective interest rate method	8	0.6	4.6
Other finance costs	9	(4.5)	(5.6)
Impairment of investments	13	(230.9)	(210.1)
Income from investments	13	85.2	215.8
Net interest income on defined benefit asset	22	3.7	2.0
<b>(Loss) / profit before income tax</b>		<b>(114.1)</b>	<b>57.7</b>
Income tax expense	10	(5.5)	(12.2)
<b>(Loss) / profit for the year</b>		<b>(119.6)</b>	<b>45.5</b>

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Statement of Comprehensive Income

For the Year Ended 31 December 2020

	Note	2020 £m	2019 £m
(Loss) / profit for the year		(119.6)	45.5
<b>Other comprehensive (loss) / income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial (loss) / gain on defined benefit pension schemes	22	(19.5)	250.1
Deferred tax in respect of defined benefit pension schemes	15	8.0	(42.5)
Other movement in deferred tax asset		(0.9)	-
<b>Other comprehensive (loss) / income for the year, net of income tax</b>		(12.4)	207.6
<b>Total comprehensive (loss) / income for the year</b>		(132.0)	253.1

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Statement of Changes in Equity

For the Year Ended 31 December 2020

		Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
	Note				
<b>At 1 January 2019</b>		956.4	743.7	337.7	2,037.8
Profit for the financial year		-	-	45.5	45.5
Actuarial gain on defined benefit pension schemes	22	-	-	250.1	250.1
Deferred tax in respect of defined benefit pension schemes	15	-	-	(42.5)	(42.5)
<b>Total comprehensive income</b>		-	-	253.1	253.1
Dividends paid		-	-	(202.0)	(202.0)
Recognition of share-based payments	23	-	-	0.2	0.2
Deferred tax in respect of share-based payments	15	-	-	1.0	1.0
<b>Total transactions with owners</b>		-	-	(200.8)	(200.8)
<b>At 31 December 2019</b>		956.4	743.7	390.0	2,090.1
Loss for the financial year		-	-	(119.6)	(119.6)
Actuarial loss on defined benefit pension schemes	22	-	-	(19.5)	(19.5)
Deferred tax in respect of defined benefit pension schemes	15	-	-	8.0	8.0
Other movement in deferred tax asset		-	-	(0.9)	(0.9)
<b>Total comprehensive loss</b>		-	-	(132.0)	(132.0)
Recognition of share-based payments	23	-	-	10.2	10.2
Deferred tax in respect of share-based payments	15	-	-	0.7	0.7
<b>Total transactions with owners</b>		-	-	10.9	10.9
<b>At 31 December 2020</b>		956.4	743.7	268.9	1,969.0

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Statement of Financial Position

As at 31 December 2020

	Note	2020 £m	2019 £m
<b>Non-current assets</b>			
Property, plant and equipment	11	250.7	253.7
Right-of-use assets	24	98.0	156.2
Intangible assets	12	341.5	341.5
Investments	13	916.1	1,410.9
Deferred tax assets	15	58.4	42.1
Finance receivables		22.9	9.0
Other non-current assets	18	155.8	153.7
Retirement benefit asset	22	170.7	201.9
		<b>2,014.1</b>	<b>2,569.0</b>
<b>Current assets</b>			
Inventories	16	1.0	4.2
Finance receivables		13.6	10.6
Income tax receivable		24.3	3.0
Trade and other receivables	17	371.9	442.0
Receivables from related parties	28	945.0	495.5
Cash and cash equivalents		49.0	15.0
Other current assets	18	179.3	158.1
		<b>1,584.1</b>	<b>1,128.4</b>
<b>Total assets</b>		<b>3,598.2</b>	<b>3,697.4</b>
<b>Non-current liabilities</b>			
Deferred revenue	3	(146.8)	(132.9)
Provisions for liabilities and charges	19	(6.1)	(4.9)
Lease liabilities	24	(58.2)	(102.6)
Other payables	20	(0.1)	(0.1)
		<b>(211.2)</b>	<b>(240.5)</b>
<b>Current liabilities</b>			
Deferred revenue	3	(368.7)	(345.9)
Provisions for liabilities and charges	19	(73.9)	(15.7)
Trade and other payables	20	(483.9)	(372.0)
Payables to related parties	28	(439.7)	(574.4)
Derivatives to related parties	28	(10.8)	(6.1)
Lease liabilities	24	(41.0)	(52.7)
		<b>(1,418.0)</b>	<b>(1,366.8)</b>
<b>Total liabilities</b>		<b>(1,629.2)</b>	<b>(1,607.3)</b>
<b>Net assets</b>		<b>1,969.0</b>	<b>2,090.1</b>

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Statement of Financial Position

As at 31 December 2020

	Note	2020 £m	2019 £m
<b>Issued capital and reserves</b>			
Share capital	29	956.4	956.4
Share premium	29	743.7	743.7
Retained earnings		268.9	390.0
<b>Total equity</b>		<b>1,969.0</b>	<b>2,090.1</b>

The financial statements on pages 27 to 107 were approved by the directors and authorised for issue on 26 July, 2021, and are signed on their behalf by:



S Visvanathan  
Director

Company registration number: 741598

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Statement of Cash Flows

For the Year Ended 31 December 2020

	Note	2020 £m	2019 £m
<b>Net cash inflow / (outflow) from operating activities</b>	27	<b>426.7</b>	<b>(115.1)</b>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment	11	(77.6)	(89.9)
Proceeds from the sale of property, plant and equipment		4.1	0.7
Proceeds from the sale of investment		-	77.4
Proceeds from the subsidiary's share capital reduction	13	263.9	-
Cash acquired with purchase of business		-	1.7
Payments to acquire investments in subsidiaries		-	(21.5)
Dividends received		-	6.6
(Increase) / decrease in short-term deposits with related parties	28	(532.1)	344.5
Interest received		0.6	4.6
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(341.1)</b>	<b>324.1</b>
<b>Cash flows from financing activities</b>			
Repayment of principal in lease liability		(51.6)	(58.5)
Dividends paid		-	(202.0)
<b>Net cash outflows from financing activities</b>		<b>(51.6)</b>	<b>(260.5)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>34.0</b>	<b>(51.5)</b>
Cash and cash equivalents at beginning of year		15.0	66.5
<b>Cash and cash equivalents at end of year</b>		<b>49.0</b>	<b>15.0</b>

The notes on pages 33 to 107 form part of these financial statements.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies

#### Basis of preparation

IBM United Kingdom Limited (the 'company') is a private company, limited by shares and is incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. These financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. These financial statements have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006.

These financial statements contain information about IBM United Kingdom Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the publicly available consolidated financial statements of its ultimate parent company, IBM, incorporated in the United States of America.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to all years presented, unless otherwise stated. The preparation of financial statements in compliance with IASs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in note 2 to the financial statements.

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

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### **New and amended standards adopted by the company**

The following standards, interpretations and amendments have been adopted in the financial statements for the first time for the year beginning 1 January 2020:

- Definition of a Business – Amendments to IFRS 3 Business combinations;
- Definition of Material – Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors;
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 Financial instruments and IFRS 7 Financial instruments: Disclosures;
- COVID-19 - Related Rent Concessions – Amendments to IFRS 16 Leases;
- Amendments to References to the Conceptual Framework in IFRS standards.

#### **New standards, interpretations and amendments not yet effective and not early adopted by the company**

The following new standards, interpretations and amendments which have not been applied in these financial statements, will or may have an effect on the company's future financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 - Interest Rate Benchmark Reform – Phase 2;
- Amendments to IAS 37– Onerous Contracts – Cost of Fulfilling a Contract;
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current – Deferral of Effective Date;
- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use;
- Amendments to IFRS 3 - References to the Conceptual Framework;
- Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41 - Annual Improvements to IFRS Standards 2018-2020.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition

##### Revenue from contracts with customers

The company accounts for a contract with a customer when it has written approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

Revenue is recognised when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, the company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method. The company's contracts may include terms that could cause variability in the transaction price, including, for example, rebates, volume discounts, service-level penalties, and performance bonuses or other forms of contingent revenue.

The company only includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. The company may not be able to reliably estimate contingent revenue in certain long-term arrangements due to uncertainties that are not expected to be resolved for a long period of time or when the company's experience with similar types of contracts is limited. The company's arrangements infrequently include contingent revenue. Changes in estimates of variable consideration are included in the disclosure in note 3.

The company's standard billing terms are that payment is due upon receipt of invoice, payable within 30 days. Invoices are generally issued as control transfers and/or as services are rendered. Additionally, in determining the transaction price, the company adjusts the promised amount of consideration for the effects of the time value of money if the billing terms are not standard and the timing of payments agreed to by the parties to the contract provide the customer or the company with a significant benefit of financing, in which case the contract contains a significant financing component. As a practical expedient, the company does not account for significant financing components if the period between when the company transfers the promised product or service to the customer and when the customer pays for that product or service will be one year or less. Most arrangements that contain a financing component are financed through the company's Global Financing business and include explicit financing terms. Income from these financing transactions is out of the scope of IFRS 15.

The company may include subcontractor services or third-party vendor equipment or software in certain integrated services arrangements. In these types of arrangements, revenue from sales of third-party vendor products or services is recorded net of costs when the company is acting as an agent between the customer and the vendor, and gross when the company is the principal for the transaction. To determine whether the company is an agent or principal, the company considers whether it obtains control of the products or services before they are transferred to the customer. In making this evaluation, several factors are considered, most notably whether the company has primary responsibility for fulfillment to the customer, as well as inventory risk and pricing discretion.

The company recognises revenue on sales to solution providers, resellers and distributors (herein referred to as "resellers") when the reseller has economic substance apart from the company and the reseller is considered the principal for the transaction with the end-user customer.

The company reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for arrangements with multiple performance obligations and for each major category of revenue.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

##### *Arrangements with Multiple Performance Obligations*

The company's global capabilities as a hybrid cloud platform and AI service provider include services, software, hardware and related financing. The company enters into revenue arrangements that may consist of any combination of these products and services based on the needs of its customers.

The company continues to develop new products and offerings and continuously reinvent its platforms and delivery methods, including through the use of cloud and as-a-Service models. These are not separate businesses; they are offerings across the segments that address market opportunities in analytics, data, cloud and security. Revenue from these offerings follows the specific revenue recognition policies for arrangements with multiple performance obligations and for each major category of revenue, depending on the type of offering, which are comprised of services, hardware and/or software.

To the extent that a product or service in multiple performance obligation arrangements is subject to other specific accounting guidance, such as leasing guidance, that product or service is accounted for in accordance with such specific guidance. For all other products or services in these arrangements, the company determines if the products or services are distinct and allocates the consideration to each distinct performance obligation on a relative standalone selling price basis.

When products and services are not distinct, the company determines an appropriate measure of progress based on the nature of its overall promise for the single performance obligation. The revenue policies in the Services, Hardware and/or Software sections below are then applied to each performance obligation, as applicable.

##### *Services*

The company's primary services offerings include infrastructure services, including outsourcing, and other managed services; application management services; global process services ('GPS'); maintenance and support; and consulting, including the design and development of complex IT systems to a customer's specifications (e.g., design and build). Many of these services can be delivered entirely or partially through cloud or as-a-service delivery models. The company's services are provided on a time-and-material basis, as a fixed-price contract or as a fixed-price per measure of output contract and the contract terms range from less than one year to over 10 years.

In services arrangements, the company typically satisfies the performance obligation and recognises revenue over time. In design and build arrangements, the performance obligation is satisfied over time either because the customer controls the asset as it is created (e.g., when the asset is built at the customer site) or because the company's performance does not create an asset with an alternative use and the company has an enforceable right to payment plus a reasonable profit for performance completed to date. In most other services arrangements, the performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits provided as the company performs the services.

In outsourcing, other managed services, application management, GPS and other cloud-based services arrangements, the company determines whether the services performed during the initial phases of the arrangement, such as setup activities, are distinct. In most cases, the arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). The company applies a measure of progress (typically time-based) to any fixed consideration and allocates variable consideration to the distinct periods of service based on usage. As a result, revenue is generally recognised over the period the services are provided on a usage basis. This results in revenue recognition that corresponds with the value to the customer of the services transferred to date relative to the remaining services promised.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

Revenue from time-and-material contracts is recognised on an output basis as labour hours are delivered and/or direct expenses are incurred. Revenue from as-a-Service type contracts, such as Infrastructure-as-a-Service, is recognised either on a straight-line basis or on a usage basis, depending on the terms of the arrangement (such as whether the company is standing ready to perform or whether the contract has usage-based metrics). If the as-a-Service contract includes setup activities, those promises in the arrangement are evaluated to determine if they are distinct.

Revenue related to maintenance and support services and extended warranty is recognised on a straight-line basis over the period of performance because the company is standing ready to provide services.

In design and build contracts, revenue is recognised based on progress towards completion of the performance obligation using a cost-to-cost measure of progress. Revenue is recognised based on the labour costs incurred to date as a percentage of the total estimated labour costs to fulfil the contract. Due to the nature of the work performed in these arrangements, the estimation of cost at completion is complex, subject to many variables and requires significant judgment. Key factors reviewed by the company to estimate costs to complete each contract are future labour and product costs and expected productivity efficiencies. Changes in original estimates are reflected in revenue on a cumulative catch-up basis in the period in which the circumstances that gave rise to the revision become known to the company. Refer to note 3, 'Revenue' for the amount of revenue is recognised in the reporting year on a cumulative catch-up basis (i.e., from performance obligations satisfied, or partially satisfied, in previous years).

The company performs ongoing profitability analyses of its design and build services contracts accounted for using a cost-to-cost measure of progress in order to determine whether the latest estimates of revenues, costs and profits require updating. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. For other types of services contracts, any losses are recorded as incurred.

In some services contracts, the company bills the customer prior to recognising revenue from performing the services and the amount is classified as a deferred revenue. In other services contracts, the company performs the services prior to billing the customer. When the company performs services and an invoice is not yet issued, the company recognises an unbilled trade receivable. In the case of a design and build contracts, in addition to the performed services, the right to consideration is typically subject to milestone completion or customer acceptance and the unbilled accounts receivable is classified as a contract asset.

Billings usually occur in the month after the company performs the services or in accordance with specific contractual provisions.

#### Hardware

The company's hardware offerings include the sale or lease of system servers and storage solutions. The capabilities of these products can also be delivered through as-a-Service or cloud delivery models, such as Storage-as-a-Service. The company also offers installation services for its more complex hardware products. Hardware offerings are often sold with distinct maintenance services, described in the Services section above.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

Revenue from hardware sales is recognised when control has transferred to the customer which typically occurs when the hardware has been shipped to the customer, risk of loss has transferred to the customer and the company has a present right to payment for the hardware. In limited circumstances when a hardware sale includes customer acceptance provisions, revenue is recognised either when customer acceptance has been obtained, customer acceptance provisions have lapsed, or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. Revenue from hardware finance leases is recognised at the beginning of the lease term. Revenue from rentals and operating leases is recognised on a straight-line basis over the term of the rental or lease. Income from these transactions are out of the scope of IFRS 15.

Revenue from as-a-Service arrangements hardware offerings is recognised either on a straight-line basis or on a usage basis as described in the Services section above. Installation services are accounted for as distinct performance obligations with revenue recognised as the services are performed. Shipping and handling activities are accounted as distinct performance obligations with revenue recognised when control is transferred to the customer.

#### *Software*

The company's software offerings include: cognitive applications, which comprise of the company's strategic areas including analytics, data and security; cloud and data platforms, which contains the company's distributed middleware and data platform software; transaction processing platforms, which primarily supports mission-critical systems for customers; and, operating systems software, which provides operating systems for IBM Z and Power Systems hardware. These offerings include proprietary software and open source software, and many can be delivered entirely or partially through as-a-Service or cloud delivery models, while others are delivered as on-premise software licenses.

Revenue from proprietary perpetual (one-time charge) license software is recognised at a point in time at the inception of the arrangement when control transfers to the customer, if the software license is distinct from the post-contract support offered by the company. In limited circumstances, when the software requires continuous updates to provide the intended functionality, the software license and post-contract support are not distinct and revenue for the single performance obligation is recognised over time as the post-contract support is provided. This is only applicable to certain security software perpetual licenses offered by the company.

Revenue from proprietary term license software is recognized at a point in time for the committed term of the contract (which is typically one month due to client termination rights), unless consideration depends on customer usage, in which case revenue is recognized when the usage occurs. Customers may contract to convert their existing IBM term license software into perpetual license software plus post-contract support. When proprietary term license software is converted to perpetual license software, the consideration becomes fixed with no cancellability and, therefore, revenue for the perpetual license is recognized upon conversion, consistent with the accounting for other perpetual licenses, as described above. Post-contract support revenue is recognized as described below.

The company also has open source software offerings. Since open source software is offered under an open source licensing model and therefore, the license is available for free, the standalone selling price is zero. As such, when the license is sold with post-contract support or other products and services, no consideration is allocated to the license when it is a distinct performance obligation and therefore no revenue is recognized when control of the license transfers to the customer. Revenue is recognized over the post-contract support period. In certain cases, open source software is bundled with proprietary software and, if the open source software is not considered distinct (e.g., Cloud Pak), the software bundle is accounted for under a proprietary software model.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

Revenue from post-contract support is recognised over the contract term on a straight-line basis because the company is providing a service of standing ready to provide support, when-and-if needed, and is providing unspecified software upgrades on a when-and-if available basis over the contract term.

Revenue from software hosting or Software-as-a-Service arrangements is recognised either on a straight-line basis or on a usage basis as described in the Services section above. In software hosting arrangements, the rights provided to the customer (e.g., ownership of a license, contract termination provisions and the feasibility of the customer to operate the software) are considered in determining whether the arrangement includes a license. In arrangements that include a software license, the associated revenue is recognised in accordance with the software license recognition policy above rather than over time as a service.

#### *Intercompany Services and Sales*

The company's intercompany services include support services, infrastructure services, and research and development services provided to its related companies. These services are provided on a cost plus pre-agreed mark-up. The company has elected the practical expedient to recognise revenue from these services in the amount to which the company has a right to invoice. Customers are invoiced monthly, quarterly, annually, or upon completion of projects; and consideration is payable when invoiced.

#### *Standalone Selling Price*

The company allocates the transaction price to each performance obligation on a relative standalone selling price basis. The standalone selling price ('SSP') is the price at which the company would sell a promised product or service separately to a customer. In most cases, the company is able to establish SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. The company typically establishes a standalone selling price range for its products and services which are reassessed on a periodic basis or when facts and circumstances change.

In certain instances, the company may not be able to establish a standalone selling price range based on observable prices and the company estimates the standalone selling price. The company estimates SSP by considering multiple factors including, but not limited to, overall market conditions, including geographic or regional specific factors, competitive positioning, competitor actions, internal costs, profit objectives and pricing practices. Additionally, in certain circumstances, the company may estimate SSP for a product or service by applying the residual approach. This approach is most commonly used when certain perpetual software licenses are only sold bundled with one year of post-contract support and a price has not been established for the software. Estimating SSP is a formal process that includes review and approval by the company's management.

#### *Services Costs*

Recurring operating costs for services contracts are recognised as incurred.

For fixed-price design and build contracts, the costs of external hardware and software accounted for under the cost-to-cost measure of progress are deferred and recognised based on the labour costs incurred to date (i.e., the measure of progress), as a percentage of the total estimated labour costs to fulfil the contract as control transfers over time for these performance obligations.

Certain eligible, non-recurring costs (i.e., setup cost) incurred in the initial phases of outsourcing contracts and other cloud-based services contracts, including Software-as-a-Service arrangements, are capitalised when the costs relate directly to the contract, the costs generate or enhance resources of the company that will be used in satisfying the performance obligation in the future, and the costs are expected to be recovered. These costs consist of transition and setup costs related to the installation of systems and processes and other deferred fulfillment costs, including, for example, prepaid assets used in services contracts (i.e., prepaid software or prepaid maintenance). Capitalised costs are amortised on a straight-line

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

basis over the expected period of benefit, which includes anticipated contract renewals or extensions, consistent with the transfer to the customer of the services to which the asset relates. Additionally, fixed assets associated with these contracts are capitalised and depreciated on a straight-line basis over the expected useful life of the asset.

If an asset is contract specific, then the depreciation period is the shorter of the useful life of the asset or the contract term. Amounts paid to customers in excess of the fair value of acquired assets used in outsourcing arrangements are deferred and amortised on a straight-line basis as a reduction of revenue over the expected period of benefit. The company performs periodic reviews to assess the recoverability of deferred contract transition and setup costs. If the carrying amount is deemed not recoverable, an impairment loss is recognised. Refer to Note 3 'Revenue' for the amount of deferred costs to fulfil a contract at the reporting date.

In situations in which an outsourcing contract is terminated, the terms of the contract may require the customer to reimburse the company for the recovery of unbilled accounts receivable, unamortised deferred contract costs and any additional costs incurred by the company to transition the services.

#### Software Costs

Costs that are related to the conceptual formulation and design of licensed software programs are expensed as incurred to research, development and engineering expense; costs that are incurred to produce the finished product after technological feasibility has been established are capitalized as an intangible asset. Capitalized amounts are amortized on a straight-line basis over periods ranging up to three years and are recorded in software cost within cost of sales. The company performs periodic reviews to ensure that unamortised program costs remain recoverable from future revenue. Costs to support or service licensed programs are charged to software cost within cost of sales as incurred.

The company capitalizes certain costs that are incurred to purchase or develop internal-use software. Internal-use software programs also include software used by the company to deliver Software-as-a-Service when the customer does not receive a license to the software and the company has no substantive plans to market the software externally. Capitalized costs are amortized on a straight-line basis over periods ranging up to three years and are recorded in selling, general and administrative expense or cost of sales, depending on whether the software is used by the company in revenue generating transactions. Additionally, the company may capitalize certain types of implementation costs and amortize them over the term of the arrangement when the company is a customer in a cloud-computing arrangement.

#### Incremental Costs of Obtaining a Contract

Incremental costs of obtaining a contract (e.g. sales commissions) are capitalised and amortised on a straight-line basis over the expected customer relationship period if the company expects to recover those costs. The expected customer relationship is determined based on the average customer relationship period, including expected renewals, for each offering type and ranges from three to six years. Expected renewal periods are only included in the expected customer relationship period if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. Incremental costs of obtaining a contract include only those costs the company incurs to obtain a contract that it would not have incurred if the contract had not been obtained. The company has determined that certain commissions programme meet the requirements to be capitalised. Some commission programme are not subject to capitalisation as the commission expense is paid and recognised as the related revenue is recognised. Additionally, as a practical expedient, the company expenses costs to obtain a contract as incurred if the amortisation period would have been a year or less. These costs are included in selling, general and administrative expenses.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Revenue recognition (continued)

##### *Product Warranties*

The company offers warranties for its hardware products that generally range up to three years, with the majority being either one or three years. Any cost for standard warranties is accrued when revenue is recognised. The company estimates its standard warranty costs for products based on historical warranty claim experience and estimates of future spending and applies this estimate to the revenue stream for products under warranty. Estimated future costs for warranties applicable to revenue recognised in the current year are charged to cost of sales. The warranty liability is reviewed quarterly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Costs from fixed-price support or maintenance contracts, including extended warranty contracts, are recognised as incurred.

Revenue from extended warranty contracts is initially recorded as deferred revenue and subsequently recognised on a straight-line basis over the delivery period because the company is providing a service of standing ready to provide services over such term.

##### *Contract Assets and Trade and Other Receivables*

The company classifies the right to consideration in exchange for products or services transferred to a customer as either a trade receivable billed or unbilled or a contract asset. The distinguishing feature between billed and unbilled trade receivables is whether an invoice was issued. A trade receivable billed or unbilled is a right to consideration that is unconditional compared to a contract asset which is a right to consideration that is conditional upon factors other than the passage of time. The majority of the company's contract assets represent unbilled amounts related to design and build services contracts when the cost-to-cost method of revenue recognition is utilised, revenue recognised exceeds the amount billed to the customer, and the right to consideration is subject to milestone completion or customer acceptance. Contract assets are generally classified as current and are recorded on a net basis with deferred income (i.e., contract liabilities) at the contract level.

#### Revenue from other sources

##### *Financing*

Financing income attributable to loans is recognised on an accrual basis using the effective interest method.

#### Interest revenue calculated using the effective interest method

Interest revenue represents interest income which is recognised on an accruals basis using the effective interest rate method.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Leases

The company conducts business as a lessee. In its ordinary course of business, the company enters into leases as a lessee for property, plant and equipment. The company determines whether there is a right to control the use of the asset by assessing its rights, as the lessee, to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

During the reported years the company has not provided any leases from a lessor position.

#### *The company as lessee*

When the company is the lessee, all leases with a term of more than 12 months are recognised as ROU assets and associated lease liabilities in the Statement of Financial Position. The lease liabilities are measured at the lease inception date and determined using the present value of the lease payments not yet paid and the company's incremental borrowing rate, which approximates the rate at which the company would borrow, on a secured basis, in the country where the lease was executed. The interest rate implicit in the lease is generally not determinable in transactions where the company is the lessee. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid and accrued rent and lease incentives. Fixed and in-substance fixed payments are included in the recognition of ROU assets and lease liabilities, however, variable lease payments, other than those based on a rate or index, are recognised in the Income Statement in the year in which the obligation for those payments is incurred. The company's variable lease payments generally relate to payments tied to various indexes and payments above a contractual minimum fixed payment. Real estate leases commonly require variable lease payments to reflect market changes, inflation and cost of property maintenance. In addition, vehicle leases may contain variable lease payments for excess mileage adjustments. The lease agreements do not impose any covenants on the company.

ROU assets represent the company's right to control the underlying assets under lease, and the lease liability is the obligation to make the lease payments related to the underlying assets under lease.

ROU assets are generally depreciated on a straight-line basis over the lease term with the interest expense on the lease liability recorded using the effective interest method. The depreciation and interest expense are recorded separately in the Income Statement. The company has elected to not recognise leases with a lease term of less than 12 months in the Statement of Financial Position, including those acquired in a business combination, and lease costs for those short-term leases are recognised on a straight-line basis over the lease term in the Income Statement.

For all asset classes, the company has elected the lessee practical expedient to combine lease and non-lease components (e.g. maintenance services) and account for the combined unit as a single lease component. A significant portion of the company's lease portfolio is comprised of real estate, primarily used for corporate offices and data centres. The average term of the real estate leases is approximately five years. Certain real estate leases have renewal and/or termination options, which are assessed to determine if those options would affect the duration of the lease term. Renewal and termination options in real estate leases create flexibility in the company's real estate portfolio. The company has previously exercised termination options prior to the originally stated end of lease term. The company also has equipment leases, such as IT equipment and vehicles, which have lease terms that range from two to five years. For certain equipment leases and vehicle leases, the company applies a portfolio approach to account for the ROU lease assets and liabilities.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### **Administrative expenses**

Administrative expenses are recognised in the income statement as incurred. Administrative expenses include indirect selling expenses, salaries, office supplies, non-income taxes, insurance and depreciation of right of use assets.

#### **Research and development**

Costs of product development inclusive of margins are recharged to other IBM group companies.

#### **Finance costs**

Finance costs represent interest on bank overdrafts, short term borrowings and leases and are accounted for on an accruals basis.

#### **Foreign currencies**

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

Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date. Foreign exchange differences are recognised in the income statement in the year of settlement of these items.

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

#### **Employee benefits**

##### *Short-term obligation*

Provision is made for benefits accruing to employees in respect of wages and salaries and other benefits when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at time of settlement.

##### *Defined contribution retirement plans*

Contributions to defined contribution retirement plans are recognised as an expense when the employees have rendered services entitling them to the contributions.

##### *Defined benefit retirement plans*

The amount recognised in the statement of financial position in respect of defined benefit retirement benefit plans is the net defined benefit asset adjusted for the limiting effect of the asset ceiling. The net defined benefit asset comprises of the fair value of plan assets less the present value of the defined benefit obligation. The asset ceiling is limited to the present value of benefits accruing to the company available in the form of refunds and reductions in future contributions to the plan.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method with actuarial valuations carried out at the end of each annual reporting year. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Employee benefits (continued)

Remeasurements are charged or credited to equity in other comprehensive income in the year in which they arise.

Service cost and net interest expense on net liability are recognised immediately in the income statement as employee benefits expense and finance cost, respectively.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in income statement as employee benefit expense as past service costs.

#### Share based payments

##### *Share awards*

Share awards are equity awards paid out in IBM shares after a period of time, generally vesting against service or performance conditions. The fair value of each share award is measured at the market price of IBM shares on the date of grant.

As per the terms of the arrangement with IBM, the company is required to compensate IBM for the market value of the stock on the date of release. The inter-company charge is accounted for as a capital distribution from the company to its ultimate parent entity.

This inter-company charge is denominated in US Dollars based on the US Dollar market value of the underlying stock and exercise price. Foreign exchange differences arising on the retranslation of the balance outstanding at each reporting date and at the date of settlement are recognised in the profit or loss for the year.

##### *Employee Share Purchase Plan*

IBM also provides an employee share purchase plan ('ESPP'), enabling eligible participants worldwide to purchase full or fractional common shares in IBM through payroll deductions at a 5% discount to the market price through payroll deductions of up to 10%. Any discount provided to the company's employees under the ESPP is considered compensation expense.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Taxation

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

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted and that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

#### Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax ('VAT'), except:

- (i) where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognised as a provision. These liabilities are initially recorded at fair value and the carrying amount of the related assets is increased by the same amount. These incremental carrying amounts are depreciated over the remaining useful lives of the related assets.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

The depreciable amount of an asset is determined after deducting its residual value. The residual value of an asset is the estimated amount that the company would obtain from the disposal of the asset, after deducting the estimated cost of disposal.

Depreciation is charged so as to write off the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation are as follows:

Buildings	5 - 50 years
Plant and equipment	1.5 - 7 years
Fixtures and fittings	5 - 15 years

Depreciation is not charged on land.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The management has assessed the residual values and useful lives of assets and believe there is no significant revision required.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the year.

#### Investments in subsidiaries

Investments in subsidiaries are initially recorded at cost, considered to be equal to the fair value of the company acquired. Post transfer of trade from the subsidiary to IBM United Kingdom Limited a transfer is made from investments to goodwill representing the difference between the fair value of the company acquired and the predecessor book value of the net assets. Investments in subsidiaries are tested annually for impairment and carried at cost less accumulated impairment losses.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### **Intangible assets**

Intangible assets, other than goodwill, represent the fair value of identifiable assets purchased as part of the acquisition of the trade and associated assets and liabilities of fellow subsidiary undertakings. Intangible assets are amortised on a straight line basis over their finite useful life of between 6 and 8 years. Amortisation of intangible assets is included in administrative expenses in the income statement.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition which are subsequently transferred in to the company. Goodwill is deemed to have an indefinite life and is tested annually for impairment and carried at cost less accumulated impairment losses.

#### **Impairment of assets**

Investments in subsidiaries and intangible assets are reviewed annually for impairment. If the carrying amount exceeds the recoverable amount an impairment loss is recognised in the income statement for the difference. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each financial year.

#### **Inventories**

Finished goods and goods held for resale are stated at the lower of cost and net realisable value.

Costs comprise direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Provision is made where necessary for obsolete, slow moving and defective stocks.

#### **Provisions**

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provision for environmental remediation is recognised when the company introduces to market a product which the company is required to take back from the customer free of charge at a later date, for disposal in an environmentally friendly manner.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring that has been communicated to affected parties.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### **Provisions (continued)**

Provision for onerous sales contracts represents the unavoidable loss expected to occur at the end of the contract. The amount of liability to be recognised is the best estimate of the net costs required to settle the present obligation of the contract at the end of the reporting year. Therefore any provision that is recognised should reflect the least net cost alternative of exiting the contract. It is based on the lower of excess of discounted cashflows for the unavoidable costs in meeting the obligations under the sale contract over the unrecognised estimated future economic benefits from the contract, or the unavoidable cost of terminating the contract.

#### **Financial instruments**

Financial assets and financial liabilities are recognised initially at fair value, plus or minus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Such assets and liabilities are subsequently measured at amortised cost or fair value, depending on the measurement classification. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed. Trade receivables are measured at their transaction price.

In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, estimated selling price less estimated cost to completion and sale are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

#### *Categories of financial instruments*

The company has the following categories of financial assets and liabilities: (i) Financial assets measured at amortised cost, (ii) Financial assets measured at fair value through profit and loss (including derivative financial assets and liabilities), and (iii) Financial liabilities at amortised cost.

#### *(i) Financial assets at amortised cost*

Financial assets at amortised cost are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. These assets are measured at amortised cost if the business model is to hold the assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest.

Financial assets at amortised cost include cash and cash equivalents, trade and other receivables, receivables from related parties and finance receivables recognised in the statement of financial position (notes 17 and 28).

#### *(ii) Financial asset at fair value through profit and loss*

Financial assets are measured at fair value through profit and loss if the assets that are either designated as trading or if the assets do not meet the measurement and classification criteria for 'Hold to collect' or 'Hold to collect and sell' or the related cash flows are not solely payments of principal and interest.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Financial instruments (continued)

##### Equity investments

Equity investments are measured at fair value through profit and loss on initial recognition with subsequent changes in fair value also being recognised in profit and loss. Equity investments include marketable securities, non-marketable securities and instruments for which the company does not have significant influence through investments in common stock, joint ventures, partnerships or other arrangements.

##### Derivative financial instruments

Derivative financial assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting year. The accounting for subsequent changes in fair value of derivative financial instruments. The accounting for subsequent changes in fair value of derivative financial instruments are recognised in profit or loss as they occur.

##### Forward foreign exchange contracts

The company uses foreign exchange forward contracts to hedge its exposure to foreign exchange risk arising from future purchases in foreign currencies.

IBM's operations generate significant non-functional-currency third party vendor payments and inter-company payments for royalties, software license fees ('SLF') and goods and services among the company's fellow subsidiaries and with the parent entity. In anticipation of these foreign currency cash flows and in view of the volatility of the currency markets, the company selectively employs foreign exchange forward contracts to manage currency risk. IBM adopts a policy of hedging anticipated cash movement to hedge the foreign exchange transaction risk. In accordance with the Group treasury policy, the derivatives are accounted for as trading instruments.

As at the end of the reporting year, there are no derivative financial instruments of the company which are designated for hedge accounting.

##### *Derecognition of financial assets*

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### *(iii) Financial liabilities at amortised cost*

Financial liabilities are recognised when the company becomes obliged to make future payments resulting from the purchase of goods or services or on acquisition of financial and other non-current assets. Amounts are unsecured and usually settled on standard commercial trade terms. Financial liabilities recognised at amortised cost include trade and other payables (excluding 'other payables', 'accrued expenses', and 'social security and other taxes'), payables to related parties and lease liabilities (notes 20 and 28). Trade and other payables are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Financial instruments (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or expired.

#### Debt or equity instruments

Financial instruments that can be classified as either debt or equity instruments are reviewed for classification as either liabilities or as equity in accordance with the substance of the contractual arrangement. An instrument is an equity instrument if (i) the instrument includes no contractual obligation to deliver cash or other financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer and (ii) the instrument will or may be settled in the issuer's own equity instruments, it is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

#### Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

#### Impairment of financial assets

IFRS 9 requires an assessment of expected credit losses ('ECL') for evaluating whether assets carried at amortised cost and fair value through OCI are impaired.

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

The company measures ECL for the following categories of financial assets that are not measured at fair value through profit and loss:

- Finance receivables
- Trade and other receivables and contract assets measured at amortised cost and fair value through other comprehensive income
- Future financing commitments and financial guarantees

While cash and cash equivalents carried at amortised cost, are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 1 Accounting policies (continued)

#### Financial instruments (continued)

##### *Finance Receivables*

Finance receivables include customer loan receivables.

For customer loan receivables, the company applies the three-stage approach to measure credit losses. When the financial asset is in stage 3 and there is objective evidence that customer loan receivables are impaired, the company calculates lifetime ECL by comparing the asset's carrying amount and the present value of the expected future cash flows. Any resulting impairment loss is recognised in the statement of profit or loss and other comprehensive income. The carrying amount of the impaired receivable in stage 3 is reduced through the use of a specific allowance account.

When calculating an allowance for customer loan the company considers its ability to mitigate a potential loss by considering the current fair market value of any other collateral. The allowance for credit losses for customer loans includes an assessment of the entire balance of the receivable, including amounts not yet due.

An allowance for impairment of loan receivables are evaluated on an individual or collective basis. For individually evaluated receivables, the company determines the expected cash flow for the receivable and calculates an estimate of the potential loss and probability of loss. For those accounts in which the loss is probable, the company records a specific reserve which is based on current information available about customers such as financial statements, news reports and published credit ratings, as well as the current economic environment, collateral net of repossession cost and prior history. The company considers any receivable with an individually evaluated reserve as an impaired receivable. In addition, the company performs a collectively evaluated reserve that is determined by applying a reserve rate to its different portfolios, excluding accounts that have been specifically reserved. This reserve rate is based upon credit rating, probability of default, term, characteristics, loss history and current economic conditions.

The company considers forward-looking macroeconomic variables such as gross domestic product, unemployment rates, equity prices and corporate profits when quantifying the impact of economic forecasts on its commercial financing receivables allowance for expected credit losses. Macroeconomic variables may vary by class of financing receivables based on historical experiences, portfolio composition and current environment. The company also considers the impact of current conditions and economic forecasts relating to specific industries, geographical areas, and client-credit ratings, in addition to performing a qualitative review of credit risk factors across the portfolio. Under this approach, forecasts of these variables over two years are considered reasonable and supportable. Beyond two years, the company reverts to long-term average loss experience. Forward-looking estimates require the use of judgment, particularly in times of economic uncertainty.

##### *Trade and other receivables and Contract Assets*

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

For deposit due from related parties, and other receivables, the company measures ECL using the simplified model. The identified impairment loss was immaterial.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 2 Significant accounting estimates and judgements

The application of accounting standards and policies requires the company to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Accounting judgements

The following are the judgements, apart from those involving estimations, that the company has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### *Asset ceiling to net pension surplus*

IAS 19 "Retirement Benefits" places a ceiling on a pension asset that can be recognised on a company's balance sheet to that which can be recovered by the company either through a refund of surplus or a reduction in future contributions. Whether an asset ceiling applies for a particular scheme is dependent on the provisions in the pension scheme's Trust Deed and Rules relating to employer contributions, refunds of surplus and termination. Significant judgements for the company include determining whether the company has an unconditional right to a refund of surplus and/or the value of a reduction in future contributions.

#### Accounting estimates

The company makes assumptions and estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The assumptions and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### *Pension assumptions*

The measurement of the company's defined benefit obligation to its employees and net annual pension cost/income requires the use of certain assumptions, including, among others, estimates of discount rates and inflation. Changes in these assumptions may affect the future funding into the pension plan, the charge or credit to the income statement and the actuarial gain or loss recognised in the statement of comprehensive income (note 22).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 3 Revenue

Revenue represents the net amounts received and receivable for goods and software sold by the company to outside customers, less return and allowances and revenue arising from services provided for the year.

An analysis of the company's revenue for the year is as follows:

	Home £m	Export £m	Total £m
<b>2020</b>			
<b>Revenue from contracts with customers</b>			
Hardware	151.7	-	151.7
Software	543.5	-	543.5
Services	2,142.7	676.2	2,818.9
	2,837.9	676.2	3,514.1
<b>Revenue from other sources</b>			
Financing	1.6	-	1.6
	2,839.5	676.2	3,515.7
<b>2019</b>			
<b>Revenue from contracts with customers</b>			
Hardware	157.7	-	157.7
Software	693.4	-	693.4
Services	2,324.1	718.5	3,042.6
	3,175.2	718.5	3,893.7
<b>Revenue from other sources</b>			
Financing	1.2	-	1.2
	3,176.4	718.5	3,894.9

Revenue is derived from goods and services supplied from the United Kingdom. Exports are to fellow subsidiaries, group undertakings and the ultimate parent company. Home revenue includes an immaterial amount generated from sales made within Gibraltar.

The company's hardware offerings include the sale or lease of system servers and storage solutions. The capabilities of these products can also be delivered through as-a-Service or cloud delivery models, such as Storage-as-a-Service. The company also offers installation services for its more complex hardware products. Hardware offerings are often sold with distinct maintenance services.

The company's software offerings include cognitive applications, which contain many of the company's strategic areas including analytics, data and security; cloud and data platforms, which contain the company's distributed middleware and data platform software; transaction processing platforms and operating systems software. These offerings include proprietary software and open source software, and many can be delivered entirely or partially through as-a-Service or cloud delivery models, while others are delivered as on-premise software licenses.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 3 Revenue (continued)

Services revenue includes various types of assistance to customers. Global Business Services ('GBS') offers customers comprehensive IT services integrated with business insight to reduce costs, improve productivity, and gain competitive advantage. Many client contracts in the United Kingdom begin with engagement with the GBS division, where consultants and industry experts provide deep industry knowledge. GBS provides clients with consulting, business process and application management services, focused on implementing AI-enabled intelligent workflows and modernizing application suites, optimised for hybrid cloud environments. These professional services deliver value and innovation to clients through solutions which leverage industry, technology and business strategy and process expertise. GBS is the digital reinvention partner for IBM clients, combining industry knowledge, functional expertise, and applications with the power of business design and cognitive and cloud technologies. The full portfolio of GBS services is backed by its globally integrated delivery network and integration with technologies, solutions and services across IBM. GBS assists clients in their digital transformations, helping them build business platform strategies and experiences, transform processes to intelligent workflows using AI and other exponential technologies, and build hybrid, open cloud infrastructures. Global Technology Services ('GTS') provides comprehensive IT infrastructure and platform services that create business value for clients. Clients gain access to leading-edge capabilities and realise high-quality performance, greater flexibility and economic value. GTS delivers these outcomes through insights drawn from IBM's decades of experience across thousands of engagements, the skills of practitioners, advanced technologies, applied innovation from IBM Research and global scale.

#### Disaggregation of revenue from contracts with customers

The following table provide details of revenue by major products/service offerings

	2020 £m	2019 £m
Intercompany Sales and Services (note 28)	686.3	742.1
Cloud & Cognitive Software	715.0	844.6
Global Business Services	991.6	1,043.0
Global Technology Services	921.6	1,004.7
Systems	172.9	205.2
Other	26.7	54.1
	<b>3,514.1</b>	<b>3,893.7</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 3 Revenue (continued)

#### Reconciliation of contract balances

The following table provides information about contract balances from contracts with the customers:

	2020 £m	2019 £m
Trade and other receivables, net of provision for impairment (note 17)	371.9	442.0
Contract assets, net of provision for impairment (note 18)	32.2	39.9
Deferred revenue (non-current)	(146.8)	(132.9)
Deferred revenue (current)	(368.7)	(345.9)
	(111.4)	3.1

Refer to note 21 for the loss allowance provided for trade receivables and contract assets.

During the year, revenue was reduced by £5.3 million (2019: reduced by £8.6 million) for performance obligations satisfied (or partially satisfied) in the previous year, mainly due to changes in estimates on percentage-of-completion based contracts.

Deferred revenue represents contract liabilities where consideration was received in advance of performance obligations. It is considered current or non-current based on when the performance obligation will be satisfied.

	2020 £m	2019 £m
<b>Contract assets</b>		
Balance at the beginning of year	39.9	59.9
Transfer to receivables	(38.0)	(50.6)
Increase due to revenue recognised during the year less amounts billed to customers	30.3	30.6
<b>Balance at the end of the year (note 18)</b>	<b>32.2</b>	<b>39.9</b>
<b>Deferred revenue</b>		
Balance at the beginning of year	(478.8)	(524.1)
Revenue recognised that was included in the deferred revenue balance at the beginning of the year	345.9	320.0
Increases due to billings, excluding amounts recognised as revenue during the year	(382.6)	(274.7)
<b>Balance at the end of the year</b>	<b>(515.5)</b>	<b>(478.8)</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 3 Revenue (continued)

#### Remaining performance obligations

The remaining performance obligation disclosure provides the aggregate amount of the transaction price yet to be recognised as of the end of the reporting year and an explanation as to when the company expects to recognise these amounts in revenue. It is intended to be a statement of overall work under contract that has not yet been performed and does not include contracts in which the customer is not committed, such as certain as-a-Service, governmental, term software license and services offerings. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property. Additionally, as a practical expedient, the company does not include contracts that have an original duration of one year or less. Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustment for revenue that has not materialised and adjustments for currency.

At 31 December 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was £6,571.5 million (2019: £7,320.5 million). Given the profile of contract terms, approximately 50 percent of this amount is expected to be recognised as revenue over the next two years, approximately 38 percent between three and five years and the balance thereafter.

The following table provides information about deferred cost balances:

	2020 £m	2019 £m
Capitalised costs to obtain a contract	31.4	32.6
Deferred costs to fulfil a contract	143.5	153.7
	174.9	186.3

Of the total, £118.5 million (2019: £136.1 million) is non-current and £56.4 million (2019: £50.2 million) is current. The non-current and current balance of deferred costs are included within Other assets (note 18).

The amount of total deferred costs addition and amortisation during the year were £48.8 million (2019: £61.2 million) and £60.2 million (2019: £75.0 million) respectively. During the year, the company wrote off deferred costs of £nil (2019: £3.4 million).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 4 Expenses by nature

	2020	2019
	£m	£m
Costs of services and products	1,896.9	2,186.9
Cost of licences	111.3	117.2
Employee expenses (note 6)	1,145.7	1,104.7
Pension expenses (note 6)	90.6	173.2
Depreciation (notes 11 & 24 )	120.8	119.0
Advertising costs	37.8	43.0
Net foreign currency exchange loss	5.7	1.5
Impairment losses on financial assets	1.2	7.4
Other expenses	75.2	92.2
<b>Total cost of sales, administrative expenses and net impairment losses on financial assets and contract assets</b>	<b>3,485.2</b>	<b>3,845.1</b>

### 5 Auditors' remuneration

	2020	2019
	£000	£000
Audit services in respect of the company's financial statements	1,080	947
Audit related assurance services	351	303
All other services	5	28
	<b>1,436</b>	<b>1,278</b>
 Audit services in respect of the company's associated pension scheme	 <b>105</b>	 <b>82</b>

In addition, auditors' remuneration of £140,000 (2019: £159,000) was borne by this company on behalf of fellow IBM United Kingdom group undertakings.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 6 Employee expenses

	2020	2019
	£m	£m
Wages and salaries	999.7	965.4
Social security costs	115.4	119.8
Pension cost for defined contribution pension plans	78.2	79.9
Pension cost for defined benefit pension plans (note 22)	6.0	5.3
Pension cost for defined benefit pension plans - plan amendments (note 22)	6.4	88.0
Share based payment expense (note 23)	30.6	19.5
	1,236.3	1,277.9

Pension costs in respect of defined benefit pension schemes reported within this note represent amounts charged to operating profit. These amounts do not include amounts credited to finance income (see note 22) and amounts recognised in the statement of comprehensive income in respect of defined benefit pension schemes.

The average monthly number of employees, including directors, during the year was made up as follows:

	2020	2019
	Number	Number
Services and marketing	8,469	8,883
Product development	2,032	2,072
	10,501	10,955

These totals include employees who have fixed-term contracts with the company. They also include 55 employees (2019: 67 employees) whose duties were carried out mainly outside of the United Kingdom.

### 7 Directors' emoluments

The emoluments of the directors and the number of share options and share appreciation rights, in IBM, exercised by the directors in respect of their services as the principal directors or otherwise in connection with the management of the company, its parent IBM United Kingdom Holdings Limited and its parent IBM North Region Holdings, are shown in the following sections of this note. It is not practicable to perform any allocation of these total emoluments between the respective companies as such amounts are earned in respect of the directors' services to the group of companies as a whole.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 7 Directors' emoluments (continued)

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

	2020	2019
	£	£
Short-term employee benefits	1,517,696	1,723,950
Post-employment benefits	74,594	72,736
Share-based payments	1,616,269	920,882

	2020	2019
	Number	Number
Number of directors who exercised share options	-	-
Number of directors who received shares in respect of qualifying service under a long term incentive scheme	4	3
Number of directors who accrued benefits under defined contribution schemes	3	3

One director was appointed and no director resigned during the year. No director was appointed and no director resigned during the prior year.

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments and post-employment benefits, were £nil (2019: £nil).

Emoluments of highest paid director:

	2020	2019
	£	£
Short-term employee benefits	579,667	760,868
Post-employment benefits	27,096	26,376
Share-based payments	1,271,497	777,386

The highest paid director received shares in respect of qualifying services under a long term incentive scheme during 2020 and 2019. No other emoluments under long term incentive schemes were received by the highest paid director.

The highest paid director did not exercise share options during 2020 or 2019.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 8 Interest income calculated using the effective interest rate method

	2020	2019
	£m	£m
Interest on deposits in group undertakings at amortised cost	0.4	3.7
Other interest receivable	0.2	0.9
	0.6	4.6

Interest bearing deposits in group undertakings are charged at variable rates based on LIBOR.

### 9 Other finance costs

	2020	2019
	£m	£m
Interest on payable to related parties	1.0	2.5
Interest expense on lease liabilities	2.5	3.1
Other interest payable	1.0	-
	4.5	5.6

Interest on loans from fellow subsidiary is charged at variable rates based on LIBOR.

### 10 Income tax expense

#### (a) Analysis of expense in the year

	2020	2019
	£m	£m
<b>Current tax:</b>		
UK corporation tax based on profit for the year at 19% (2019: 19%)	9.7	24.8
Adjustments relating to prior years	4.3	12.9
<b>Total current tax</b>	<b>14.0</b>	<b>37.7</b>
<b>Deferred tax:</b>		
Movements on temporary differences	(4.1)	(11.2)
Adjustments relating to prior years	(4.4)	(14.3)
<b>Total deferred tax (note 15)</b>	<b>(8.5)</b>	<b>(25.5)</b>
<b>Income tax expense</b>	<b>5.5</b>	<b>12.2</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 10 Income tax expense (continued)

#### (b) Reconciliation of tax expense

The tax assessed on the (loss) / profit for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £m	2019 £m
(Loss) / profit before income tax	(114.1)	57.7
Tax at the domestic income tax rate of 19% (2019: 19%)	(21.7)	11.0
Effects of:		
Adjustments relating to prior years	(0.1)	(1.4)
Expenses not deductible for tax purposes	44.6	40.5
Income not subject to UK tax	(16.1)	(40.8)
Share option credit	(1.3)	(0.3)
Withholding tax	0.5	1.9
Adjustment to tax rates	(0.4)	1.3
<b>Total income tax expense (note 10(a))</b>	<b>5.5</b>	<b>12.2</b>

#### (c) Factors that may affect future tax expense

The Finance Act 2020 removed the reduction of the main rate of corporation tax to 17% which was due to come into effect from 1 April 2020 (as enacted by Finance Act 2016). The tax rate therefore remains at 19%. The Finance Bill 2021 contains provisions to increase the tax rate from 19% to 25% from 1 April 2023. As this change has not been substantively enacted at the balance sheet date, it is not reflected in any closing deferred tax balances. The impact of the proposed tax rate change on the deferred tax balances is £18.4 million.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 11 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
At 1 January 2019	120.9	427.4	304.8	853.1
Additions	4.6	79.8	5.8	90.2
Disposals	-	(28.0)	(0.1)	(28.1)
<b>At 31 December 2019</b>	<b>125.5</b>	<b>479.2</b>	<b>310.5</b>	<b>915.2</b>
Additions	7.9	66.6	3.1	77.6
Disposals	-	(25.9)	(28.4)	(54.3)
<b>At 31 December 2020</b>	<b>133.4</b>	<b>519.9</b>	<b>285.2</b>	<b>938.5</b>
<b>Accumulated depreciation</b>				
At 1 January 2019	83.7	305.1	228.4	617.2
Charge for year	3.0	54.1	14.1	71.2
Disposals	-	(26.8)	(0.1)	(26.9)
<b>At 31 December 2019</b>	<b>86.7</b>	<b>332.4</b>	<b>242.4</b>	<b>661.5</b>
Charge for year	3.1	56.7	14.6	74.4
Disposals	-	(21.2)	(26.9)	(48.1)
<b>At 31 December 2020</b>	<b>89.8</b>	<b>367.9</b>	<b>230.1</b>	<b>687.8</b>
<b>Net book value</b>				
<b>At 31 December 2020</b>	<b>43.6</b>	<b>152.0</b>	<b>55.1</b>	<b>250.7</b>
At 31 December 2019	38.8	146.8	68.1	253.7

The net book value of land and buildings relates entirely to freehold assets.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 12 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
<b>Cost</b>			
At 1 January 2019	645.7	0.7	646.4
Transfers from investments (note 13)	6.7	-	6.7
<b>At 31 December 2019</b>	<b>652.4</b>	<b>0.7</b>	<b>653.1</b>
<b>At 31 December 2020</b>	<b>652.4</b>	<b>0.7</b>	<b>653.1</b>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2019	310.9	0.7	311.6
<b>At 31 December 2019</b>	<b>310.9</b>	<b>0.7</b>	<b>311.6</b>
<b>At 31 December 2020</b>	<b>310.9</b>	<b>0.7</b>	<b>311.6</b>
<b>Net book value</b>			
<b>At 31 December 2020</b>	<b>341.5</b>	<b>-</b>	<b>341.5</b>
At 31 December 2019	341.5	-	341.5

### Impairment

The directors conducted an impairment review of the intangible assets held by the company in accordance with IAS 36. No impairment charge has been recognised as a result of this review.

It is not possible to track the cash flows of goodwill hence management have deemed there to be one cash generating unit, and have therefore assessed the carrying value of goodwill, together with the carrying value of investments, for impairment based on the company's cash flow model.

The recoverable amount of goodwill was determined based on value in use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five year period and are denominated in British Pound sterling. Cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rate of 2.5% (2019: 2.5%) used is in line with the long term average growth rate for the industry in which the group operates. The pre-tax discount rate used in this calculation was 11.7% (2019: 11.5%). The post-tax discount rate was 10% for both years. If the pre-tax discount rate used for impairment review increased by 1% to 12.7% there would still be no impairment. A 1% decrease in the growth rate to 1.5% would also not cause any impairment.

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

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 12 Intangible assets (continued)

#### a) Discount rate

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

#### b) Rates of growth

Management have reviewed industry forecasts and consider the rate of 2.5% to be reasonable for the purposes of the impairment test.

### 13 Investments

	£m
<b>Cost</b>	
At 1 January 2019	1,810.1
Additions	21.5
Disposals	(75.3)
Transfers to goodwill (note 12)	(6.7)
<b>At 31 December 2019</b>	<b>1,749.6</b>
Return of capital	(263.9)
<b>At 31 December 2020</b>	<b>1,485.7</b>
<b>Accumulated impairment</b>	
At 1 January 2019	128.6
Impairment charge for the year	210.1
<b>At 31 December 2019</b>	<b>338.7</b>
Impairment charge for the year	230.9
<b>At 31 December 2020</b>	<b>569.6</b>
<b>Net book value</b>	
<b>At 31 December 2020</b>	<b>916.1</b>
At 31 December 2019	1,410.9

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 13 Investments (continued)

On 21 December 2020 the direct subsidiary undertaking International Business Machines Limited reduced its share capital by canceling and extinguishing 263,900,000 of the issued ordinary shares of £1 each and repaid the company £263.9 million. No capital gain or loss arose on the disposal of the investment.

As the result of various transactions undertaken by International Business Machines Limited during the year 2020, the company obtained an indirect 63% ownership of IBM GF International Treasury Company Designated Activity Company (Ireland) which became the sole shareholder of IBM International Treasury Services Unlimited Company (Ireland). Subsequently to the changes in the group structure, the company indirectly owns 63% of IBM International Treasury Services Unlimited Company (Ireland), 3% of ordinary shares and 27% of profit sharing certificates of IBM Netherlands Treasury B.V. (Netherlands). IBM Treasury Corporation (Barbados) was dissolved as at 1 September 2020 (2019: 5% indirect ownership).

During 2020 MH (UK) Limited, Optevia Limited, Promontory Financial Group (UK) Limited and i2 Limited entered liquidation process.

During the year dividends received in the income statement of £85.2 million were from the following companies: MH (UK) Limited (£10.9 million), Optevia Limited (£1.9 million), Promontory Financial Group (UK) Limited (£15.0 million), Algorithmics Risk Management Limited (£7.3 million), Truven Health Analytics UK Limited (£5.5 million), SPSS Limited (£4.1 million), Kenexa Quorum Holdings Limited (£7.3 million) and Transitive Corporation Limited (£33.2 million). All dividends were received as dividends in specie (notes 28 and 30).

At the year end the directors conducted an impairment review of the investments held. As a result the company impaired the investments in MH (UK) Limited, Optevia Limited, Promontory Financial Group (UK) Limited, Algorithmics Risk Management Limited, Truven Health Analytics UK Limited, SPSS Limited, Kenexa Quorum Holdings Limited and Transitive Corporation Limited in total by £64.9 million due to the decrease of their net assets following the distribution of dividends. In addition, the company impaired the investment in International Business Machines Limited by £166.0 million driven by decrease of the fair value of net assets of its direct subsidiary. The model is impacted by exchange rates, and therefore any fluctuations would result in a change in the impairment charge. The directors consider all other investments to be supported by the fair value of their underlying net assets.

During the prior year the company made the following transactions:

On 1 August 2019 the company acquired 100% of the share capital of Promontory Financial Group (UK) Limited for \$26.0 million, translated into GBP at the spot rate on the day of the transaction to £21.5 million. Goodwill of £6.7 million arose on the transfer of the trade and assets to the company on 1 August 2019.

On 22 October 2019 the company sold its preferred ownership interest in IBM Atlantic CV (Partnership) for \$100.0 million, translated into GBP at the spot rate on the day of the transaction to £77.4 million. Capital gain of £2.1 million arose on the sale of the investment.

During the year 2019 Cleversafe UK Limited, Resilient Systems Europe Limited and Silverpop Systems Limited entered liquidation process and EZLegacy Limited was dissolved via voluntary strike-off.

In the prior year dividends received in the income statement of £213.7 million were from the following companies: i2 Holdings Limited (£1.4 million), i2 Intermediate Holdings Limited (£1.6 million), i2 Limited (£204.9 million), IBM Atlantic CV (£3.6 million), Silverpop System Limited (£1.9 million), Cleversafe UK Limited (£0.2 million) and Resilient Systems Europe Limited (£0.1 million). The dividends from i2 Holdings Limited, i2 Intermediate Holdings Limited and IBM Atlantic CV were received in cash. The dividends from i2 Limited, Silverpop System Limited, Cleversafe UK Limited and Resilient Systems Europe Limited were received as dividends in specie.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 13 Investments (continued)

At the prior year end the directors conducted an impairment review of the investments held. As a result the company impaired the investments in i2 Holdings Limited, i2 Intermediate Holdings Limited, i2 Limited, Cleversafe UK Limited, Resilient Systems Europe Limited and Silverpop Systems Limited by £210.1 million due to the decrease of their net assets following the distribution of dividends. The directors consider all other investments to be supported by the fair value of their underlying net assets.

During the year 2019 the company has reviewed the treatment of the reorganisation of investments in 2017. As a result the company has re-presented the investment held in International Business Machines Limited as being the original cost and not reflective of the prior investment less impairment of IBM International Treasury Services Unlimited Company that was exchanged for shares in International Business Machines Limited. This has had no impact on the balance sheet or income statement in any year presented.

The company had beneficial ownership of all the ordinary share capital and voting rights of the following companies at 31 December 2020 and 2019 (unless otherwise stated).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 13 Investments (continued)

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
<b>Direct holdings</b>			
Kenexa Technology LLC	United States	25%	Trading
Algorithmics Risk Management Limited	United Kingdom	100%	Non-trading
International Business Machines Limited	United Kingdom	100%	Non-trading
Kenexa Quorum Holdings Limited	United Kingdom	100%	Non-trading
SPSS Limited	United Kingdom	100%	Non-trading
Transitive Corporation Limited	United Kingdom	100%	Non-trading
Truven Health Analytics UK Limited	United Kingdom	100%	Non-trading
010414 UK Limited	United Kingdom	100%	Dormant
251211 UK Limited	United Kingdom	100%	Dormant
Blue Wolf Global Limited	United Kingdom	100%	Dormant
Heartbeat Experts Limited	United Kingdom	100%	Dormant
i2 Holdings Limited	United Kingdom	100%	Dormant
i2 Intermediate Holdings Limited	United Kingdom	100%	Dormant
Oniqua Europe Limited	United Kingdom	100%	Dormant
Sterling Commerce (UK) Limited	United Kingdom	100%	Dormant
The Analytic Sciences Corporation Limited	United Kingdom	100%	Dormant
Cleversafe UK Limited	United Kingdom	100%	In liquidation
i2 Limited	United Kingdom	100%	In liquidation
MH (UK) Limited	United Kingdom	100%	In liquidation
Optevia Limited	United Kingdom	100%	In liquidation
Promontory Financial Group (UK) Limited	United Kingdom	100%	In liquidation
Resilient Systems Europe Limited	United Kingdom	100%	In liquidation
Silverpop Systems Limited	United Kingdom	100%	In liquidation

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 13 Investments (continued)

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
<b>Indirect holdings through Algorithmics Risk Management Limited</b>			
Algorithmics (UK) Limited	United Kingdom	100% (indirect)	Non-trading
<b>Indirect holdings through Blue Wolf Global Limited</b>			
Bluewolf International Limited	United Kingdom	100% (indirect)	Dormant
<b>Indirect holdings through International Business Machines Limited</b>			
IBM GF International Treasury Company Designated Activity Company	Ireland	63% (indirect)	Trading
<b>Indirect holdings through IBM GF International Treasury Company Designated Activity Company</b>			
IBM International Treasury Services Unlimited Company	Ireland	63% (indirect)	Trading
<b>Indirect holdings through IBM International Treasury Services Unlimited Company</b>			
IBM Netherlands Treasury B.V.	Netherlands	3% (indirect) & 27% profit sharing certificates	Trading
<b>Indirect holdings through Kenexa Quorum Holdings Limited</b>			
Kenexa Global Recruitment Services Limited	United Kingdom	100% (indirect)	Dormant
<b>Indirect holdings through The Analytic Sciences Corporation Limited</b>			
Weather Services International Limited	United Kingdom	100% (indirect)	Dormant
<b>Indirect holdings through Weather Services International Limited</b>			
The Weather Channel Global Media Limited	United Kingdom	100% (indirect)	Dormant

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 13 Investments (continued)

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
<b>Indirect holdings through Transitive Corporation Limited</b>			
Transitive Limited	United Kingdom	100% (indirect)	Non-trading
<b>Indirect holdings through Truven Health Analytics UK Limited</b>			
Simpler Consulting Limited	United Kingdom	100% (indirect)	Dormant

The registered address for 010414 UK Limited, i2 Holdings Limited, i2 Intermediate Holdings Limited, International Business Machines Limited, Truven Health Analytics UK Limited, Simpler Consulting Limited, Algorithmics Risk Management Limited, Algorithmics (UK) Limited, Blue Wolf Global Limited, Bluewolf International Limited, Heartbeat Experts Limited, Kenexa Quorum Holdings Limited, Kenexa Global Recruitment Service Limited, SPSS Limited, Sterling Commerce (UK) Limited, Transitive Corporation Limited, Transitive Limited is PO BOX 41 North Harbour, Portsmouth, Hampshire, United Kingdom, PO6 3AU.

The registered address for Cleversafe UK Limited, i2 Limited, MH (UK) Limited, Optevia Limited, Promontory Financial Group (UK) Limited, Resilient Systems Europe Limited and Silverpop Systems Limited is 15 Canada Square, London, United Kingdom, E14 5GL.

The registered addresses for the remaining subsidiary undertakings are as follows:

Name of subsidiary / associate	Registered address
251211 UK Limited	76 Upper Ground, London, United Kingdom, SE1 9PZ
Kenexa Technology LLC	Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, USA
IBM GF International Treasury Company Designated Activity Company	IBM House, Shelbourne road, Ballsbridge, Dublin 4, D04NP20, Ireland
IBM International Treasury Services Unlimited Company	IBM House, Shelbourne road, Ballsbridge, Dublin 4, D04NP20, Ireland
IBM Netherlands Treasury BV	Johan Huizhigalaan 765, 1066 VH Amsterdam, Netherlands
The Analytic Sciences Corporation Limited	76 Upper Ground, London, United Kingdom, SE1 9PZ
Weather Services International Limited	76 Upper Ground, London, United Kingdom, SE1 9PZ
The Weather Channel Global Media Limited	76 Upper Ground, London, United Kingdom, SE1 9PZ
Oniqua Europe Limited	Ben Lomond View Riverside Business Park, 23 Pottery Street, Greenock, Renfrewshire, Scotland, PA15 2UZ

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 14 Purchase of business

During the year the company acquired the assets and liabilities of these non-trading direct subsidiary undertakings: i2 Holdings Limited, i2 Intermediate Holdings Limited, 010414 UK Limited and 251211 UK Limited for a consideration of £1.9 million. The transfers of assets and liabilities were at net book value. The transfers were completed through a non-interest bearing related party payable.

During the prior year the company acquired the trade and associated assets and liabilities of Promontory Financial Group (UK) Limited for a consideration of £14.8 million. The transfer of assets and liabilities was at net book value and was completed through a non-interest bearing related party payable.

The impact of this is set out in the table below:

	2020 £m	2019 £m
Property, plant and equipment	-	0.3
Deferred tax	-	0.6
Trade and other receivables due after one year	-	0.3
Trade and other receivables due within one year	1.9	2.9
Receivables due from related parties	-	12.5
Other assets	-	0.2
Cash and cash equivalents	-	1.7
Trade and other payables due within one year	-	(2.7)
Payables due to related parties	-	(0.4)
Other liabilities	-	(0.2)
Corporation tax	-	(0.4)
<b>Total net assets acquired at book value</b>	<b>1.9</b>	<b>14.8</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 15 Deferred tax assets

#### Movement in the deferred tax asset

	Fixed asset temporary differences £m	Short term temporary differences £m	Retirement benefit £m	Total £m
At 1 January 2019	61.1	3.6	(6.6)	58.1
(Charged) / credited to the income statement	(0.3)	11.0	14.8	25.5
Charged to statement of comprehensive income	-	-	(42.5)	(42.5)
Credited to reserves in respect of share options	-	1.0	-	1.0
<b>At 31 December 2019</b>	<b>60.8</b>	<b>15.6</b>	<b>(34.3)</b>	<b>42.1</b>
Credited / (charged) to the income statement	<b>4.2</b>	<b>10.4</b>	<b>(6.1)</b>	<b>8.5</b>
Credited to statement of comprehensive income	-	-	<b>8.0</b>	<b>8.0</b>
Credited to reserves in respect of share options	-	<b>0.7</b>	-	<b>0.7</b>
Other movement charged to reserves	-	<b>(0.9)</b>	-	<b>(0.9)</b>
<b>At 31 December 2020</b>	<b>65.0</b>	<b>25.8</b>	<b>(32.4)</b>	<b>58.4</b>

The deferred tax asset mostly relates to non-current items. The amount of £32.6 million (2019: £26.5 million) should be recovered more than 12 months after the reporting date and the amount of £25.8 million (2019: £15.6 million) is expected to be recovered no more than 12 months after reporting date.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 15 Deferred tax assets (continued)

#### Movement in the unrecognised deferred tax asset:

	Total £m
At 1 January 2019	0.1
Movement in unrecognised amounts in the year	(0.1)
<b>At 31 December 2019</b>	-
Movement in unrecognised amounts in the year	-
<b>At 31 December 2020</b>	-

The company has £nil (2019: £nil) of potential deferred tax assets in respect of trading balances from acquired companies, which has not been recognised on the grounds that this is not considered recoverable in the foreseeable future. There is no unrecognised deferred tax in respect of the retirement benefit scheme.

The recognition of deferred tax assets is determined by reference to the company's estimate of recoverability based on models to forecast future taxable profits.

### 16 Inventories

	2020 £m	2019 £m
Finished goods and goods for resale	1.0	4.2

Finished goods and goods for resale include an allowance for obsolescence of £2.1 million (2019: £2.2 million).

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £167.1 million (2019: £188.4 million).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 17 Trade and other receivables

	2020 £m	2019 £m
<b>Current</b>		
Trade receivables - billed	285.1	286.0
Trade receivables - unbilled	92.1	161.8
Less: credit loss allowance	(8.6)	(9.5)
<b>Financial assets</b>	<b>368.6</b>	<b>438.3</b>
Other receivables	3.3	3.7
	<b>371.9</b>	<b>442.0</b>

The average credit period on sales of goods is 0 to 30 days (2019: 0 to 30 days). No interest is charged on the trade receivables for the first 30 days from the date of the invoice. Thereafter, interest is charged at market rates on the outstanding balance. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Due to the short term nature of the receivables, the carrying amounts approximate to the fair values.

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

The credit quality of billed trade receivables is shown in the following table:

Internal rating (GRMG*)	Description	2020 £m	2019 £m
1	Excellent	23.3	22.2
2 - 3	Good	182.2	172.0
4 - 5	Satisfactory	56.4	71.1
6	Special monitoring	18.4	17.0
7	Default	4.8	3.7
		<b>285.1</b>	<b>286.0</b>

\* GRMG – Global Risk Management Group, IBM credit rating scale used as measure of the probability of IBM's customers default

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 18 Other assets

	2020	2019
	£m	£m
<b>Non-current</b>		
Prepayments	37.3	17.6
Deferred costs (note 3)	118.5	136.1
	<b>155.8</b>	<b>153.7</b>
<b>Current</b>		
Prepayments	90.7	68.0
Deferred costs (note 3)	56.4	50.2
Contract assets, net of provision for impairment (note 3)	32.2	39.9
	<b>179.3</b>	<b>158.1</b>

### 19 Provisions for liabilities and charges

	2020	2019
	£m	£m
<b>Non-current</b>		
Asset retirement obligation	6.1	4.9
	<b>6.1</b>	<b>4.9</b>
<b>Current</b>		
Restructuring provision	56.5	2.5
Asset retirement obligation	2.2	3.2
Litigation fees	13.9	8.5
Other provisions	1.3	1.5
	<b>73.9</b>	<b>15.7</b>

The restructuring provision relates to workforce reduction actions which is expected to be utilised over the next year. In response to changing business needs, the company periodically takes workforce reduction actions to improve productivity, cost competitiveness and to rebalance skills.

The asset retirement provision is a legal or constructive obligation associated with dismantling, removing and restoring items of property held under an operating lease. A provision is recognised and measured, both initially and subsequently, at the estimated expenditure required to settle the present obligation at the reporting date discounted at a current market-based discount rate. The provision is reviewed at each reporting date and adjusted to reflect the current best estimate. When the effect of a change in estimated outflows of resources embodying economic benefits and/or the discount rate is material, that change is recognised and the related asset retirement costs are capitalised by increasing the carrying amount of the related asset by the same amount as the liability. Capitalised asset retirement costs are subsequently depreciated over the shorter of the lease term of the related property or the useful life of the related asset. The non-current balance at 31 December 2020 is expected to be utilised by the end of 2025.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 19 Provisions for liabilities and charges (continued)

The provision for litigation relates to customers' claims brought against the company and expected legal fees for lawyers' services. The balance at 31 December 2020 is expected to be utilised by the end of 2021. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

The other provisions consist of provision for onerous contracts and provision for interest payable.

	Restructuring provision £m	Asset retirement obligation £m	Litigation fees £m	Other £m	Total £m
At 1 January 2019	1.3	7.5	-	-	8.8
Reclassification from Trade and other payables	-	-	6.6	10.9	17.5
Charged to the income statement	5.6	1.0	3.3	1.5	11.4
Utilised during the year	(4.2)	(0.3)	(1.4)	(10.9)	(16.8)
Released to the income statement	(0.2)	(0.1)	-	-	(0.3)
<b>At 31 December 2019</b>	<b>2.5</b>	<b>8.1</b>	<b>8.5</b>	<b>1.5</b>	<b>20.6</b>
Charged to the income statement	<b>74.9</b>	<b>0.2</b>	<b>8.6</b>	<b>1.1</b>	<b>84.8</b>
Utilised during the year	<b>(20.9)</b>	<b>-</b>	<b>(3.2)</b>	<b>(1.3)</b>	<b>(25.4)</b>
<b>At 31 December 2020</b>	<b>56.5</b>	<b>8.3</b>	<b>13.9</b>	<b>1.3</b>	<b>80.0</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 20 Trade and other payables

	2020	2019
	£m	£m
<b>Non-current</b>		
Other payables	0.1	0.1
<b>Current</b>		
Payable to trade suppliers	102.9	98.0
Accruals - financial liabilities	47.1	58.3
<b>Financial liabilities</b>	<b>150.0</b>	<b>156.3</b>
Accrued expenses	77.4	88.9
Social security and other taxes	256.5	126.8
	<b>483.9</b>	<b>372.0</b>

Amounts are settled on standard commercial trade terms. Generally no interest is charged on the trade payables. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Credit terms of trade payables granted vary from nil to 60 days (2019: nil to 60 days).

### 21 Financial instruments

#### Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management programme in place aligned to the worldwide programme of the company's ultimate parent company, IBM.

#### Capital risk management

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The company's overall capital management strategy remains unchanged from the prior year and is controlled globally. The capital structure of the company consists of debt to related parties disclosed in note 28, and equity attributable to equity holders of the parent, comprising issued capital, share premium and retained earnings as disclosed in the statement of changes in equity.

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

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued) Categories of financial instruments

	2020 Amortised cost £m	2020 FVTPL* £m
<b>Financial assets</b>		
Finance receivables	36.5	-
Trade and other receivables (note 17)	368.6	-
Receivables from related parties (note 28)	106.4	-
Deposits held with related parties (note 28)	838.6	-
Cash at bank	49.0	-
	<b>1,399.1</b>	<b>-</b>
<b>Financial liabilities</b>		
Trade and other payables (note 20)	(150.0)	-
Payables to related parties (note 28)	(415.7)	(24.0)
Lease liabilities	(99.2)	-
Derivatives to related parties	-	(10.8)
	<b>(664.9)</b>	<b>(34.8)</b>
	2019 Amortised cost £m	2019 FVTPL £m
<b>Financial assets</b>		
Finance receivables	19.6	-
Trade and other receivables (note 17)	438.3	-
Receivables from related parties (note 28)	189.0	-
Deposits held with related parties (note 28)	306.5	-
Cash at bank	15.0	-
	<b>968.4</b>	<b>-</b>
<b>Financial liabilities</b>		
Trade and other payables (note 20)	(156.3)	-
Payables to related parties (note 28)	(557.2)	(17.2)
Lease liabilities	(155.3)	-
Derivatives to related parties (note 28)	-	(6.1)
	<b>(868.8)</b>	<b>(23.3)</b>

\* Fair value through profit and loss

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 21 Financial instruments (continued)

#### Financial risk management objectives

IBM's corporate treasury function provides funding and risk management services to the UK group of companies. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the company through internal risk reports addressing market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk.

#### Price risk

The financial risk posed by external vendors is managed and controlled by IBM's central procurement function. Procurement is the only business unit in IBM which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for IBM in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide IBM guidelines. The financial risk posed by sales price is managed through a central pricing team. The business only agrees to sign contracts once the appropriate pricing approval has been obtained.

#### Foreign currency risk

The company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Foreign currency forward contracts are entered into with a third party bank by the IBM International Treasury Services Unlimited Company ('the Treasury Centre') which in turn passes down the impacts of these FX contracts by entering into matching intercompany FX contracts with the company. The company does not apply hedge accounting for these FX transactions. Additionally, when loans and leases are supplied in a foreign currency, the company borrows from the Treasury Centre in the same foreign currency to fund the transaction, therefore hedging against foreign exchange risk.

#### Foreign currency sensitivity

The company's foreign exchange rate risk results from the revaluation of its US dollar and Euro denominated transactions and balances with group undertakings and third party customers and suppliers. A 1 percent fluctuation is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At 31 December 2020, if British Pounds Sterling weakened/strengthened against the US dollar by 1 percent, with all other variables held constant, pre-tax profit for the year would have been £0.7 million (2019: £0.6 million) lower/higher, arising principally on the foreign exchange translation of the related party payables at the reporting date.

At 31 December 2020, if British Pounds Sterling weakened/strengthened against the Euro exchange rate, with all other variables held constant, pre-tax profit for the year would have been £0.5 million (2019: £0.9 million) lower/higher, arising principally on the foreign exchange translation of the related party payables at the reporting date.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 21 Financial instruments (continued)

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company carries out credit checks on potential customers before contracts are entered into. This information is supplied by independent rating agencies where available and, if not available, the company uses other publicly available financial information and its own trading records to rate the major customers. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management team annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Cash balances are held with the Treasury Centre and with NatWest Bank, which the directors assess as having high credit ratings.

The company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5 percent of gross monetary assets at any time during the year.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The company has assessed the impact of credit valuation adjustments on the related party derivatives. As the contracts are short term in nature and the exposure is with a related party, it was determined that credit adjustments would have no impact on the valuation of these derivative contracts.

The company has entered into various guarantee contracts including guaranteeing both subsidiary and group undertakings' liabilities. No liability is recorded in the statement of financial position at the reporting date as there have been no events which would trigger a material obligation under the guarantee. The maximum credit risk associated with these guarantees is not quantifiable due to the wide range of possible trigger events and hence the number of variables that exist.

The following types of assets are subject to impairment criteria for expected credit losses:

- (i) Trade receivables, related party receivables and contract assets
- (ii) Finance receivables
- (iii) Off balance sheet commitments which include future financing commitments and open lines of credit

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; they have no historical losses and an allowance for credit losses is not recorded for these assets.

The company applies the simplified approach in measuring expected credit losses which uses lifetime expected credit loss allowance for trade receivables, related party receivables and contract assets. To measure the expected credit losses they are grouped based on shared risk characteristics. The company has concluded that the expected loss rates applied to trade receivables are a reasonable approximation the loss rates for contract assets.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

Trade receivables, related party receivables and contract assets expected loss rates are determined using the historical propensity for the receivables to become uncollectible and are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of customers to settle receivables.

The following table represents the analysis for trade receivables and contract assets for credit risk exposure. The gross carrying amount also represents the maximum exposure to credit risk for these assets.

	Current	0-30 days	31-90 days	91-180 days	180-365 days	365+ days	Total gross carrying amount
31 December 2020	£m	£m	£m	£m	£m	£m	£m
Expected loss rate	0.06%	0.10%	0.37%	2.53%	10.78%	100%	
<b>Trade receivables billed and unbilled</b>							
	284.3	57.9	14.5	7.5	4.3	12.0	380.5
Loss allowance	(0.1)	(0.1)	-	(0.2)	(0.5)	(7.7)	(8.6)
Revenue provision	-	-	-	-	-	(0.6)	(0.6)
Litigation provision	-	-	-	-	-	(2.4)	(2.4)
<b>Related party receivables</b>							
	36.1	67.9	2.4	-	-	29.3	135.7
Loss allowance	-	-	-	-	-	(29.3)	(29.3)
<b>Contract assets</b>							
	32.2	-	-	-	-	-	32.2
Loss allowance	-	-	-	-	-	-	-

	Current	0-30 days	31-90 days	91-180 days	181-365 days	365+ days	Total gross carrying amount
31 December 2019	£m	£m	£m	£m	£m	£m	£m
Expected loss rate	0.05%	0.01%	0.28%	1.30%	5.70%	100%	
<b>Trade receivables billed and unbilled</b>							
	312.5	69.3	43.3	7.6	7.1	8.0	447.8
Loss allowance	(0.1)	-	(0.2)	(0.4)	(3.0)	(5.8)	(9.5)
Litigation provision	-	-	-	-	-	(2.2)	(2.2)
<b>Related party receivable</b>							
	105.4	81.9	0.6	0.7	0.4	29.7	218.7
Loss allowance	-	-	-	-	-	(29.7)	(29.7)
<b>Contract assets</b>							
	39.9	-	-	-	-	-	39.9
Loss allowance	-	-	-	-	-	-	-

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

The deposits held with related parties of £838.6 million (2019: £306.5 million) and cash at bank of £49.0 million (2019: £15.0 million) are subject to the impairment requirements of IFRS 9. As at 31 December 2020 the identified impairment loss was immaterial and not recorded. Cash is held at banks with short-term credit ratings of P-2 (Moody's Investors).

The company only accounted significant amounts of the calculated general loss allowances for receivables and contract assets. The following represents the loss allowance for trade receivables, receivables from related parties and contract assets as of 31 December which reconciles to the opening loss allowance as follows:

	Contract assets £m	Trade receivables £m	Receivables from related parties £m
At 1 January 2019	-	(1.0)	(30.8)
(Increase) / decrease in loss allowance	-	(8.5)	1.1
<b>At 31 December 2019</b>	<b>-</b>	<b>(9.5)</b>	<b>(29.7)</b>
(Increase) / decrease in loss allowance	-	(1.6)	0.4
Write off	-	2.5	-
<b>At 31 December 2020</b>	<b>-</b>	<b>(8.6)</b>	<b>(29.3)</b>

The following table represents the assumptions by credit risk rating grades:

Credit Risk Rating	GRMG rating	Company definition	Corresponding ratings of external international rating agencies (S&P)	Basis from recognition of ECL provision
Excellent	1	strong credit quality with low expected credit risk	AAA to AA-	Lifetime ECL
Good	2-3	adequate credit quality with a moderate credit risk	A+ to BBB-	Lifetime ECL
Satisfactory	4-5	moderate credit quality with a satisfactory credit risk	BB+ to B+	Lifetime ECL
Special monitoring	6	facilities that require closer monitoring and remedial management	B to B-	Lifetime ECL
Default	7	facilities in which a default has occurred	CCC+ to D	Impaired or asset is written off

The analysis of credit risk exposure for trade receivables is presented in note 17.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

The following represents the analysis of credit risk exposure for financing receivables and the expected credit loss recognised. The gross carrying amount also represents the maximum exposure to credit risk for financing receivables.

	Loans 2020 £m	Loans 2019 £m
Excellent	25.8	10.8
Good	-	3.1
Satisfactory	10.7	5.7
<b>Gross carrying amount</b>	<b>36.5</b>	<b>19.6</b>
Loss allowance for credit losses	-	-
<b>Carrying amount</b>	<b>36.5</b>	<b>19.6</b>

All finance receivables are in stage 2 of IFRS model for expected credit losses.

The company did not include loss allowance for finance receivables due to an insignificant amount of ECL. The company applies 3 stage approach to receivables. If the difference between the stage 1 12-month ECL and stage 2 lifetime ECL is significant, a 12-month ECL is considered, if immaterial a lifetime ECL is considered.

#### Interest rate risk management

The company is funded internally by the Treasury Centre. As the company invests or borrows cash balances internally, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

Interest rate risk is managed at an IBM group level on a consolidated basis. The company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date. For variable rate assets and liabilities, the analysis is prepared assuming the amount of financial assets and liabilities outstanding at the reporting year end date was outstanding for the whole year. A 1 percent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the reporting date, if interest rates had been 1 percent higher/lower and all other variables were held constant, the company's net profit would increase/decrease by £9.6 million (2019: increase/decrease by £0.2 million). This is mainly attributable to the company's exposure to interest rates on its variable rate borrowings and cash deposits.

# **IBM United Kingdom Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2020**

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### **21 Financial instruments (continued)**

#### **Liquidity risk management**

The company is funded internally by the Treasury Centre. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the Treasury Centre. The Treasury Centre is ultimately funded by IBM. Currently the company has a net cash position and loans this cash to the Treasury Centre. Given the cash position, liquidity risk is minimal.

#### **Liquidity and interest risk tables**

The following table details the company's remaining contractual maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities including both interest and principal cash flows. The contractual maturity is based on the earliest date on which the company may be required to pay.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
<b>2020</b>					
<b>Non-interest bearing:</b>					
Trade and other payables	-	150.0	-	-	150.0
Payable to related parties	-	415.7	-	-	415.7
Derivatives to related parties	-	10.8	-	-	10.8
	-	576.5	-	-	576.5
<b>Interest bearing:</b>					
Payable to related parties	2.96	24.9	-	-	24.9
Lease liabilities	1.87	42.6	59.7	1.3	103.6
	-	67.5	59.7	1.3	128.5
<b>2019</b>					
<b>Non-interest bearing:</b>					
Trade and other payables	-	156.3	-	-	156.3
Payable to related parties	-	557.2	-	-	557.2
Derivatives to related parties	-	6.1	-	-	6.1
	-	719.6	-	-	719.6
<b>Interest bearing:</b>					
Payable to related parties	3.89	18.2	-	-	18.2
Lease liabilities	1.97	55.0	99.4	6.5	160.9
	-	73.2	99.4	6.5	179.1

Amounts payable to related parties are unsecured and, where applicable, have a variable interest rate based on LIBOR.

The following table details the company's expected maturity of its financial assets. The table below has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
<b>2020</b>					
<b>Non-interest bearing:</b>					
Trade and other receivables	-	368.6	-	-	368.6
Receivables from related parties	-	106.4	-	-	106.4
	-	475.0	-	-	475.0
<b>Interest bearing:</b>					
Receivables from related parties	0.08	838.6	-	-	838.6
Cash at bank	1.21	49.0	-	-	49.0
Customer loans	3.72	13.6	22.3	0.6	36.5
	-	901.2	22.3	0.6	924.1
<b>2019</b>					
<b>Non-interest bearing:</b>					
Trade and other receivables	-	438.3	-	-	438.3
Receivables from related parties	-	189.0	-	-	189.0
	-	627.3	-	-	627.3
<b>Interest bearing:</b>					
Receivables from related parties	0.60	306.5	-	-	306.5
Cash at bank	1.75	15.0	-	-	15.0
Customer loans	3.92	10.6	9.0	-	19.6
	-	332.1	9.0	-	341.1

Amounts receivable from related parties are unsecured and, where applicable, have a variable interest rate based on LIBOR.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

#### Fair value of financial instruments

The directors have carried out a review of the fair values of the financial assets and liabilities. The directors consider that the carrying values of financial assets and financial liabilities in the financial statements, except as detailed in the following table, approximate their fair values. The impact of discounting is not significant as the majority are short term and variable rated.

	Carrying amount £m	Fair value £m
<b>2020</b>		
<b>Non-current financial assets</b>		
Customer loans	22.9	22.0
<b>2019</b>		
<b>Non-current financial assets</b>		
Customer loans	9.0	9.1

The fair value of the financial assets above is determined in accordance with level 3 fair value measurements with pricing models based on valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For financial instruments that are subsequently measured at fair value, the fair value measurement is grouped into Levels 1 to 3 based on the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 21 Financial instruments (continued)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2020 and 31 December 2019:

	2020 Level 2 £m	2020 Level 3 £m	2019 Level 2 £m	2019 Level 3 £m
<b>Financial liabilities</b>				
Payables to related parties	-	(24.0)	-	(17.2)
Derivatives to related parties	(10.8)	-	(6.1)	-

There are no financial instruments measured at fair value level 1.

The fair value of the derivative from related parties is derived as the unrecognised foreign currency gains or losses relating to hedged foreign currency financial assets and liabilities.

#### Derivative gain and loss recognised in the income statement

The amount recognised in the income statement in the year in respect of foreign currency forward exchange contracts was a loss of £3.0 million (2019: loss of £ 4.9 million).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits

	2020 £m	2019 £m
<b>Statement of financial position asset for</b>		
Defined benefits plan	170.7	201.9
<b>Income statement charge for:</b>		
Defined benefits plan	14.1	96.1
<b>Remeasurement (losses) / gains recognised in the statement of other comprehensive income</b>		
Defined benefits plan	(19.5)	250.1
<b>Cumulative actuarial losses recognised in the statement of other comprehensive income</b>	(722.3)	(702.8)

#### Description of the pension plans

The IBM contributory pension plans, the IBM Pension Plan ('Main Plan') and the IBM IT Solutions Pension Scheme ('I Plan'), are administered separately from the company. The primary purpose of the plans is to provide retirement benefits to eligible employees after retirement and until death in respect of their service as employees. The assets of these plans, which comprise both defined benefit and defined contribution sections, are held in trust funds. The cost of the defined benefit sections of the plans is assessed in accordance with the advice provided by independent qualified actuaries. The defined benefit section of the Main Plan was closed to new members in April 1997. Employees who joined the company between April 1997 and April 2011 were eligible to become members of the defined contribution section of the Main plan. From April 2011 employees who join the company are eligible to become members of a group personal pension plan administered by Standard Life. The defined benefit sections were closed to future accrual from April 2011 with the exception of a sub-section of the population within the I Plan. Two additional pension plans ('Prudential Platinum Plans') administer the pensions of employees transferring to IBM under a specific outsourcing contract. These are defined benefit pension plans administered by Prudential on behalf of the company.

#### Regulatory framework

Actuarial valuations of the defined benefit sections of the pension plans are carried out every three years. The most recent valuations of the Main Plan and I Plan as at 31 December 2018 were carried out by an independent qualified actuary in August 2019 using the projected unit credit method. The actuarial valuation of the defined benefit sections of these plans as at this date showed a funding surplus of £678.0 million.

The Trustees of the Main and I Plans have agreed with the company a schedule of contributions for each of the plans for the period 22 August 2019 to 22 August 2024. The amount of expected contributions depends on future circumstances and mutual agreement between the Trustee and the Principal Employer. The schedules do not define exact amounts except a contribution to the I Plan in 2019 (£7.5 million plus a contribution in respect of future service at the rate of the higher of 49% of members' pensionable earnings over the relevant quarter, and £975,000).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 22 Retirement benefits (continued)

A qualified independent actuary carries out an IAS 19 "Retirement Benefits" review of the Main and I Plans for the financial statements. At 31 December 2020 the IAS 19 valuation for these plans showed an asset of £170.7 million (2019: £201.9 million), while the triennial funding actuarial valuation at 31 December 2018 showed a surplus of £678.0 million. The reasons for the difference between the IAS 19 valuation and the triennial funding actuarial valuation are driven by the assumptions used and by application of asset ceiling. The triennial funding valuation was completed in August 2019. The technical provisions adopted in the triennial funding valuation include a 50 basis point margin from the return on investment to discount rate for prudence. The IAS 19 valuation was carried out using the conditions which existed at 31 December 2020, and as such does not include the assumptions incorporated into the funding valuation at 31 December 2018. Furthermore, according to IAS 19, the company has applied asset ceiling to the Main Plan net asset.

The present value of the Prudential Platinum Plans defined benefit obligation amounts to £57.0 million (2019: £60.40 million). The fair value of the Prudential Platinum Plans assets amounts to £69.8 million (2019: £64.5 million).

#### Governance

The Board of Directors of the Trustee company, IBM United Kingdom Pensions Trust Limited, is responsible for the management of the Plan benefits, the design of the investment strategy and objectives and monitoring the assets of defined benefit plans to ensure that they achieve their fundamental objective of meeting pension liabilities as they become due. The Board of Directors of the Trustee company also ensures that both defined benefit and defined contribution assets are administered according to specific legislation and plan documentation.

The Governance Committee is responsible for monitoring Plan risks and compliance and monitoring Trustee effectiveness.

The Investment Committee, which is supported by independent investment advisors, ensures that the defined benefit and defined contribution funds meet their objectives. The Investment Committee approves and monitors policies and activities, such as investment policy, asset mix policy, performance benchmarks and objectives, investment strategies, active/passive policy target mix and delegation of authorities. The allocation of assets among various types of asset classes and the performance of investments held by defined benefit trusts (funds) are monitored by the Pensions Trust management on a monthly basis and reviewed by the Investment Committee on a quarterly basis. The portfolios are managed and reviewed on a daily basis by external investment managers based on the policies, targets and benchmarks established by the Investment Committee.

The Benefit Allocation Committee reviews and approves benefits payable to dependants of recently deceased Plan members.

The Dispute Resolution Committee meets, when required, to review complaints made by plan members together with any other related matters referred to it by the Trustee Board, and to make recommendations in respect of these matters to a meeting of the full Trustee Board of the Plan.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

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### 22 Retirement benefits (continued)

#### **General risks**

The company's obligations under defined benefit plans statutory minimum funding requirements may significantly vary depending on a number of market, economic, and demographic conditions, such as yields on government and corporate debt, return on plan assets invested in debt and equity securities as well as pooled funds, employee turnover and retiree mortality rates.

These risk factors may affect the company's future cash outflows to fund its obligations, amounts of periodic benefit costs used in calculating net profit and re-measurement charges reported in other comprehensive income.

#### *Asset volatility*

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plans' assets are broadly diversified and invested in developed world and emerging market equities, UK and overseas bonds and index linked gilts, UK property, reinsurance and private equity. In addition, to help minimise volatility in the value of the investments, the Trustee uses derivatives to hedge a proportion of its currency risk and interest rate and inflation rate risks.

#### *Changes in bond yields*

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

#### *Inflation risk*

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

#### *Life expectancy*

The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

Amounts recognised in the Statement of Financial Position and movement over the years:

#### Net retirement benefit asset.

	2020 £m	2019 £m
Defined benefit obligation	(8,729.8)	(8,149.0)
Fair value of plan assets	9,885.0	9,556.6
<b>Net asset before unrecognised surplus and minimum funding requirement liability</b>	<b>1,155.2</b>	<b>1,407.6</b>
Derecognised asset surplus	(984.5)	(1,205.7)
<b>Total</b>	<b>170.7</b>	<b>201.9</b>

#### Defined benefit obligation

	2020 £m	2019 £m
Present value of defined benefit obligation at beginning of year	(8,149.0)	(7,901.1)
Current service cost	(6.0)	(5.3)
Interest cost	(144.9)	(185.2)
Contributions by plan participants	(0.2)	(0.2)
Actuarial gain / (loss) - experience	112.0	(18.0)
Actuarial loss - financial assumptions	(885.9)	(752.2)
Actuarial (loss) / gain - demographic assumptions	(22.2)	421.2
Benefits paid	371.7	379.8
Past service cost	(6.4)	(88.0)
Termination benefits	1.1	-
<b>Present value of defined benefit obligation at end of year</b>	<b>(8,729.8)</b>	<b>(8,149.0)</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

#### Fair value of plan assets

	2020 £m	2019 £m
Fair value of plan assets at beginning of year	9,556.6	8,909.5
Interest income	170.3	212.4
Return on plan assets	533.7	809.8
Contributions by the employer	2.3	9.3
Contributions by plan participants	0.2	0.2
Benefits paid	(371.7)	(379.8)
Administration costs	(5.4)	(4.8)
Settlements	(1.0)	-
<b>Fair value of plan assets at end of year</b>	<b>9,885.0</b>	<b>9,556.6</b>

In December 2020, the Trustees of the Main Plan entered into the insurance buy-in contract ('buy-in') covering a significant portion of the Plan's beneficiaries in payment. In line with the requirements of IAS 19, the defined benefit obligations in respect of the liabilities covered by the buy-in is calculated consistently with the rest of the Plan's liabilities using the same discount rate and other assumptions. The asset value in respect of the buy-in policy is set equal to the defined benefit obligations in respect of the liabilities covered by the buy-in and it was estimated to be £3,070 million (2019: £nil) as at 31 December 2020.

#### Impact of unrecognised surplus and minimum funding requirement liability

	2020 £m	2019 £m
Unrecognised surplus and minimum funding requirement at beginning of year	(1,205.7)	(969.8)
Interest on unrecognised surplus	(21.7)	(25.2)
Change in unrecognised surplus and minimum funding requirement during the year	242.9	(210.7)
<b>Unrecognised surplus and minimum funding requirement at end of year</b>	<b>(984.5)</b>	<b>(1,205.7)</b>

The company has an unconditional right to a refund of any surplus from the I Plan and the net retirement benefit asset is fully recognised. In respect of the Main Plan the directors have concluded that the company does not have an unconditional right to a refund of any surplus or other economic benefits from an asset surplus therefore the company does not recognise the net retirement benefit asset surplus for the Main Plan. In accordance with IFRIC 14 the company must assess whether a minimum funding requirement exists for the Main Plan. The schedule of contributions agreed in August 2019 does not give rise to a liability, therefore the minimum funding requirement liability recognised in respect of the Main Plan as at 31 December 2020 is £nil (2019: £nil).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

In August 2019 the company and Trustee agreed, as part of the Trustee triennial valuation, to extend the guaranteed increase provision in the Main Plan to 6 April 2022 (previously 6 April 2020). This was implemented by a deed of amendment dated 28 August 2019. It was agreed to treat this under IAS19 as a plan amendment with an effective date of 31 August 2019 and the amount of £88.0 million was charged as past service costs to Income statement.

The High Court judgment delivered on 26 October 2018 in the Lloyds GMP pensions case has confirmed that pension schemes are required to equalise for the effects of unequal GMPs for the period since 17 May 1990. A figure of £98.6 million representing the estimated additional liabilities was shown as a past service cost in the 2018 Income statement. In 2020, the High Court issued a follow-on judgement to the 2018 ruling which increased the estimated liabilities and past service cost in the 2020 Income statement by £4.8 million.

#### Amounts recognised in the income statement

	2020 £m	2019 £m
Current service cost	6.0	5.3
Past service cost - plan amendments	6.4	88.0
<b>Employee expense (note 6)</b>	<b>12.4</b>	<b>93.3</b>
Administration costs	5.4	4.8
Interest cost on obligation	144.9	185.2
Interest income on plan assets	(170.3)	(212.4)
Interest cost on unrecognised surplus	21.7	25.2
<b>Net interest income on defined benefit asset</b>	<b>(3.7)</b>	<b>(2.0)</b>
<b>Defined benefit expense in the income statement</b>	<b>14.1</b>	<b>96.1</b>
<b>Defined contribution expense in the income statement</b>	<b>78.2</b>	<b>79.9</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

#### Amounts recognised in other comprehensive income

	2020 £m	2019 £m
Remeasurement gains on plan assets	533.7	809.8
Remeasurement losses on plan liabilities	(796.1)	(349.0)
Change in unrecognised surplus and minimum funding requirement during the year	242.9	(210.7)
<b>Change to gains recognised in other comprehensive income</b>	<b>(19.5)</b>	<b>250.1</b>
Cumulative remeasurement losses recognised in other comprehensive income at the start of the year	(702.8)	(952.9)
<b>Cumulative remeasurement losses recognised in other comprehensive income at the end of the year</b>	<b>(722.3)</b>	<b>(702.8)</b>

#### Fair value and composition of plan assets

The table below analyses plan assets carried at fair value, by valuation method. The different levels have been defined in note 21. The fair value and composition of plan assets is as follows:

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
<b>Equity</b>				
Equity securities	27.7	175.1	30.8	233.6
<b>Fixed Income</b>				
Government securities	-	3,117.0	-	3,117.0
Corporate bonds	-	1,440.6	-	1,440.6
Unit trust bonds	-	821.5	-	821.5
Other fixed income	-	3,082.8	-	3,082.8
<b>Cash and cash equivalents</b>				
Cash and cash equivalents	13.1	481.6	0.2	494.9
<b>Others</b>				
Real estate	-	-	285.1	285.1
Private equity	-	-	354.0	354.0
Other	-	55.5	-	55.5
<b>Total market value of assets</b>	<b>40.8</b>	<b>9,174.1</b>	<b>670.1</b>	<b>9,885.0</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
<b>Equity</b>				
Equity securities	240.5	384.9	382.0	1,007.4
<b>Fixed interest</b>				
Government securities	-	3,798.8	-	3,798.8
Corporate bonds	-	652.4	-	652.4
Unit trust bonds	-	2,337.3	-	2,337.3
Other fixed income	-	23.9	-	23.9
<b>Cash and cash equivalents</b>				
Cash and cash equivalents	2.0	495.0	-	497.0
<b>Others</b>				
Real estate	-	-	325.3	325.3
Private equity	-	-	374.8	374.8
Other	-	539.7	-	539.7
<b>Total market value of assets</b>	<b>242.5</b>	<b>8,232.0</b>	<b>1,082.1</b>	<b>9,556.6</b>

Scheme assets do not include any of the company's financial instruments or property occupied, or assets used, by the company.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

#### Significant actuarial assumptions

The main assumptions for the current year IAS 19 valuation are as follows:

	2020 %	2020 %	2020 %
	Main Plan	I Plan	Prudential
Discount rate	1.20	1.30	1.60
Retail price inflation assumption	3.00	3.00	2.90
Consumer price inflation assumption	2.40	2.40	2.40
Rate of salary increase	2.90	2.90	2.90
<b>Pension increases for in-payment benefits</b>			
- accrued before 6 April 1997 (until 2022)	1.45	2.90	-
- accrued before 6 April 1997 (thereafter)	-	-	-
- accrued between 6 April 1997 and 5 April 2005	2.40	2.90	-
- accrued after 5 April 2005	1.90	2.90	2.90
<b>Pension increases for deferred benefits</b>			
- accrued before 6 April 2009	2.40	2.40	-
- accrued after 5 April 2009	2.40	2.40	2.90

	2019 %	2019 %	2019 %
	Main Plan	I Plan	Prudential
Discount rate	1.80	1.90	1.70
Retail price inflation assumption	2.90	2.90	3.00
Consumer price inflation assumption	2.10	2.10	2.40
Rate of salary increase	2.60	2.60	2.90
<b>Pension increases for in-payment benefits</b>			
- accrued before 6 April 1997 (until 2020)	1.40	2.80	-
- accrued before 6 April 1997 (thereafter)	-	2.80	-
- accrued between 6 April 1997 and 5 April 2005	2.20	2.80	-
- accrued after 5 April 2005	1.60	2.80	3.00
<b>Expected future pension increases</b>			
- accrued before 6 April 2009	2.10	2.10	-
- accrued after 5 April 2009	2.10	2.10	3.00

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

The actuarial valuation incorporates mortality assumptions in line with published statistics. The base tables adopted are the standard tables SAPS "S2" Light with multiplier of 105% for males, SAPS "S2" with multiplier of 94% for female pensioners and 90% for female dependants. Longevity improvements are assumed to be in line with CMI 2017 Core Projection Model with a long term annual rate of improvement of 1.50% pa up to 2018 and in line with CMI 2018 Core Projection Model with a long term rate of 1.25% pa and an initial addition to improvements of 0.25%. The resulting life expectancies for the current and prior year IAS19 valuations are as follows:

	2020 Years	2019 Years
<b>Longevity at age 65 for current pensioners</b>		
- Men	87.6	87.6
- Women	89.2	89.2
<b>Longevity at age 65 for future pensioners (i.e. currently age 45)</b>		
- Men	88.9	88.9
- Women	90.8	90.7

### Sensitivities

The sensitivity analyses below have been determined on the basis of reasonably possible changes in actuarial assumptions at the end of the reporting year while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

	Main Plan £m	I Plan £m	Prudential £m
<b>Discount rate</b>			
0.2% increase	(200.0)	(50.0)	(1.8)
0.2% decrease	206.0	53.0	1.9
<b>Inflation rate</b>			
0.2% increase	90.2	42.7	1.9
0.2% decrease	(94.3)	(41.4)	(1.8)
<b>Mortality</b>			
Increase of 1 year in expected lifetime of participant at age 65	332.0	50.0	2.4

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 22 Retirement benefits (continued)

#### Expected contributions

The expected contributions to defined benefit pension funds for the next reporting year after the company's reporting date are:

	£m
Contributions by the employer	0.1
Contributions by plan participants	-
	0.1

#### Maturity Profile

The duration of defined benefit pension obligations at the end of the reporting year on 31 December 2020 were as follows:

	Main Plan	I Plan	Prudential
Duration of the plans in years	13.9	20	18

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 23 Share-based payments

Share-based incentive awards are provided to employees for shares in the ultimate parent company, IBM, under the terms of the plans. Shares in the ultimate parent company are denominated in US dollars. The rights of these awards are granted by IBM. The Plans are administered by the Executive Compensation and Management Resource Committee of the Board of Directors (the 'Committee'). The Committee determines the type and terms of the awards to be granted to employees, including vesting provisions. Awards available under the Plans principally include restricted stock unit ('RSU'), performance stock units ('PSU'), share options, or any combination thereof.

During the year the company recognised total expenses, excluding deferred tax, of £30.6 million (2019: £19.5 million) related to equity-settled share-based payment transactions.

Under the terms of the arrangement with IBM, the intercompany payment made and offset to equity against retained earnings in respect of the difference between the market value of the underlying shares on the exercise date and the proceeds from exercise of the share based payments is a loss of £10.2 million (2019: loss of £0.2 million).

#### Share awards

The company grants its employees share awards. These awards are made in the form of Restricted Stock Units (RSUs). RSUs are share awards that are granted to employees and entitle the holder to shares of IBM's common stock as the award vests, typically over a one-to-five year period. The fair value of the award is determined and fixed on the grant date based on IBM's share price. Dividend equivalents will not be paid for RSUs. The fair value of such RSUs is determined and fixed on the grant date based on IBM's share price adjusted for the exclusion of dividend equivalents.

Details of the number of RSUs outstanding during the year are as follows:

	2020 No. ('000)	2019 No. ('000)
Outstanding at the beginning of the year	617	513
Granted during the year	580	339
Released during the year	(229)	(180)
Forfeited during the year	(64)	(70)
Transferred during the year	66	15
<b>Outstanding at the end of the year</b>	<b>970</b>	<b>617</b>

RSUs transferred during the year relate to employees assigned to and from other countries.

The weighted average fair value of RSUs granted during the year was £90.11/\$114.58 (2019: £92.37/\$117.40).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 23 Share-based payments (continued)

#### Employee Share Purchase Plan

The company maintains an Employee Share Purchase Plan, ('ESPP'). The ESPP enables eligible participants to purchase full or fractional shares of IBM through payroll deductions at a 5% deduction from fair value.

In relation to the ESPP, £0.2 million (2019: £0.3 million) was recognised in the income statement during the year.

### 24 Leases

The statement of financial position and income statement show the following amounts relating to leases:

	Carrying amount as at 31 December 2020	Carrying amount as at 31 December 2019	Depreciation expense 2020	Depreciation expense 2019
	£m	£m	£m	£m
<b>Right-of-use assets</b>				
Land and building	62.4	96.2	(32.9)	(30.9)
Machinery and equipment	27.0	37.5	(10.4)	(10.6)
Vehicles	8.6	22.5	(3.1)	(6.3)
	<b>98.0</b>	<b>156.2</b>	<b>(46.4)</b>	<b>(47.8)</b>

Additions to the right-of-use assets during the 2020 financial year were £8.6 million (2019: £45.1 million).

	2020 £m	2019 £m
Expense relating to short-term leases	0.5	1.0
Expense relating to variable lease payments	14.3	14.6

Total cash payments arising from lease transactions totalled £69.0 million (2019: £74.1 million) for the year.

The company has estimated future cash outflows for leases with renewal options and future cash outflows for leases with termination options at £14.6 million (2019: £17.5 million) and £32.8 million (2019: £52.1 million) respectively.

The gross minimum commitments under noncancelable leases that have not yet commenced totalled £0.8million (2019: £nil) for the year.

# **IBM United Kingdom Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2020**

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### **25 Contingencies**

The company has contingent liabilities in respect of bank and contractual performance guarantees, including on behalf of other group companies, and other matters arising in the normal course of business, including claims with customers. No material liability is expected to arise in respect of these arrangements.

The fair value of the performance guarantees at the year end is £nil (2019: £nil).

### **26 Events after the reporting date**

On October 8, 2020, the ultimate controlling party, International Business Machines Corporation announced that it will separate its managed infrastructure services unit of its Global Technology Services segment into a new public company (Kyndryl). The managed infrastructure services unit is comprised of outsourcing and other infrastructure modernization and management services. The separation is expected to be achieved through a U.S. federal tax-free spin-off to IBM shareholders and completed by the end of 2021. It will be subject to customary market, regulatory and other closing conditions, including final IBM corporation's Board of Directors' approval. The announcement did not have any classification impact to the company's financial statements at the balance sheet date.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 27 Notes to the cash flow statement

#### Reconciliation of profit for the year to net cash inflow from operating activities

	2020 £m	2019 £m
<b>(Loss) / profit for the year</b>	<b>(119.6)</b>	<b>45.5</b>
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	74.4	71.2
Depreciation of right-of-use asset	46.4	47.8
Loss on disposal of property, plant and equipment	2.1	0.5
Loss on leasing modifications and disposals	7.3	-
Impairment of investments	230.9	210.1
Income from investments (note 30)	(85.2)	(213.7)
Gain on disposal of investment	-	(2.1)
Difference between pension charge and cash contribution	15.4	88.8
Difference between share based payment charge and cash contribution	10.2	0.2
Increase in provisions	59.4	1.8
Increase of ECL provision to trade and related parties receivables	1.2	7.4
Finance income	(4.3)	(6.6)
Finance cost	4.5	5.6
Income taxes charge	5.5	12.2
Research & development tax credit	(16.2)	(14.2)
<b>Changes in operating assets and liabilities:</b>		
Decrease in finance, trade, other and related parties receivables and other current assets	196.0	26.1
Increase / (decrease) in trade, other and related parties payables, related parties derivatives and deferred revenue	7.2	(385.2)
Decrease / (increase) in inventories	3.2	(2.2)
<b>Cash generated from / (used in) operations</b>	<b>438.4</b>	<b>(106.8)</b>
Interest paid	(4.5)	(2.5)
Income tax paid	(7.2)	(5.8)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>426.7</b>	<b>(115.1)</b>

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 28 Related party transactions

Related parties include parent companies, entities under common control ('group undertakings'), subsidiaries and key management personnel. The company enters into transactions with related parties in the ordinary course of business for the purchase or sale of goods and services provided to and from related parties, purchase of investments from related parties and in relation to group funding arrangements with related parties. Payables due to related parties also arise from group relief. The group relief payable arises on the surrender of other group companies' losses which are used in the company's tax return.

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

Class of related party	Transaction type	2020 £m	2019 £m
Immediate parent	Dividends paid	-	179.8
Subsidiary undertakings	Interest receivable	0.4	3.7
	Interest payable	0.2	-
	Return of capital from investment (note 13)	263.9	-
	Transfer of trade and assets (note 14)	1.9	14.8
	Goodwill from transfer of trade (note 12)	-	6.7
	Dividends in cash received (note 13)	-	6.6
	Dividends in specie received (notes 13 & 30)	85.2	207.1
Other group undertakings	Sales	686.3	742.1
	Purchases	1,576.6	1,827.1
	Interest payable	0.8	2.5
	Sale of trade receivables	-	617.2
	Purchase of investments (note 14)	-	21.5
	Sale of investments (note 13)	-	77.4
	Dividends paid	-	22.2

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 28 Related party transactions (continued)

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

#### Receivables from related parties

	2020 £m	2019 £m
Receivables from subsidiary undertakings	8.5	14.0
Receivable from other group undertakings	127.2	204.7
Less: provision for impairment of receivables from related parties	(29.3)	(29.7)
Short-term deposits held with subsidiary undertakings	838.6	306.5
	945.0	495.5

Included in amounts receivable from related parties is £838.6 million (2019: £306.5 million) which is interest bearing. The amounts are short-term deposits held with IBM International Treasury Services Unlimited Company (Ireland).

#### Payables to related parties

	2020 £m	2019 £m
Parent entities	46.2	46.2
Subsidiary undertakings	24.5	114.2
Other group undertakings	369.0	414.0
	439.7	574.4

Included in amounts payable to related parties is £24.0 million (2019: £17.2 million) which is interest bearing.

The amounts outstanding on these balances are unsecured and will be settled in cash. No guarantees have been given or received.

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 28 Related party transactions (continued)

#### Derivative from related parties

	2020 £m	2019 £m
Other group undertakings	(10.8)	(6.1)

A group undertaking has a 12 month forward rolling hedging programme on behalf of the company to hedge a proportion of its US dollar costs arising from transactions with both related companies and suppliers. The basis of valuation of this is disclosed in note 21.

#### Key management compensation

Key management (including directors) have been determined to be the lead management of each of the lines of business in the United Kingdom. Members of key management are remunerated by the company. The total remuneration of members of key management paid by the company in the year in respect of services to the company was as follows:

	2020 £m	2019 £m
Short-term employee benefits	4.9	5.2
Post-employment benefits	0.5	0.5
Share-based payments	2.6	2.1
	8.0	7.8

Aggregate key management personnel benefits under long term incentive schemes excluding share based payments were £nil (2019: £nil).

# IBM United Kingdom Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2020

### 29 Share capital

Allotted, called up and fully paid

	Number of shares	Ordinary shares £m	Preference shares £m	Share premium £m	Total £m
At 1 January 2019	956,427,056	956.4	-	743.7	1,700.1
<b>At 31 December 2019</b>	956,427,056	956.4	-	743.7	1,700.1
<b>At 31 December 2020</b>	<b>956,427,056</b>	<b>956.4</b>	<b>-</b>	<b>743.7</b>	<b>1,700.1</b>

In the event of a winding up the holder of the preference shares shall be entitled to £1 per share, the issued share premium paid and any declared but unpaid dividends. The payment of a dividend on the preference shares is at the discretion of the directors of the company. The company has the right at any time to redeem all or any preference shares for an amount equal to its fair market value.

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

### 30 Significant non-cash investing and financing activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	2020 £m	2019 £m
<b>Non-cash investing activities</b>		
Dividends in specie received	85.2	207.1
Initial recognition of right-of-use assets	-	159.1
Addition of right-of-use assets	8.6	45.1
	<b>93.8</b>	<b>411.3</b>

	2020 £m	2019 £m
<b>Non-cash financing activities</b>		
Initial recognition of lease liabilities	-	(161.0)
Addition of lease liabilities	(8.5)	(49.9)
	<b>(8.5)</b>	<b>(210.9)</b>

# **IBM United Kingdom Limited**

## **Notes to the Financial Statements**

**For the Year Ended 31 December 2020**

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### **31 Ultimate parent company**

The company's immediate parent undertaking is IBM United Kingdom Holdings Limited, which holds 89% of the shares and is registered in England and Wales.

The company's ultimate parent undertaking and controlling party is International Business Machines Corporation which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of this undertaking may be obtained from IBM Headquarters, New Orchard Road, Armonk, New York 10504.