IBM United Kingdom – Corporate Governance Statement
Financial year ending 31 December 2019

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 annually 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/att/pdf/BCG_accessible_2020.pdf.*

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.

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

More details of IBM's purpose, group strategy and business model are provided in the Financial Statements, which are available from Companies House, and also in the s.172 Statement, together with details as to how IBM supports country-based operations.

Board Composition

Details of the Company's Board of Directors are given at page 9 of the Financial Statements.

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

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

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

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. For example, through these meetings the Directors received regular reports during 2019 on the

Company's Brexit readiness across the UK business to ensure coordination in support of a smooth transition for relevant stakeholders. The Leadership Team meetings also ensure that business priorities are given attention as necessary throughout the year: for example, the Directors were briefed in detail on the Wimbledon Tennis Championships and London Tech Week, both being flagship events for the Company and the IBM brand through the promotion of IBM technologies and the development of business relationships.

Responsive to the risks posed by the COVID-19 pandemic, in 2020, for reasons of contingency, the Directors each appointed an alternate for the period to 31 December 2020, with qualified powers exercisable upon their appointing directors being unable to act.

Director 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. For example, the Board received a detailed briefing from the local UK Acquisitions and Integrations team in July 2019 prior to approving the acquisition of the UK Promontory business. 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 on delegation of signature of real estate legal documentation in 2019. Through such measures, the Board supports effective decision-making and independent challenge, yet retains overall control.

The company management system also provide the Directors with a clear understanding and detailed insight into the Company's strategies and challenges which, in turn, supports effective decision making.

In addition, the Board benefits from the group Internal Audit system to ensure accountability and to support independent and objective assessments of IBM's system of internal control overseen by the Directors; guidance in managing control risks for IBM stakeholders; proactive support to oversee and improve controls where relevant; independent investigations regarding allegations of violations of IBM's Business Conduct Guidelines; and independent review of IBM suppliers' contractual compliance. The Board is also 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, for example in briefings on Cloud Integration Platform, as well as strategic partnerships and opportunities arising from the Company's THINK London 2019 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.

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

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

Remuneration

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

- 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
- Attract and retain highly qualified senior leaders who can drive a global enterprise to succeed in today's competitive marketplace
- Motivate our leaders to deliver a high degree of business performance without encouraging excessive risk taking
- Differentiate rewards to reflect individual and team performance
- 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. Details of IBM's core values can be found at the following site: http://www.ibm.com/ibm/values/us/.

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.

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, Careers@IBM and Coach me.

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

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

Clients:

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

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

The regular Leadership Team meetings also provide an opportunity for the Directors to understand current needs of the Company's clients and to target business response accordingly. 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.

The RBA Code consists of five sections: Labor, 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/