

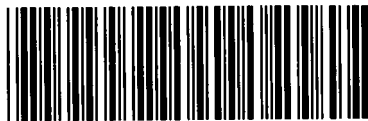
Company Registration Number 741598

IBM United Kingdom Limited

Financial Statements

31 December 2021

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IBM United Kingdom Limited

Financial Statements

For the Year Ended 31 December 2021

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IBM United Kingdom Limited

Company Information

For the Year Ended 31 December 2021

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

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

The directors present their strategic report of IBM United Kingdom Limited for the year ended 31 December 2021.

Review of the business

IBM United Kingdom Limited ('the company' or 'IBM UK'), a subsidiary of International Business Machines Corporation ('IBM' or 'IBM Corporation'), is the primary entity serving one of the most strategically significant markets for IBM Corporation, with a rich tradition and history of innovation since the inception of the International Time Recording Company - the precursor to IBM United Kingdom - in 1912.

IBM Corporation 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 strategies and more than 30,000 have turned to IBM to unlock value from their data. Today, IBM has defined a clear strategy to lead in the era of hybrid cloud and AI. In 2021, IBM took a series of dramatic steps to execute against that strategy, strengthening its portfolio, expanding its partner ecosystem, and returning the company to growth. As a result, this year, IBM Corporation is more strategically focused and more technologically capable. The Corporation is integrating technology and expertise - from IBM, its partners, and even its competitors - to meet the urgent needs of clients, who see hybrid cloud and AI as crucial sources of competitive advantage. IBM Corporation is ready to be the catalyst that makes the world work better as the company works with its clients in pursuit of the digital transformation of their mission-critical businesses.

In the UK, IBM is tightly woven into the fabric of society – its technology is the gold standard for digital transformation projects nationwide. IBM UK helps a majority of the world's banks run credit card transactions, retailers run supply chains, telcos connect customers, healthcare providers improve patient care, and companies from across industries safeguard cybersecurity and more. As one of the largest technology employers in the country, IBM UK is integral to the national economy, investing approximately £170 million in Research and Development each year.

IBM is known for attracting world-class talent, frequently collecting such accolades as one of both TIME and Fortune's 100 Best Companies to Work, TotalJobs' Graduate Employer of the Year, the Employee Network for Equality and Inclusion (ENEI) Global Diversity Winner and more. In the UK, as many as 30 IBM employees have received honours from Her Majesty the Queen for services to our nation in fields including technology, education, marketing, diversity and inclusion and more. The company is proud that many senior technology leaders of global renown (Master Inventors and Distinguished Engineers) call IBM UK home.

In 2021, IBM received the inaugural Terra Carta Seal, recognition from HRH The Prince of Wales for its commitment to nature, people and planet through the creation of genuinely sustainable markets. Together with Science Minister Amanda Solloway, IBM signed a five year £210m partnership with STFC Hartree Centre and IBM to establish a national centre for digital innovation bringing together AI, Cloud, Quantum and more to benefit UK industry and research communities, thus creating new job opportunities in the North West of England. IBM UK is addressing the current skills gap through SkillsBuild Reignite and through its P-Tech programme, which is delivered to secondary education institutions nationwide to equip students with digital skills for their entry into the workplace. IBM UK is a signatory of the Armed Forces Covenant in support of employees who are Army Reservists and the company achieved the Princess Royal Training Award for IBM Foundation, which was singled out by Ofsted, Office for Standards in Education, Children's Services and Skills as 'outstanding'. Entering 2022, 100% of the offices in the UK – including the new Central London location - are re-opened to pre-pandemic capacity.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

Review of the business (continued)

	2021	2020*	
	£m	£m	Yr-to-Yr
Revenue	2,728.0	2,764.7	(1.3)%
Gross profit margin	9.0 %	8.0 %	1.0 %
Administrative expenses, net impairment gains on financial assets and other operating income	(196.9)	(201.7)	(2.4)%
Operating profit	48.1	18.8	155.9 %
Profit / (loss) before income tax	194.9	(125.5)	255.3 %

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 28 to 33 of the financial statements.

* Reclassified to reflect discontinued operations presentation.

On 1 September 2021, the company sold its managed infrastructure services ('MIS') business to Kyndryl UK Limited. The disposed business represented approximately 20 percent of the total company's revenues in 2020 and the consideration on sale in 2021 amounted to £291.1 million. The results of the disposed business are not included in the above table but are presented separately as discontinued operations in the Income Statement.

Total revenue from continuing operations decreased by 1.3 percent compared to 2020. Revenue from the core business units ('Home Revenue' per note 3 of the financial statements) decreased by 1.2 percent. Export revenues, which are derived from sales of services, including research and development, to companies in the IBM group overseas, decreased by 1.7 percent compared to 2020. Gross profit margins increased by 1.0% point year on year, which represents £24.5 million.

The increase in profit before taxation from continuing operations is primarily driven by an increase in gross profit of £24.5 million and a reversal of the prior year impairment charge of £166.0 million for the investment in International Business Machines Limited, a subsidiary entity. The reversal is a result of an increase to the fair value of net assets of the subsidiary entity.

The company had a net cash outflow from operating activities of £759.7 million (a decrease of £1,186.4 million compared to 2020) which is compensated by a net cash inflow from investing activities of £765.3 million (an increase of £1,106.4 million).

The increase in the net retirement benefit asset to £230.6 million (2020: £170.7 million) is primarily a result of actuarial gains.

The financial position of the company has changed year on year to a closing net asset position of £1,931.2 million from £1,969.0 million in 2020. The decrease of £37.8 million is mainly driven by the distribution in specie offset by the generated profit for the year and the increase in the retirement benefit asset. The directors are pleased with the performance of the company given the challenging economic environment and steps taken by the company during the year, including the divestiture. IBM UK, as part of the IBM group, entered 2021 with a series of clear but ambitious goals: to strengthen the portfolio, simplify operations, and broaden its ecosystem. The company is now more nimble, focused, and positioned for sustainable growth and to fulfill IBM's purpose to be the catalyst that makes the world work better.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

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.

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. 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.

The risk of high inflation is managed through long term supplier relationships and contracts that either address inflation with the contractual language or lock in a fixed price.

The long term impacts of the Russian war in Ukraine remain uncertain; however we do not expect a significant impact on the company's future results of operations or financial position.

Technology Obsolescence

Information Technology solutions are rapidly evolving and, in order to stay relevant to our clients IBM continues to shape the technologies of tomorrow. IBM Research continues to advance the fundamental science of computing, driving innovation and pioneering a new era of accelerated discovery. 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.

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 2021, which does not form part of this report.

Future developments

The company expects to continue its progress as a leading hybrid cloud and AI company with a focus on revenue growth.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

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 11 - 15 of IBM's annual report for the year ended 31 December 2021 (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.

During 2021 the directors and other local leaders were briefed on a range of employment matters, including employee engagement, increasing diverse representation at all levels of the business, talent, sponsorship and mentoring programmes and ongoing focus on mental health and wellbeing. The impact of the Kyndryl divestiture, introduction of the new Go To Market model, and the impact of the ongoing covid pandemic were factors which dominated the employee agenda.

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 provides leadership on IBM's Diversity & Inclusion agenda in the UK, including support to the IBM UK's diverse community of employees. In 2021, examples of matters considered by the Council included a review of our diverse hiring status by gender and ethnicity for our early professional and professional populations, and the various recruitment activities and third parties engaged to increase our attraction strategy; understanding the barriers to sharing race & ethnicity data, LGBT Pride month and the introduction of pronouns, the obtainment of the Disability confident scheme Level 1 status achieved 1st May, and the accessibility review for the new York Road offices; the re-alignment of our BAME BRG to become our Black BRG, Asian BRG and Ethnic Minority network; a review of many of the successful celebrations: Reservists panel day during Armed Forces Week, Celebration of Carers week, International Women's Day, Black Lives Matter's solidarity reflection of George Floyd's death.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

In addition, in 2021, IBM UK Limited became an accredited Living Wage Employer by signing up through the Living Wage Foundation.

Further details on employee matters can be found in the Directors' Report on page 10 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 2021, the CET oversaw a wide range of matters and reported regularly on client satisfaction ratings across the IBM UK business. 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.

During 2021, to improve how value is delivered to clients, the company updated its client engagement model to emphasise experiential selling and co-creation. IBM has also greatly expanded its partner ecosystem. This network of systems integrators, independent software vendors, service providers, channel partners, and developers has been carefully selected to deliver value to our clients, our partners, and IBM.

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 2021 the directors considered a wide range of matters important to the company's clients, including updates on; the impact of COVID-19; the impact of Kyndryl divestiture; the introduction of the new Go To Market model, 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.

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.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

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, with a key focus on education and skills.

In October 2021, IBM Chairman and CEO Arvind Krishna said: "Talent is everywhere; training opportunities are not. This is why we must take big and bold steps to expand access to digital skills and employment opportunities so that more people – regardless of their background – can take advantage of the digital economy. Today, IBM commits to providing 30 million people with new skills by 2030. This will help democratise opportunity, fill the growing skills gap, and give new generations of workers the tools they need to build a better future for themselves and society."

There are a number of global education and skills programmes which IBM offers to communities around the world. In the UK we focus on two key education and skills initiatives – SkillsBuild and P-TECH.

SkillsBuild is a free digital learning platform which was launched in 2020. It seeks to serve, students (ages 13 - 20 years) and their 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 also serves 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 non-for-profit organisations to ensure that under-served communities such as veterans, refugees and young people not in education have access and are encouraged to benefit from SkillsBuild opportunities and participate in the project based learning programmes. 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.

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 three schools in Leeds in 2019 and new students continue to be enrolled each academic year. P-TECH West London was launched in October 2021 at Ada Lovelace School in Ealing where all Year 10 students were enrolled onto the programme. IBM volunteers work actively across the schools to ensure that students participate in engaging workshops and we look forward to welcoming our first cohort of P-TECH students into IBM for their 6-week paid internship in the summer of 2022.

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.

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 as well as on the [ibm.org](https://www.ibm.org/responsibility/reports-and-policies) website: <https://www.ibm.org/responsibility/reports-and-policies>.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2021

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 2021, 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.

In 2020, 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 to work in IBM locations.

During 2021, the board of directors continued to make various decisions through the CMT to support the health, safety and well-being of employees by limiting travel and in-person meetings and events, required self-screening before accessing workplaces and imposing strict social distancing and mask wearing. 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: 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.

Signed on behalf of the board



S Visvanathan
Director

29 June 2022

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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 2021.

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 2021 the directors approved a distribution in specie of £291.1 million in the form of two loan notes received from Kyndryl UK Limited (2020: £nil dividends and distributions).

Events after the reporting date

Subsequent events relevant to the company are disclosed in note 27.

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 2021 or 31 December 2020. 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 2021

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 22 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 £172.5 million (2020: £179.1 million) was recharged to other IBM group companies.

Acquisitions

On 31 December 2021 the company acquired 100% of the share capital of Instana UK Limited for £2.8 million from IBM International Group B.V. (Netherlands).

Divestitures

On 8 October 2020, International Business Machines Corporation announced its intention to separate its managed infrastructure services ('MIS') unit of its Global Technology Services ('GTS') segment into a new private limited company, Kyndryl. The company completed the sale on 1 September 2021 and a loss on disposal of £33.3 million was recognised in 2021.

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 the company's intranet site, by the internal publication 'Link.me' and through all employees slack channels.

There is a quarterly cascade of business performance information cascaded from the Chairman and CEO of IBM, 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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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 IBM employees to be active volunteers in their communities. Some IBM employees 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, IBM employees 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.

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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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

T Eagle

S Bagshaw (appointed 1 April 2021)

C Cook (appointed 1 April 2021)

F Sciutti (resigned 1 April 2021)

N Hill (resigned 1 April 2021)

A Wilcock (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.

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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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.

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.

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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

Board Composition

Details of the company's board of directors are given on page 12 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 three senior sales and client relationship executives who are 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.

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. 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, the board 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. The Brexit Steering Group, chaired by the UK CFO, also continued to meet as necessary in 2021 to oversee Brexit transition matters.

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 2021 the renewal of various delegations concerning Treasury and Procurement matters. 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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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. The directors 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 and prevention of the tax evasion facilitation. 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.

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, as well as strategic partnerships and opportunities arising from the company's THINK London 2021 client marketing 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. IBM also has a strong financial risk management programme in place which is aligned with the group's global programme.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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.

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 2021, 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 and returning to the office when relevant. 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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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 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 pandemic and Brexit transition. Further details of recent Team activity in this respect can be found in the s.172 Statement.

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.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

The RBA 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.

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 ESG report IBM 2021 ESG Report.pdf.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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 optimised 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 the following goals:

- 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 mtCO₂e or less by 2030, with 90% of IBM's electricity coming from renewable sources.

More information about IBM's corporate environmental policy and programmes can be found at the IBM and the Environment website and the IBM 2021 ESG report.

Streamlined Energy & Carbon Reporting ('SECR')

The company's total energy consumption for 2021 is 110,958,546 KWH (2020: 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 2021 – 31 December 2021 and the comparative period. The company divested its managed infrastructure services business in 2021. Data for any location in scope of the divestiture is excluded from 1 September 2021 at which time operational and reporting responsibility transferred to a new, separate company entity. The divestiture included the majority of the company's Data Centre portfolio, and this is reflected in reduced energy consumption and emissions reported compared to 2020.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

The company's calculated greenhouse gas emissions for 2021 is show in the table below:

Source	Location - based	Market - based
Scope 1		
Use of fossil fuels for operations (tCO ₂ e)	3,028	3,028
Use of fossil fuels for transportation (tCO ₂ e)	471	471
Scope 2		
Use of electricity in IBM UK managed locations (tCO ₂ e)	17,904	413
Scope 3		
Purchased goods and services - co-location data centres (tCO ₂ e)	1,922	1,615
Business travel (category 6) - domestic ground transportation (tCO ₂ e)	128	128
Total (tCO₂e)	23,453	5,655

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

Source	Location - based	Marked-based
Scope 1		
Use of fossil fuels for operations (tCO ₂ e)	3,623	3,623
Use of fossil fuels for transportation (tCO ₂ e)	775	775
Scope 2		
Use of electricity in IBM UK managed locations (tCO ₂ e)	28,151	592
Scope 3		
Purchased goods and services - co-location data centres (tCO ₂ e)	3,047	2,694
Business travel (category 6) - domestic ground transportation (tCO ₂ e)	251	251
Total (tCO₂e)	35,847	7,935

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

Method	2021 Metric tCO ₂ e/KSF*	2020 Metric tCO ₂ e/KSF*
Location-based	13	18
Market-based	3	4

* Thousand (K) Square Feet (SF)

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2021

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 2021 published by the Department for Business, Energy & Industrial Strategy.

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 2021, through its energy management programme, the company saved 1,835,189 kWh of energy with measures that included HVAC optimisation during decreased occupancy and upgrading to more energy efficient equipment e.g. LED lighting and replacement chillers.

Signature

Signed on behalf of the board



S Visvanathan
Director

29 June 2022

IBM United Kingdom Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 2021

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 UK-adopted international accounting standards.

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 period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards 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 2021

Report on the audit of the financial statements

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 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021; 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.

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 or its controlled undertakings in the period under audit.

IBM United Kingdom Limited

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

For the Year Ended 31 December 2021

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- review of the Company's financial position and performance as of and for the year ended 31 December 2021 and of the Company's budget and cashflow forecast for the period of 12 months from the date of the expected report signing date,
- assessment of the impact of IBM Group's restructuring plans and of the separation of its managed infrastructure services business on the Company's operations,
- assessment of IBM Group's continued support to its operations in the United Kingdom,
- inquiry with management and review of subsequent events, and
- review of the disclosures relating to the going concern basis of preparation.

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.

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.

IBM United Kingdom Limited

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

For the Year Ended 31 December 2021

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 2021 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.

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 in respect of the financial statements, 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 2021

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 the Bribery Act 2010, the General Data Protection Regulation, and import and export duties regulations, 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 and corporate tax compliance. 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 significant 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 and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations, and 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 individually and collectively for indications of management bias; ii) designed risk filters to search for journal entries, such as those posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (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. 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 2021

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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 June 2022

IBM United Kingdom Limited

Income Statement

For the Year Ended 31 December 2021

	Note	2021 £m	2020* £m
Continuing operations			
Revenue	3	2,728.0	2,764.7
Cost of sales	4	(2,483.0)	(2,544.2)
Gross profit		245.0	220.5
Administrative expenses	4	(202.1)	(203.7)
Net impairment gains on financial assets	4	5.0	0.8
Other operating income		0.2	1.2
Operating profit		48.1	18.8
Interest income calculated using the effective interest rate method	8	1.3	0.6
Other finance costs	9	(1.8)	(2.9)
Net impairment reversal / (charge) on investments	14	145.0	(230.9)
Income from investments	14	-	85.2
Net interest income on defined benefit asset	23	2.3	3.7
Profit / (loss) before income tax		194.9	(125.5)
Income tax expense	10	(16.0)	(3.3)
Profit / (loss) from continuing operations		178.9	(128.8)
Discontinued operations			
(Loss) / profit from discontinued operations (net of tax)	11	(38.7)	9.2
Profit / (loss) for the year		140.2	(119.6)

* Reclassified to exclude discontinued operations.

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2021

	Note	2021 £m	2020 £m
Profit / (loss) for the year		140.2	(119.6)
Other comprehensive income / (loss)			
Items that will not be reclassified to profit or loss			
Actuarial gain / (loss) on defined benefit pension schemes	23	106.9	(19.5)
Deferred tax in respect of defined benefit pension schemes	16	(12.7)	8.0
Other movement in deferred tax asset		-	(0.9)
Other comprehensive income / (loss) for the year, net of income tax		94.2	(12.4)
Total comprehensive income / (loss) for the year		234.4	(132.0)
Total comprehensive income / (loss) for the year arises from:			
Continuing operations		273.1	(141.2)
Discontinued operations		(38.7)	9.2

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Statement of Changes in Equity

For the Year Ended 31 December 2021

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2020		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	23	-	-	(19.5)	(19.5)
Deferred tax in respect of defined benefit pension schemes	16	-	-	8.0	8.0
Other movement in deferred tax asset		-	-	(0.9)	(0.9)
Total comprehensive loss		-	-	(132.0)	(132.0)
Recognition of share-based payments	24	-	-	10.2	10.2
Deferred tax in respect of share-based payments	16	-	-	0.7	0.7
Total transactions with owners		-	-	10.9	10.9
At 31 December 2020		956.4	743.7	268.9	1,969.0
Profit for the financial year		-	-	140.2	140.2
Actuarial gain on defined benefit pension schemes	23	-	-	106.9	106.9
Deferred tax in respect of defined benefit pension schemes	16	-	-	(12.7)	(12.7)
Total comprehensive profit		-	-	234.4	234.4
Share premium reduction	30	-	(350.0)	350.0	-
Distribution in specie	29	-	-	(291.1)	(291.1)
Recognition of share-based payments	24	-	-	17.8	17.8
Deferred tax in respect of share-based payments	16	-	-	1.3	1.3
Other movement in deferred tax asset		-	-	(0.2)	(0.2)
Total transactions with owners		-	(350.0)	77.8	(272.2)
At 31 December 2021		956.4	393.7	581.1	1,931.2

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Statement of Financial Position

As at 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	12	82.5	250.7
Right-of-use assets	25	64.7	98.0
Intangible assets	13	341.5	341.5
Investments	14	896.1	916.1
Deferred tax assets	16	29.4	58.4
Finance receivables		12.2	22.9
Other non-current assets	19	352.5	155.8
Retirement benefit asset	23	230.6	170.7
		2,009.5	2,014.1
Current assets			
Inventories	17	0.7	1.0
Finance receivables		16.6	13.6
Income tax receivable		16.6	24.3
Trade and other receivables	18	345.9	371.9
Receivables from related parties	29	370.9	945.0
Derivatives from related parties	29	2.7	-
Cash and cash equivalents		15.0	49.0
Other current assets	19	439.1	179.3
		1,207.5	1,584.1
Total assets		3,217.0	3,598.2
Non-current liabilities			
Deferred revenue	3	(100.0)	(146.8)
Provisions for liabilities and charges	20	(0.7)	(6.1)
Lease liabilities	25	(39.6)	(58.2)
Payables to related parties	29	(9.8)	-
Other payables	21	-	(0.1)
		(150.1)	(211.2)
Current liabilities			
Deferred revenue	3	(332.5)	(368.7)
Provisions for liabilities and charges	20	(7.7)	(73.9)
Trade and other payables	21	(401.1)	(483.9)
Payables to related parties	29	(372.8)	(439.7)
Derivatives to related parties	29	-	(10.8)
Lease liabilities	25	(21.6)	(41.0)
		(1,135.7)	(1,418.0)
Total liabilities		(1,285.8)	(1,629.2)
Net assets		1,931.2	1,969.0

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Statement of Financial Position

As at 31 December 2021

	Note	2021 £m	2020 £m
Issued capital and reserves			
Share capital	30	956.4	956.4
Share premium	30	393.7	743.7
Retained earnings		581.1	268.9
Total equity		1,931.2	1,969.0

The financial statements on pages 28 to 108 were approved by the directors and authorised for issue on 29 June, 2022, and are signed on their behalf by:



S Visvanathan
Director

Company registration number: 741598.

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Statement of Cash Flows

For the Year Ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash (outflow) / inflow from operating activities	28	(759.7)	426.7
Cash flows from investing activities			
Payments to acquire property, plant and equipment	12	(27.7)	(77.6)
Proceeds from the sale of property, plant and equipment		9.2	4.1
Proceeds from return of capital from investments	14	167.8	263.9
Payments to acquire investments in subsidiaries	14	(2.8)	-
Decrease / (increase) in short-term deposits with related parties	29	617.0	(532.1)
Interest received		1.8	0.6
Net cash inflow / (outflow) from investing activities		765.3	(341.1)
Cash flows from financing activities			
Repayment of principal in lease liability		(39.6)	(51.6)
Net cash outflows from financing activities		(39.6)	(51.6)
Net (decrease) / increase in cash and cash equivalents		(34.0)	34.0
Cash and cash equivalents at beginning of year		49.0	15.0
Cash and cash equivalents at end of year		15.0	49.0

The notes on pages 34 to 108 form part of these financial statements.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

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 UK - adopted international accounting standards and with requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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, International Business Machines Corporation, 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 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 2021

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 2021:

- Interest Rate Benchmark (IBOR) Reform - Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The guidances did not have a material impact in the company's financial results.

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 IAS 1 - Classification of Liabilities as Current or Non-current, Deferral of Effective Date;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8: Definition of Accounting Estimates;
- Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

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. Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based on all information (historical, current and forecasted) that is reasonably available to the company, taking into consideration the type of customer, the type of transaction and the specific facts and circumstances of each arrangement. 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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.

Arrangements with Multiple Performance Obligations

The company's global capabilities as a cognitive 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 reinvents its platforms and delivery methods, including 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 cloud and 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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.

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.

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 and subject to many variables. 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 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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.

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 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 contain many 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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, the software bundle (e.g., Cloud Pak) is accounted for under a proprietary software model.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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 costs incurred to date (i.e., the measure of progress), as a percentage of the total estimated 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 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Revenue recognition (continued)

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.

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 the corresponding 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

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.

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 right-of-use ('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 2021

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 2021

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 2021

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 2021

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. After the subsidiary shifts all its trade and associated assets 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 2021

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

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.

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

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.

Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Share capital is measured at par value. Proceeds in excess of par value of shares issued or additional capital contribution without corresponding issuance of shares are credited to share premium.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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 (note 18), receivables from related parties (note 29) and finance receivables recognised in the statement of financial position.

(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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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 21 and 29). Trade and other payables, payables to related parties and lease liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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.

Discontinued operations

A discontinued operation is a component of entity that has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Income Statement and other comprehensive income.

The company did not recognise non-current assets and liabilities (or a disposal group) as held for sale as of 31 December 2020 because IFRS 5 criteria were not fully met as of that date.

Discontinued operations are presented as a separate line item in both current and prior periods of the Income statement.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

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.

Impairment review

The company reviews goodwill, investments and property, plant, equipment for impairment or increased value of previously impaired investments, property, plant and equipment. The application of impairment accounting requires the use of significant estimates and assumptions. Impairment testing requires an estimate of future cash flows which are discounted to their present value. The company's estimates are based upon assumptions believed to be reasonable, but which would not reflect unanticipated events and circumstances that may occur (notes 12-14). Impairment testing of investments in subsidiaries requires review of investments value either by using a) fair value less costs to sell, which is based on the current market price for similar assets and liabilities or b) value in use. An impairment loss recognised in prior years for an investment is reversed if there was a change in the estimates used to determine the investments' recoverable amount. If this is the case, the carrying amount of the investment is increased to its recoverable amount.

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 23).

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

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
2021			
Revenue from contracts with customers			
Hardware	131.5	-	131.5
Software	465.8	-	465.8
Services	1,537.2	591.7	2,128.9
	2,134.5	591.7	2,726.2
Revenue from other sources			
Financing	1.8	-	1.8
	2,136.3	591.7	2,728.0
2020*			
Revenue from contracts with customers			
Hardware	143.5	-	143.5
Software	525.1	-	525.1
Services	1,492.5	602.0	2,094.5
	2,161.1	602.0	2,763.1
Revenue from other sources			
Financing	1.6	-	1.6
	2,162.7	602.0	2,764.7

* Reclassified to exclude revenue from discontinued operations.

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 Hybrid Infrastructure solution including Z system as well as Distributed Infrastructure solutions such as Power and storage solutions. The capabilities of these products can also be delivered through as-a-Service or cloud delivery models, such as Infrastructure-as-a-Service and 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 hybrid platform software solutions, which contain many of the company's strategic areas including Red Hat, automation, data and AI, and security; transaction processing which primarily supports mission-critical systems for clients; and, distributed infrastructure 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

3 Revenue (continued)

Services revenue includes consulting services, including business transformation, technology consulting and application operations including the design and development of complex IT environments to a client's specifications (e.g., design and build), cloud services, business process outsourcing; and infrastructure support. Many of these services can be delivered entirely or partially through cloud or as-a-Service delivery models.

Disaggregation of revenue from contracts with customers

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

	2021	2020*
	£m	£m
Consulting	1,098.2	999.8
Software and Cloud Solutions	642.1	694.7
Infrastructure	393.3	430.2
Other	592.6	638.4
	2,726.2	2,763.1

* Reclassified to exclude revenue from discontinued operations. In 2021, the company made a number of changes to its organisational structure and management system to align the company's operating model. With these changes, the company revised its reportable segments, which did not impact the total revenue balance from continuing operations but the prior-year segment balances have been recast.

Reconciliation of contract balances

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

	2021	2020
	£m	£m
Trade and other receivables, net of provision for impairment (note 18)	345.9	371.9
Contract assets, net of provision for impairment (note 19)	36.0	32.2
Deferred revenue (non-current)	(100.0)	(146.8)
Deferred revenue (current)	(332.5)	(368.7)
	(50.6)	(111.4)

Refer to note 22 for the loss allowance provided for trade receivables and contract assets.

During the year, revenue was reduced by £6.5 million (2020: reduced by £5.3 million) for performance obligations satisfied (or partially satisfied) in the previous year, mainly due to changes in estimates on percentage-of-completion based contracts.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

3 Revenue (continued)

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.

	2021	2020
	£m	£m
Contract assets		
Balance at the beginning of year	32.2	39.9
Transfer to receivables	(28.1)	(38.0)
Increase due to revenue recognised during the year less amounts billed to customers	34.1	30.3
Disposal due to discontinued operations	(2.2)	-
Balance at the end of the year (note 19)	36.0	32.2
Deferred revenue		
Balance at the beginning of year	(515.5)	(478.8)
Revenue recognised that was included in the deferred revenue balance at the beginning of the year	315.2	345.9
Increases due to billings, excluding amounts recognised as revenue during the year	(316.0)	(382.6)
Disposal due to discontinued operations (note 11)	83.8	-
Balance at the end of the year	(432.5)	(515.5)

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

3 Revenue (continued)

At 31 December 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was £3,622.2 million (2020: £3,847.6 million). Given the profile of contract terms, approximately 57 percent of this amount is expected to be recognised as revenue over the next two years, approximately 32 percent between three and five years and the balance thereafter.

The following table provides information about deferred cost balances:

	2021 £m	2020 £m
Capitalised costs to obtain a contract	13.0	31.4
Deferred costs to fulfil a contract	24.3	143.5
	37.3	174.9

Of the total, £23.1 million (2020: £118.5 million) is non-current and £14.2 million (2020: £56.4 million) is current. The non-current and current balance of deferred costs are included within Other assets (note 19).

The amount of total deferred costs addition and amortisation during the year were £26.6 million (2020: £48.8 million) and £50.5 million (2020: £60.2 million) respectively. On 1 September 2021, the company transferred £113.7 million of deferred costs due to discontinued operations.

4 Expenses by nature

	2021 £m	2020* £m
Costs of services and products	1,379.9	1,395.3
Cost of licences	101.3	111.3
Employee expenses (note 6)	872.7	966.8
Pension expenses (note 6)	105.8	78.3
Depreciation	55.8	66.6
Advertising costs	24.8	37.8
Net foreign currency exchange (gain) / loss	(3.1)	5.7
Impairment gains on financial assets	(5.0)	(0.8)
Other expenses	147.9	86.1
Total cost of sales, administrative expenses and net impairment losses on financial assets and contract assets	2,680.1	2,747.1

* Reclassified to exclude expenses from discontinued operations.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

5 Auditors' remuneration

	2021	2020
	£000	£000
Audit services in respect of the company's financial statements	1,033	1,080
Audit related assurance services	-	351
All other services	17	5
	1,050	1,436
Audit services in respect of the company's associated pension scheme	118	105

In addition, auditors' remuneration of £135,000 (2020: £140,000) was borne by this company on behalf of fellow IBM United Kingdom group undertakings.

6 Employee expenses

	2021	2020*
	£m	£m
Wages and salaries	741.7	840.5
Social security costs	91.7	97.7
Pension cost for defined contribution pension plans	61.5	65.9
Pension cost for defined benefit pension plans (note 23)	5.9	6.0
Pension cost for defined benefit pension plans - plan amendments (note 23)	38.4	6.4
Share based payment expense (note 24)	39.3	28.6
	978.5	1,045.1

* Reclassified to exclude expenses from discontinued operations.

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 23) and amounts recognised in the statement of comprehensive income in respect of defined benefit pension schemes.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

6 Employee expenses (continued)

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

	2021 Number	2020 Number
Services and marketing	6,769	8,469
Product development	1,816	2,032
	8,585	10,501

The monthly average number of employees covers also 1,234 employees who were transferred to Kyndryl UK Limited during 2021. The totals include employees who have fixed-term contracts with the company. They also include 37 employees (2020: 55 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.

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

	2021 £m	2020 £m
Short-term employee benefits	2.7	1.5
Post-employment benefits	0.2	0.1
Share-based payments	2.7	1.6

	2021 Number	2020 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	5	4
Number of directors who accrued benefits under defined benefit schemes	1	-
Number of directors who accrued benefits under defined contribution schemes	5	3

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

7 Directors' emoluments (continued)

Two directors were appointed and one director resigned during the year. One director was appointed and one director resigned during the prior year.

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments and post-employment benefits, were £nil (2020: £nil).

Emoluments of highest paid director:

	2021	2020
	£m	£m
Short-term employee benefits	0.8	0.6
Share-based payments	1.1	1.3

The highest paid director received shares in respect of qualifying services under a long term incentive scheme during 2021 and 2020. 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 2021 or 2020.

8 Interest income calculated using the effective interest rate method

	2021	2020
	£m	£m
Interest on deposits in group undertakings at amortised cost	-	0.4
Other interest receivable	1.3	0.2
	1.3	0.6

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

9 Other finance costs

	2021	2020*
	£m	£m
Interest on payable to related parties	1.2	1.0
Interest expense on lease liabilities	0.6	1.0
Other interest payable	-	0.9
	1.8	2.9

* Reclassified to exclude costs from discontinued operations.

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

10 Income tax expense

(a) Analysis of expense in the year

	2021	2020
	£m	£m
Current tax:		
UK corporation tax based on profit for the year at 19% (2020: 19%)	9.7	9.7
Adjustments relating to prior years	15.1	4.3
Total current tax	24.8	14.0
Deferred tax:		
Movements on temporary differences	1.9	(4.1)
Adjustments relating to prior years	(12.0)	(4.4)
Total deferred tax (note 16)	(10.1)	(8.5)
Income tax expense	14.7	5.5
Income tax expense is attributable to:		
Tax from continuing operations	16.0	3.3
Tax from discontinued operations	(1.3)	2.2

(b) Reconciliation of tax expense

The tax assessed on the profit / (loss) for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%).

	2021	2020
	£m	£m
Profit / (loss) from continuing operations before income tax	194.9	(125.5)
Loss from discontinued operations before income tax	(40.0)	11.4
	154.9	(114.1)
Tax at the domestic income tax rate of 19% (2020: 19%)	29.4	(21.7)
Effects of:		
Adjustments relating to prior years	3.1	(0.1)
Expenses not deductible for tax purposes	5.4	44.6
Income not subject to UK tax	(27.5)	(16.1)
Share options	1.9	(1.3)
Withholding tax	0.6	0.5
Adjustment to tax rates	1.8	(0.4)
Total income tax expense (note 10(a))	14.7	5.5

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

10 Income tax expense (continued)

(c) Factors that may affect future tax expense

The Finance Act 2021 included legislation to increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The impact of this change has been reflected in any closing deferred tax balances.

11 Discontinued operations

On 8 October 2020, IBM Corporation announced its intention to separate its managed infrastructure services ('MIS') unit of its Global Technology Services ('GTS') segment into a new public company, Kyndryl.

On 1 September 2021, the company signed an Asset purchase agreement and sold its MIS business to Kyndryl UK Limited. The assets and liabilities related to MIS business were sold for consideration equal to the fair value of assets and liabilities sold. The difference between the consideration receivable and book value of sold assets and liabilities was recognised as a loss in the Income Statement.

On 3 November 2021, IBM Corporation, the ultimate parent entity completed the separation of MIS business through a spin-off to an independent company, Kyndryl Holdings, Inc.

For all the periods prior to the separation, the financial results of MIS are presented separately from continuing operations on the Income Statement or Statement of other Comprehensive Income.

The directors assessed and consider the sale as discontinued operations in the current year. Financial information relating to the discontinued operations for the period to the date of disposal is set out below. The financial performance and cash flow information presented are for the eight months ended 31 August 2021 (2021 column) and the year ended 31 December 2020.

	2021	2020
	£m	£m
Revenue	470.3	751.0
Expense	(477.0)	(739.6)
Loss on disposal of operations	(33.3)	-
(Loss) / profit from discontinued operations before income taxes	(40.0)	11.4
Income tax on ordinary activities	1.3	(2.2)
(Loss) / profit from discontinued operations, net of income taxes	(38.7)	9.2

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

11 Discontinued operations (continued)

The carrying amounts of the major classes of assets and liabilities at the date of sale, 1 September 2021, were as follows:

	2021
	£m
<hr/>	
Assets	
Properties, plant and equipment (note 12)	132.0
Right-of-use assets	49.3
Deferred tax assets (note 16)	27.7
Finance receivables	12.1
Trade and other receivables	66.6
Cash and cash equivalents	11.0
Other assets (note 19)	193.8
Total assets disposed	492.5
Liabilities	
Deferred revenue (note 3)	(83.8)
Provisions for liabilities and charges	(0.9)
Lease liabilities	(52.3)
Trade and other payables	(28.1)
Total liabilities disposed	(165.1)
Equity	
Equity compensation reserve	(3.0)
Total	324.4
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IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

11 Discontinued operations (continued)

Details on the sale of assets:

	2021 £m
Consideration receivable	291.1
Carrying amount of net assets sold	(324.4)
Loss on sale	(33.3)

The consideration receivable represents two loan notes issued by Kyndryl UK Limited.

Cash inflows / (outflows) from discontinued operations:

	2021 £m	2020 £m
Net cash flows (used in) / from operating activities	(1.3)	37.6
Net cash flows used in investing activities	(3.7)	(26.4)
Net cash flows used in financing activities	(15.1)	(21.2)
Net cash flow for the year	(20.1)	(10.0)

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

12 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2020	125.5	479.2	310.5	915.2
Additions	7.9	66.6	3.1	77.6
Disposals	-	(25.9)	(28.4)	(54.3)
At 31 December 2020	133.4	519.9	285.2	938.5
Additions	3.9	18.3	5.5	27.7
Disposals	-	(23.0)	(9.2)	(32.2)
Disposal due to discontinued operations (note 11)	(0.4)	(331.9)	(169.2)	(501.5)
At 31 December 2021	136.9	183.3	112.3	432.5
Accumulated depreciation				
At 1 January 2020	86.7	332.4	242.4	661.5
Charge for year	3.1	56.7	14.6	74.4
Disposals	-	(21.2)	(26.9)	(48.1)
At 31 December 2020	89.8	367.9	230.1	687.8
Charge for year (note 28)	3.0	41.1	10.2	54.3
Disposals	-	(13.5)	(9.1)	(22.6)
Disposal due to discontinued operations (note 11)	(0.2)	(237.3)	(132.0)	(369.5)
At 31 December 2021	92.6	158.2	99.2	350.0
Net book value				
At 31 December 2021	44.3	25.1	13.1	82.5
At 31 December 2020	43.6	152.0	55.1	250.7

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 2021

13 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2020	652.4	0.7	653.1
At 31 December 2020	652.4	0.7	653.1
Disposals	-	(0.7)	(0.7)
At 31 December 2021	652.4	-	652.4
Accumulated amortisation and impairment			
At 1 January 2020	310.9	0.7	311.6
At 31 December 2020	310.9	0.7	311.6
Disposals	-	(0.7)	(0.7)
At 31 December 2021	310.9	-	310.9
Net book value			
At 31 December 2021	341.5	-	341.5
At 31 December 2020	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% (2020: 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 12.1% (2020: 11.7%). The post-tax discount rate was 10% for both years. If the pre-tax discount rate used for impairment review increased by 1% to 13.1% 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 2021

13 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.

14 Investments

	£m
Cost	
At 1 January 2020	1,749.6
Return of capital	(263.9)
At 31 December 2020	1,485.7
Additions	2.8
Return of capital	(167.8)
At 31 December 2021	1,320.7
Accumulated impairment	
At 1 January 2020	338.7
Impairment charge for the year	230.9
At 31 December 2020	569.6
Impairment charge for the year	21.0
Impairment reversal for the year	(166.0)
At 31 December 2021	424.6
Net book value	
At 31 December 2021	896.1
At 31 December 2020	916.1

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

14 Investments (continued)

On 30 December 2021 the direct subsidiary undertaking International Business Machines Limited reduced its share capital by cancelling and extinguishing 167,802,000 of the issued ordinary shares of £1 each and repaid the company £167.8 million. No capital gain or loss arose on the disposal of the investment.

Subsequent to the transaction described above, the company's indirect ownership of IBM GF International Treasury Company Designated Activity Company (Ireland) and IBM International Treasury Services Unlimited Company (Ireland) decreased from 63% to 60% and the company's indirect ownership of profit sharing certificates of IBM Netherlands Treasury B.V. (Netherlands) decreased from 27% to 26%.

On 31 December 2021 the company acquired 100% of the share capital of Instana UK Limited for \$3.7 million, translated into GBP at the spot rate on the day of the transaction to £2.8 million.

During 2021 Algorithmics Risk Management Limited, Kenexa Quorum Holdings Limited and Transitive Corporation Limited entered liquidation process.

At the year end the directors conducted an impairment review of the investments held. As a result the company reversed the impairment of the investment in International Business Machines Limited by £166.0 million driven by increase 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 or reversal. In addition, the company impaired the investment in Kenexa Technology LLC in value of £21.0 million due to decrease of its net assets' fair value. 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 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 owned 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.

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

During the prior 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 29 and 31).

At the previous 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

14 Investments (continued)

The company had beneficial ownership of all the ordinary share capital and voting rights of the following companies at 31 December 2021 and 2020 (unless otherwise stated).

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
Direct holdings			
Kenexa Technology LLC	United States	25%	Trading
Instana UK Limited	United Kingdom	100%	Non-trading
International Business Machines 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
SPSS Limited	United Kingdom	100%	Dormant
Sterling Commerce (UK) Limited	United Kingdom	100%	Dormant
The Analytic Sciences Corporation Limited	United Kingdom	100%	Dormant
Algorithmics Risk Management Limited	United Kingdom	100%	In liquidation
Cleversafe UK Limited	United Kingdom	100%	In liquidation
i2 Limited	United Kingdom	100%	In liquidation
Kenexa Quorum Holdings 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
Transitive Corporation Limited	United Kingdom	100%	In liquidation

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For the Year Ended 31 December 2021

14 Investments (continued)

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
Indirect holdings through Algorithmics Risk Management Limited			
Algorithmics (UK) Limited	United Kingdom	100% (indirect)	In liquidation
Indirect holdings through Blue Wolf Global Limited			
Bluewolf International Limited	United Kingdom	100% (indirect)	Dormant
Indirect holdings through International Business Machines Limited			
IBM GF International Treasury Company Designated Activity Company	Ireland	60% (indirect)	Trading
Indirect holdings through IBM GF International Treasury Company Designated Activity Company			
IBM International Treasury Services Unlimited Company	Ireland	60% (indirect)	Trading
Indirect holdings through IBM International Treasury Services Unlimited Company			
IBM Netherlands Treasury B.V.	Netherlands	3% (indirect) & 26% profit sharing certificates	Trading
Indirect holdings through Kenexa Quorum Holdings Limited			
Kenexa Global Recruitment Services Limited	United Kingdom	100% (indirect)	In liquidation
Indirect holdings through The Analytic Sciences Corporation Limited			
Weather Services International Limited	United Kingdom	100% (indirect)	Dormant
Indirect holdings through Transitive Corporation Limited			
Transitive Limited	United Kingdom	100% (indirect)	In liquidation

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

14 Investments (continued)

Name of subsidiary / associate / other investment	Country of registered office	Holding	Nature of business
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Indirect holdings through Truven Health Analytics UK Limited

Simpler Consulting Limited	United Kingdom	100% (indirect)	Dormant
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Indirect holdings through Weather Services International Limited

The Weather Channel Global Media Limited	United Kingdom	100% (indirect)	Dormant
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The registered address for 010414 UK Limited, 251211 UK Limited, i2 Holdings Limited, i2 Intermediate Holdings Limited, International Business Machines Limited, Truven Health Analytics UK Limited, Simpler Consulting Limited, Blue Wolf Global Limited, Bluewolf International Limited, Heartbeat Experts Limited, SPSS Limited, Sterling Commerce (UK) Limited, The Analytic Sciences Corporation Limited, The Weather Channel Global Media Limited and Weather Services International Limited is PO BOX 41 North Harbour, Portsmouth, Hampshire, United Kingdom, PO6 3AU.

The registered address for Algorithmics (UK) Limited, Algorithmics Risk Management Limited, Cleversafe UK Limited, i2 Limited, Kenexa Global Recruitment Services Limited, Kenexa Quorum Holdings Limited, MH (UK) Limited, Optevia Limited, Promontory Financial Group (UK) Limited, Resilient Systems Europe Limited, Silverpop Systems Limited, Transitive Corporation Limited and Transitive Limited is 10 Fleet Place, London, United Kingdom, ECM4 7QS.

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

Name of subsidiary / associate	Registered address
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 B.V.	Johan Huizhigalaan 765, 1066 VH Amsterdam, Netherlands
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

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15 Purchase of business

During the year the company did not acquire the trade and associated assets and liabilities of any subsidiary undertaking.

During the prior 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.

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

	2021 £m	2020 £m
Trade and other receivables due within one year	-	1.9

16 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 2020	60.8	15.6	(34.3)	42.1
Credited / (charged) to the income statement	4.2	10.4	(6.1)	8.5
Credited to statement of comprehensive income	-	-	8.0	8.0
Credited to reserves in respect of share options	-	0.7	-	0.7
Other movement charged to reserves	-	(0.9)	-	(0.9)
At 31 December 2020	65.0	25.8	(32.4)	58.4
Credited / (charged) to the income statement	27.8	(5.2)	(12.5)	10.1
Charged to statement of comprehensive income	-	-	(12.7)	(12.7)
Credited to reserves in respect of share options	-	1.3	-	1.3
Disposal due to discontinued operations	(27.0)	(0.7)	-	(27.7)
At 31 December 2021	65.8	21.2	(57.6)	29.4

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

16 Deferred tax assets (continued)

The deferred tax asset mostly relates to current items. The amount of £8.2 million (2020: £32.6 million) should be recovered more than 12 months after the reporting date and the amount of £21.2 million (2020: £25.8 million) is expected to be recovered no more than 12 months after reporting date.

There are no unrecognised deferred tax assets.

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.

17 Inventories

	2021	2020
	£m	£m
Finished goods and goods for resale	0.7	1.0

Finished goods and goods for resale include an allowance for obsolescence of £nil (2020: £2.1 million).

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £136.1 million (2020: £167.1 million).

18 Trade and other receivables

	2021	2020
	£m	£m
Current		
Trade receivables - billed	258.8	285.1
Trade receivables - unbilled	86.0	92.1
Less: credit loss allowance	(4.5)	(8.6)
Financial assets	340.3	368.6
Other receivables	5.6	3.3
	345.9	371.9

The average credit period on sales of goods is 0 to 30 days (2020: 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

18 Trade and other receivables (continued)

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	2021 £m	2020 £m
1	Excellent	20.1	23.3
2 - 3	Good	172.9	182.2
4 - 5	Satisfactory	45.6	56.4
6	Special monitoring	15.8	18.4
7	Default	4.4	4.8
		258.8	285.1

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

19 Other non-current and current assets

	2021 £m	2020 £m
Non-current		
Prepayments	329.4	37.3
Deferred costs (note 3)	23.1	118.5
	352.5	155.8
Current		
Prepayments	388.9	90.7
Deferred costs (note 3)	14.2	56.4
Contract assets, net of provision for impairment (note 3)	36.0	32.2
	439.1	179.3

On 1 September 2021, the company transferred £193.8 million of other assets due to discontinued operations.

In the amount of prepayments is £656.5 million which represents the prepaid services from other group undertakings. Of the total, £319.8 million is non-current and £336.7 million is current.

IBM United Kingdom Limited

Notes to the Financial Statements

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20 Provisions for liabilities and charges

	2021	2020
	£m	£m
Non-current		
Asset retirement obligation	0.7	6.1
	0.7	6.1
Current		
Restructuring provision	0.7	56.5
Asset retirement obligation	5.9	2.2
Litigation fees	0.4	13.9
Other provisions	0.7	1.3
	7.7	73.9

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 2021 is expected to be utilised by the end of 2025.

The provision for litigation relates to customers' claims brought against the company and expected legal fees for lawyers' services. The balance at 31 December 2021 is expected to be utilised by the end of 2022. 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

20 Provisions for liabilities and charges (continued)

	Restructuring provision £m	Asset retirement obligation £m	Litigation fees £m	Other £m	Total £m
At 1 January 2020	2.5	8.1	8.5	1.5	20.6
Charged to the income statement	74.9	0.2	8.6	1.1	84.8
Utilised during the year	(20.9)	-	(3.2)	(1.3)	(25.4)
At 31 December 2020	56.5	8.3	13.9	1.3	80.0
Charged to the income statement	1.9	-	-	0.3	2.2
Utilised during the year	(57.7)	-	(13.5)	(0.9)	(72.1)
Disposal due to discontinued operations	-	(0.9)	-	-	(0.9)
Released to the income statement	-	(0.8)	-	-	(0.8)
At 31 December 2021	0.7	6.6	0.4	0.7	8.4

21 Trade and other payables

	2021 £m	2020 £m
Non-current		
Other payables	-	0.1
Current		
Payable to trade suppliers	94.5	102.9
Accruals - financial liabilities	117.9	47.1
Financial liabilities	212.4	150.0
Accrued employees and other payables	75.6	77.4
Social security and other taxes	113.1	256.5
	401.1	483.9

Trade 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 (2020: nil to 60 days).

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 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 29, 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.

Categories of financial instruments

	2021 Amortised cost £m	2021 FVTPL* £m
Financial assets		
Finance receivables	28.8	-
Trade and other receivables (note 18)	340.3	-
Receivables from related parties (note 29)	149.3	-
Deposits held with related parties (note 29)	221.6	-
Derivatives from related parties (note 29)	-	2.7
Cash at bank	15.0	-
	755.0	2.7
Financial liabilities		
Trade and other payables (note 21)	(212.4)	-
Payables to related parties (note 29)	(357.4)	(25.2)
Lease liabilities	(61.2)	-
	(631.0)	(25.2)

* Fair value through profit and loss

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

	2020 Amortised cost £m	2020 FVTPL* £m
Financial assets		
Finance receivables	36.5	-
Trade and other receivables (note 18)	368.6	-
Receivables from related parties (note 29)	106.4	-
Deposits held with related parties (note 29)	838.6	-
Cash at bank	49.0	-
	1,399.1	-
Financial liabilities		
Trade and other payables (note 21)	(150.0)	-
Payables to related parties (note 29)	(415.7)	(24.0)
Lease liabilities	(99.2)	-
Derivatives to related parties (note 29)	-	(10.8)
	(664.9)	(34.8)

* Fair value through profit and loss

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. This includes performing sensitivity analysis on market risks to determine the effect of change in foreign exchange and currency rates on the company's financial performance and position.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

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 2021, 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 £0.5 million (2020: £0.7 million) lower/higher, arising principally on the foreign exchange translation of the related party payables at the reporting date.

At 31 December 2021, 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 £0.4 million (2020: £0.5 million) lower/higher, arising principally on the foreign exchange translation of the related party payables at the reporting date.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

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.

31 December 2021	Current £m	0-30 days £m	31-90 days £m	91-180 days £m	180-365 days £m	365+ days £m	Total gross carrying amount £m
Expected loss rate	0.08%	0.15%	0.53%	7.49%	29.17%	100%	
Trade receivables billed and unbilled	278.3	36.9	20.2	3.8	2.3	3.3	344.8
Loss allowance	(0.2)	(0.1)	(0.1)	(0.3)	(0.5)	(3.3)	(4.5)
Related party receivables	149.3	-	-	-	-	26.5	175.8
Loss allowance	-	-	-	-	-	(26.5)	(26.5)
Contract assets	36.0	-	-	-	-	-	36.0
Loss allowance	-	-	-	-	-	-	-

31 December 2020	Current £m	0-30 days £m	31-90 days £m	91-180 days £m	181-365 days £m	365+ days £m	Total gross carrying amount £m
Expected loss rate	0.06%	0.10%	0.37%	2.53%	10.78%	100%	
Trade receivables billed and unbilled	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)
Related party receivable	36.1	67.9	2.4	-	-	29.3	135.7
Loss allowance	-	-	-	-	-	(29.3)	(29.3)
Contract assets	32.2	-	-	-	-	-	32.2
Loss allowance	-	-	-	-	-	-	-

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

The deposits held with related parties of £221.6 million (2020: £838.6 million) and cash at bank of £15.0 million (2020: £49.0 million) are subject to the impairment requirements of IFRS 9. As at 31 December 2021 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 2020	-	(9.5)	(29.7)
(Increase) / decrease in loss allowance	-	(1.6)	0.4
Write - off	-	2.5	-
At 31 December 2020	-	(8.6)	(29.3)
Decrease in loss allowance	-	3.9	2.8
Write off	-	0.2	-
At 31 December 2021	-	(4.5)	(26.5)

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 18.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 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 2021 £m	Loans 2020 £m
Excellent	12.8	25.8
Good	8.3	-
Satisfactory	7.7	10.7
Gross carrying amount	28.8	36.5
Loss allowance for credit losses	-	-
Carrying amount	28.8	36.5

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.

Maximum credit exposure for financial instruments not subject to impairment:

	2021 £m	2020 £m
Financial assets at fair value through profit and loss		
Derivatives	2.7	-

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

22 Financial instruments (continued)

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 decrease/increase by £4.1 million (2020: increase/decrease by £9.6 million). This is mainly attributable to the company's exposure to interest rates on its variable rate borrowings and cash deposits.

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 2021

22 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
2021					
Non-interest bearing:					
Trade and other payables	-	212.4	-	-	212.4
Payable to related parties	-	357.4	-	-	357.4
	-	569.8	-	-	569.8
Interest bearing:					
Payable to related parties	6.03	16.3	10.5	-	26.8
Lease liabilities	1.34	22.3	40.5	-	62.8
	-	38.6	51.0	-	89.6
2020					
Non-interest bearing:					
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
Interest bearing:					
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

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 2021

22 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
2021					
Non-interest bearing:					
Trade and other receivables	-	340.3	-	-	340.3
Receivables from related parties	-	149.3	-	-	149.3
Derivatives from related parties	-	2.7	-	-	2.7
	-	492.3	-	-	492.3
Interest bearing:					
Receivables from related parties	(1.38)	221.6	-	-	221.6
Cash at bank	0.11	15.0	-	-	15.0
Customer loans	3.37	16.6	12.2	-	28.8
	-	253.2	12.2	-	265.4
2020					
Non-interest bearing:					
Trade and other receivables	-	368.6	-	-	368.6
Receivables from related parties	-	106.4	-	-	106.4
	-	475.0	-	-	475.0
Interest bearing:					
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

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 2021

22 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
2021		
Non-current financial assets		
Customer loans	12.2	12.1
2020		
Non-current financial assets		
Customer loans	22.9	22.0

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 2021

22 Financial instruments (continued)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2021 and 31 December 2020:

	2021 Level 2 £m	2021 Level 3 £m	2020 Level 2 £m	2020 Level 3 £m
Financial assets				
Derivatives from related parties	2.7	-	-	-
Financial liabilities				
Payables to related parties	-	(25.2)	-	(24.0)
Derivatives to related parties	-	-	(10.8)	-

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 profit of £1.4 million (2020: loss of £3.0 million).

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 Retirement benefits

	2021 £m	2020 £m
Statement of financial position asset for		
Defined benefits plan	230.6	170.7
Income statement charge for:		
Defined benefits plan	47.1	14.1
Remeasurement gains / (losses) recognised in the statement of other comprehensive income		
Defined benefits plan	106.9	(19.5)
Cumulative actuarial losses recognised in the statement of other comprehensive income	(615.4)	(722.3)

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 2021

23 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 2021 the IAS 19 valuation for these plans showed an asset of £215.9 million (2020: £157.9 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 2021, 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.

At 31 December 2021 the IAS 19 valuation for the Prudential Platinum Plans showed an asset of £14.7 million (2020: £12.8 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 2021

23 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 2021

23 Retirement benefits (continued)

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

Net retirement benefit asset

	2021	2020
	£m	£m
Defined benefit obligation	(8,163.4)	(8,729.8)
Fair value of plan assets	9,513.3	9,885.0
Net asset before unrecognised surplus	1,349.9	1,155.2
Derecognised asset surplus	(1,119.3)	(984.5)
Total	230.6	170.7

Defined benefit obligation

	2021	2020
	£m	£m
Present value of defined benefit obligation at beginning of year	(8,729.8)	(8,149.0)
Current service cost	(5.9)	(6.0)
Interest cost	(104.3)	(144.9)
Contributions by plan participants	(0.1)	(0.2)
Actuarial (loss) / gain - experience	(52.6)	112.0
Actuarial gain / (loss) - financial assumptions	382.1	(885.9)
Actuarial gain / (loss) - demographic assumptions	1.4	(22.2)
Benefits paid	384.2	371.7
Past service cost	(38.4)	(6.4)
Termination benefits	-	1.1
Present value of defined benefit obligation at end of year	(8,163.4)	(8,729.8)

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 Retirement benefits (continued)

Fair value of plan assets

	2021 £m	2020 £m
Fair value of plan assets at beginning of year	9,885.0	9,556.6
Interest income	118.4	170.3
Return on plan assets	(101.0)	533.7
Contributions by the employer	0.1	2.3
Contributions by plan participants	0.1	0.2
Benefits paid	(384.2)	(371.7)
Administration costs	(5.1)	(5.4)
Settlements	-	(1.0)
Fair value of plan assets at end of year	9,513.3	9,885.0

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 £2,817.6 million as at 31 December 2021 (2020: £3,070.0 million).

Impact of unrecognised surplus

	2021 £m	2020 £m
Unrecognised surplus and minimum funding requirement at beginning of year	(984.5)	(1,205.7)
Interest on unrecognised surplus	(11.8)	(21.7)
Change in unrecognised surplus and minimum funding requirement during the year	(123.0)	242.9
Unrecognised surplus	(1,119.3)	(984.5)

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 Retirement benefits (continued)

The company made an allowance for the extension of the pre 6 April 1997 discretionary increases to April 2023 (previously April 2022) which increased the defined benefit obligation and past service cost in the 2021 Income statement by £38.4 million.

In the prior year, 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

	2021	2020
	£m	£m
Current service cost	5.9	6.0
Past service cost - plan amendments	38.4	6.4
Employee expense (note 6)	44.3	12.4
Administration costs	5.1	5.4
Interest cost on obligation	104.3	144.9
Interest income on plan assets	(118.4)	(170.3)
Interest cost on unrecognised surplus	11.8	21.7
Net interest income on defined benefit asset	(2.3)	(3.7)
Defined benefit expense in the income statement	47.1	14.1
Defined contribution expense in the income statement	61.5	65.9

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 Retirement benefits (continued)

Amounts recognised in other comprehensive income

	2021	2020
	£m	£m
Remeasurement (losses) / gains on plan assets	(101.0)	533.7
Remeasurement gains / (losses) on plan liabilities	330.9	(796.1)
Change in unrecognised surplus during the year	(123.0)	242.9
Change to gains recognised in other comprehensive income	106.9	(19.5)
Cumulative remeasurement losses recognised in other comprehensive income at the start of the year	(722.3)	(702.8)
Cumulative remeasurement losses recognised in other comprehensive income at the end of the year	(615.4)	(722.3)

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 22. The fair value and composition of plan assets is as follows:

	2021	2021	2021	2021
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Equity				
Equity securities	-	-	92.6	92.6
Fixed Income				
Government securities	-	3,551.3	-	3,551.3
Corporate bonds	-	1,575.2	-	1,575.2
Unit trust bonds	-	469.6	-	469.6
Other fixed income	-	2,836.2	-	2,836.2
Cash and cash equivalents				
Cash and cash equivalents	17.3	303.5	1.9	322.7
Others				
Real estate	-	-	205.3	205.3
Private equity	-	-	378.2	378.2
Other	-	82.2	-	82.2
Total market value of assets	17.3	8,818.0	678.0	9,513.3

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 Retirement benefits (continued)

	2020	2020	2020	2020
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Equity				
Equity securities	27.7	175.1	30.8	233.6
Fixed interest				
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
Cash and cash equivalents				
Cash and cash equivalents	13.1	481.6	0.2	494.9
Others				
Real estate	-	-	285.1	285.1
Private equity	-	-	354.0	354.0
Other	-	55.5	-	55.5
Total market value of assets	40.8	9,174.1	670.1	9,885.0

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 2021

23 Retirement benefits (continued)

Significant actuarial assumptions

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

	2021 %	2021 %	2021 %
	Main Plan	I Plan	Prudential
Discount rate	1.80	1.90	2.00
Retail price inflation assumption	3.50	3.50	3.50
Consumer price inflation assumption	2.90	2.90	-
Rate of salary increase	3.40	3.40	-
Pension increases for in-payment benefits			
- accrued before 6 April 1997 (until 2023)	1.65	3.30	-
- accrued between 6 April 1997 and 5 April 2005	2.90	3.30	-
- accrued after 5 April 2005	2.10	3.30	3.50
Pension increases for deferred benefits			
- accrued before 6 April 2009	2.90	2.90	-
- accrued after 5 April 2009	2.50	2.50	3.50

	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
Pension increases for in-payment benefits			
- accrued before 6 April 1997 (until 2022)	1.45	2.90	-
- accrued between 6 April 1997 and 5 April 2005	2.40	2.90	-
- accrued after 5 April 2005	1.90	2.90	2.90
Pension increases for deferred benefits			
- accrued before 6 April 2009	2.40	2.40	-
- accrued after 5 April 2009	2.40	2.40	2.90

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 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:

	2021 Years	2020 Years
Longevity at age 65 for current pensioners		
- Men	87.7	87.6
- Women	89.3	89.2
Longevity at age 65 for future pensioners (i.e. currently age 45)		
- Men	89.0	88.9
- Women	90.8	90.8

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
Discount rate			
0.2% increase	(177.5)	(47.2)	(1.6)
0.2% decrease	183.8	49.5	1.7
Inflation rate			
0.25% increase	86.1	49.1	1.9
0.25% decrease	(111.1)	(46.4)	(1.8)
Mortality			
Increase of 1 year in expected lifetime of participant at age 65	308.7	47.6	2.3

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

23 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	-
Contributions by plan participants	0.1
	0.1

Maturity Profile

The duration of defined benefit pension obligations at the end of the reporting year on 31 December 2021 were as follows:

	Main Plan	I Plan	Prudential
Duration of the plans in years	13.4	19.6	16.0

24 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 £39.3 million (2020: £28.6 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 £17.8 million (2020: loss of £10.2 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

24 Share-based payments (continued)

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

	2021	2020
	No.	No.
	'000	'000
Outstanding at the beginning of the year	970	617
Granted during the year	755	580
Released during the year	(266)	(229)
Forfeited during the year	(310)	(64)
Transferred during the year	31	66
Outstanding at the end of the year	1,180	970

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 £90.81/\$119.01 (2020: £90.11/\$114.58).

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, £0.1 million (2020: £0.2 million) was recognised in the income statement during the year.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

25 Leases

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

	Carrying amount as at 31 December 2021	Carrying amount as at 31 December 2020	Depreciation expense 2021	Depreciation expense 2020
	£m	£m	£m	£m
Right-of-use assets				
Land and building	59.2	62.4	(27.1)	(32.9)
Machinery and equipment	0.4	27.0	(7.9)	(10.4)
Vehicles	5.1	8.6	(1.8)	(3.1)
	64.7	98.0	(36.8)	(46.4)

Additions to the right-of-use assets during the 2021 financial year were £52.8 million (2020: £8.6 million). On 1 September 2021, the company transferred £49.3 million of right-of-use assets due to discontinued operations.

	2021	2020
	£m	£m
Expense relating to short-term leases	0.2	0.5
Expense relating to variable lease payments	16.3	14.3

Total cash payments arising from lease transactions totalled £57.4 million (2020: £69.0 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 £6.2 million (2020: £14.6 million) and £0.6 million (2020: £32.8 million) respectively.

The gross minimum commitments under noncancelable leases that have not yet commenced totalled £nil (2020: £0.8 million) for the year.

26 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 (2020: £nil).

27 Events after the reporting date

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

28 Notes to the cash flow statement

Reconciliation of profit / (loss) for the year to net cash inflow from operating activities

	2021	2020
	£m	£m
Profit / (loss) for the year including discontinued operations	140.2	(119.6)
Profit / (loss) from continuing operations	178.9	(128.8)
(Loss) / profit from discontinued operations	(38.7)	9.2
Adjustments for:		
Depreciation of property, plant and equipment (note 12)	54.3	74.4
Depreciation of right-of-use asset (note 25)	36.8	46.4
Loss on disposal of property, plant and equipment	0.4	2.1
Loss on leasing modifications and disposals	1.1	7.3
Impairment (reversal) / charge of investments (note 14)	(145.0)	230.9
Income from investments	-	(85.2)
Difference between pension charge and cash contribution	49.3	15.4
Difference between share based payment charge and cash contribution	20.6	10.2
(Decrease) / increase in provisions	(70.7)	59.4
(Decrease) / increase of ECL provision to trade and related parties receivables	(6.7)	1.2
Finance income	(4.1)	(4.3)
Finance cost	3.0	4.5
Income taxes charge	14.7	5.5
Research & development tax credit	(15.4)	(16.2)
Loss on disposal of operations (note 11)	33.3	-
Changes in operating assets and liabilities:		
(Increase) / decrease in finance, trade, other and related parties receivables and other assets	(732.0)	196.0
(Decrease) / increase in trade, other and related parties payables, related parties derivatives and deferred revenue	(129.7)	7.2
Decrease in inventories	0.3	3.2
Cash (used in) / generated from operations	(749.6)	438.4
Interest paid	(3.0)	(4.5)
Cash disposed due to discontinued operations (note 11)	(11.0)	-
Income tax refund / (paid)	3.9	(7.2)
Net cash (outflow) / inflow from operating activities	(759.7)	426.7

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

29 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 negotiated terms and conditions:

Class of related party	Transaction type	2021 £m	2020* £m
Immediate parent	Distribution in specie (note 31)	291.1	-
Subsidiary undertakings	Interest receivable	-	0.4
	Interest payable	0.1	0.2
	Return of capital from investment (note 14)	167.8	263.9
	Transfer of trade and assets (note 15)	-	1.9
	Dividends in specie received (notes 14 & 30)	-	85.2
Other group undertakings	Sales	596.3	612.5
	Purchases	1,407.0	1,445.0
	Interest payable	1.1	0.8
	Purchase of investments (note 14)	2.8	-

* Reclassified to exclude discontinued operations.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

29 Related party transactions (continued)

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

Receivables and other assets from related parties

	2021	2020
	£m	£m
Receivables from subsidiary undertakings	8.5	8.5
Receivable from other group undertakings	167.3	127.2
Less: provision for impairment of receivables from related parties	(26.5)	(29.3)
Short-term deposits held with subsidiary undertakings	221.6	838.6
Financial assets	370.9	945.0
Other assets from other group undertakings (note 19)	656.5	-
	1,027.4	945.0

Included in amounts receivable from related parties is £221.6 million (2020: £838.6 million) which is interest bearing. The amounts are short-term deposits held with IBM International Treasury Services Unlimited Company (Ireland).

Payables to related parties

	2021	2020
	£m	£m
Parent entities	49.2	46.2
Subsidiary undertakings	24.4	24.5
Other group undertakings	309.0	369.0
	382.6	439.7

Included in amounts payable to related parties is £25.2 million (2020: £24.0 million) which is interest bearing. Out of the total, £9.8 million is non-current and £15.4 million is current.

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 2021

29 Related party transactions (continued)

Derivative from related parties

	2021	2020
	£m	£m
Other group undertakings	2.7	(10.8)

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 22.

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:

	2021	2020
	£m	£m
Short-term employee benefits	4.7	4.9
Post-employment benefits	0.4	0.5
Share-based payments	3.8	2.6
	8.9	8.0

Aggregate key management personnel benefits under long term incentive schemes excluding share based payments were £nil (2020: £nil).

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

30 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 2020	956,427,056	956.4	-	743.7	1,700.1
At 31 December 2020	956,427,056	956.4	-	743.7	1,700.1
Share premium reduction	-	-	-	(350.0)	(350.0)
At 31 December 2021	956,427,056	956.4	-	393.7	1,350.1

During 2021 the company reduced the share premium in the amount of £350 million to increase its distributable reserves.

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.

31 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:

	2021 £m	2020 £m
Non-cash investing activities		
Consideration receivable on the sale of assets	291.1	-
Dividends in specie received	-	85.2
	2021 £m	2020 £m
Non-cash financing activities		
Distribution in specie	(291.1)	-

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2021

32 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.