



IBM United Kingdom – Section 172 Statement

Financial year ending 31 December 2019

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 is distinguished as being first and foremost an enterprise company, serving the world's leaders in their industries. IBM's group strategy and business model are described on pages 29-33 of IBM's annual report for the year ended 31 December 2019 (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 employee surveys; face to face briefings; internal publications 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 2019 the Directors and other local leaders were briefed on a range of employment matters, including employee engagement, gender equality and mentoring initiatives. Employee survey results were also considered; these surveys give employees an opportunity to express their views on matters of company strategy, management and employee experience.

One of the Directors chairs the UK Inclusion Council which gives leadership on IBM's Diversity & Inclusion agenda in the UK, including support to IBM UK's diverse community of employees. In 2019, examples of matters considered by the Council included review of the Company's 2019 Inclusion Plan; results of the IBM UK census; actions arising from the Design Thinking Workshop on International Men's Day; an update on Connecting Women@IBMUK; briefings from the LGBT+ leader; a Hidden Disabilities Conference; focus on identifying UK executives with disabilities to act as role models; implementation of



the Company's Mental Health First Aiders programme; BAME matters; as well as numerous other briefings on Diversity & Inclusion in general across the UK workplace. There are other initiatives on Diversity & Inclusion matters, such as quarterly round table BAME meetings, led by one of the Directors, and a BAME Design Thinking Workshop in November with regular follow up calls on progress.

Employees receive information on the financial and economic factors affecting the performance of the business, along with product 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 and by the internal publication 'Link.me'.

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

Business Leaders run Town Hall meetings in the different IBM locations to provide regular face to face 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.

An annual Engagement Survey evaluates employee sentiment and engagement.

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

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

In the United Kingdom, IBM launched the volunteering initiative in 2003. The Community Challenge concept is for teams of IBM volunteers to work with not-for-profit organisations and schools to deliver projects such as promoting literacy and introducing young people to technology. Once a year, IBM employees nominate charitable projects that utilise IBM Volunteering Challenges tools and IBM skills to deliver projects working with local communities across the United Kingdom.

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.

Further details can be found on employee matters in the Corporate Governance statement.

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 fosters and monitors effective client relationships and supports best practice engagement with clients. In 2019, the Team 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.

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 2019 the Directors considered a wide range of matters important to the Company's clients, including updates on the Company's Brexit readiness; cloud integration and cloud partnerships with various specific clients; review of strategic partnerships and client needs; and how best to bring to clients IBM's strategic synergy with Red Hat following recent acquisition of that company.

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 2019, the Board also reviewed the Company's Modern Slavery Act obligations and approved the Company's Modern Slavery Act statement for publication given the importance of such matters to the IBM supply chain. In this context, consideration was also given to the impact of the Company's operations on the wider community and the importance to the Company of maintaining its reputation for high standards.

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

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

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



Community and Environment

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

In the last year IBM investments in the UK have included establishing IBM's P-Tech programme.. The P-Tech model of schooling seeks to better prepare young people for the rapidly changing world of work and to equip them with digital and technical skills to succeed in an increasingly digital workplace. The first UK P-Tech programme began delivery with 3 schools in Leeds in the last year. Discussions are since underway with a devolved nation regarding the potential to implement the P-Tech programme across the whole of that nation state.

IBM UK has long had a very active community of employee volunteers, with over 3500 registered on IBM's employee volunteering platform, with Board support. IBM UK seeks to support this voluntary effort in a number of ways, but principally through the provision of community grants to UK charities with which employees volunteer. In 2019 the grants were made in excess of £120,000 to UK charities in recognition of its employees' volunteering commitments.

Through the Board's delegated management functions, in line with demonstrating and applying the use of technology for good, IBM UK has worked with external partner Stop the Traffik to invest significant resources into developing a data and analytics platform that can be used by organisations working to combat or which have a legitimate interest in combatting human trafficking, in order to acquire and analyse data on human trafficking with a view to developing a bigger and better picture of how, where, when etc. human trafficking is taking place, as a precursor to then disrupting and ultimately preventing that activity.

Further details of the Company's support to its community and its approach to environmental matters can be found in the Corporate Governance statement.

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.

Principal decisions

In addition to what is outlined above through the IBM management system, in 2019, the Board made the decision to pay a dividend of £202 million to its shareholders. In making their decision, the Directors took into account whether the dividend would impact on the achievement of the Company's strategic objectives in the long term and concluded it would not, in light of the strong cash position and net asset position of the Company. The directors also considered the funding position of the Company pension scheme.



The financial risk management of the Company is aligned with that of IBM. In keeping with this, the Board of Directors routinely considers the tax impacts for the Company of proposed transactions and other matters. Additionally, regular updates are provided to the Board on the implications of the IBM group tax strategy for the Company's tax position, the relationship with HMRC, and long term strategy. During the year the Board approved the publication of the 2018 UK Tax strategy (in line with statutory requirements) having been briefed on and then considered long term implications and likely impact on the Company's operations.

The Board of Directors approved the purchase of Promontory Financial Group (UK) Limited and its subsequent trade and asset transfer during the year. The Board considered the purchases were likely to promote the success of the Company for the benefit of the shareholders as a whole. The capabilities of Promontory combined with IBM's deep industry expertise and Watson's cognitive capabilities will directly address the significant operational effort and manual cost of escalating regulation and risk management requirements for IBM's clients in the long term.