

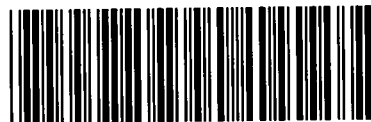
Company Registration Number 741598

IBM United Kingdom Limited

Financial Statements

31 December 2017

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IBM United Kingdom Limited

Financial Statements

For the Year Ended 31 December 2017

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IBM United Kingdom Limited

Company Information

For the Year Ended 31 December 2017

Company registration number	741598
The board of directors	W Kelleher F Sciutti T Eagle
Company secretary	I Ferguson
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 2017

The directors present their strategic report of IBM United Kingdom Limited ('the company') for the year ended 31 December 2017.

Review of the business

International Business Machines Corporation ('IBM') is a globally integrated enterprise operating in over 175 countries, bringing innovative solutions to a diverse client base to help solve some of their toughest business challenges and build smarter businesses.

As a global cloud platform and cognitive solutions company, IBM has continually evolved to remain at the forefront of technological innovation to shape the future of society at large with governments, corporations, academia and business partners. Today, IBM creates value for clients through integrated solutions and products that leverage data, information technology, deep expertise in industries and business processes, and a broad ecosystem of partners and alliances. IBM Solutions typically create value by enabling new capabilities for clients that transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud and cognitive offerings, and enterprise systems and software which are all bolstered by IBM's prized research, development and technical talent around the world.

The company has a number of software development laboratories, based at various locations throughout the UK, which develop new products for IBM worldwide and enable IBM to offer its customers current information technology solutions to meet the needs and problems faced by business and industry today.

IBM's clients include many of the world's more successful enterprises. These clients are at an inflection point, facing tremendous new opportunities and incredible competition. Digital technologies are unlocking unprecedented insight from previously inaccessible data. Work processes are being reimaged for speed and vastly smarter decision-making. To win in these disruptive times requires that businesses learn – learn by extracting insights from their data and by applying those insights to how work is done. But this will only be possible if the world can trust that data is being collected, managed and analysed responsibly. At IBM we believe the unique insights derived from clients' data are their competitive advantage. This is core to the strategy of IBM's clients and is at the heart of the IBM Strategy.

The IBM group continues to evolve its global operating model to improve the utilisation of global resources and skills in support of the delivery of its services and solutions to clients. The company is both a beneficiary of global resource skills from overseas as well as providing UK employed expertise to the rest of the IBM group.

The IBM group also prides itself as a progressive corporate citizen and proactively engages government organisations, industry bodies, communities and experts on issues that matter for our time. These include building the skills for the future through influencing a major reinvention of education; committing to building an inclusive workforce that advocates for fairness and equality, working to ensure the efficient use of energy and resources and managing impacts on the environment and climate.

IBMers have earned the world's trust by building progress with responsibility. Combined uniquely with innovative technologies, deep industry expertise, security and responsible stewardship the company helps business move from era to era to deliver innovation that matters for clients and to the world.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2017

Review of the business (continued)

	2017	2016	
	£m	£m	Yr-to-Yr
Revenue	3,713.3	3,899.2	(4.8)%
Gross profit margin	5.1 %	4.8 %	6.3 %
Administrative expenses and other operating income	(9.0)	(121.3)	(92.6)%
Operating profit	182.1	65.0	180.2 %
Profit before income tax	109.2	125.7	(13.1)%

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 14 to 19 of the financial statements.

Total revenue decreased by 4.8 percent compared to 2016. Revenue from the core business units ('Home Revenue' per note 3 of the financial statements) decreased by 4.7 percent. Export revenues, which are derived from sales of services, including research and development, to companies in the IBM group overseas, decreased by 4.9 percent compared to 2016. Gross profit margins increased by 0.3 points year on year, which represents £4.8 million.

The increase in operating profit but decline in profit before taxation is mainly driven by the increase in absolute gross profit described in the paragraph above and an impairment of investment charge of £517.3 million only being partially offset by higher dividends received of £382.2 million.

The company delivered £26.8 million in cash flows from operating activities, an increase of £18.3 million compared to 2016. Income tax of £26.1 million has been paid during the year (2016: £84.1 million). Cash generated from operations has decreased by £35 million.

In June 2017 the company agreed the closure of certain ongoing tax audits with Her Majesty's Revenue and Customs ('HMRC'). This charge and associated payments were reflected in the 2016 accounts.

In December 2016 £1,400.0 million was placed on a two year fixed term deposit with IBM International Treasury Services Unlimited Company. In October 2017 £1,250.0 million was used for the acquisition of investments in subsidiaries.

Cash and cash equivalents including short term deposits with related parties have increased to £721.3 million from £473.8 million. The increase was caused mainly by the transfer of the outstanding long-term deposit (£150.0 million) to current assets.

The significant reduction of the retirement benefit balance (from a net pension asset of £797.7 million to a net pension liability of £33.7 million) resulted from a re-assessment of a previous judgment to recognise the accounting surplus as an asset. On the basis of the latest circumstances and updated professional advice, and recognising the divergence in practice amongst the companies in the accounting treatment adopted, management have decided to de-recognise the pension surplus asset and record a liability of £33.7 million in respect of the minimum funding requirements.

The financial position of the company has changed year on year to a closing net asset position of £2,013.3 million from £2,967.2 million in 2016. The decrease of £953.9 million is mainly driven by a £799.0 million net reduction in the retirement benefit asset through other comprehensive income and own share repurchases of £200.0 million, offset by the profit for the year of £49.8 million.

IBM United Kingdom Limited

Strategic Report

For the Year Ended 31 December 2017

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

If overall demand for systems, software and services changes, whether due to general economic conditions or a shift in corporate buying patterns, sales performance could be impacted.

The company aims to maintain a steady income stream through an economic cycle 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 company earns a minority, yet material, proportion of its revenue from providing its skilled resources to IBM group entities in other European Union ('EU') countries. On 23 June 2016 the electorate of the United Kingdom voted to leave the European Union. On 29 March 2017 Article 50 of the Lisbon Treaty was activated and on 29 March 2019 the United Kingdom's membership in the EU will lapse. The Directors do not anticipate any significant impact in the short term as a proposed transition period until 31 December 2020 will start during which the United Kingdom will effectively maintain its benefits of access to EU markets and be bound by EU rules and budgets. However, longer term there is a small risk to the company's ability to provide and receive resources to and from other IBM group companies in the EU, depending on the final Brexit agreement between the United Kingdom and EU.

Technology Obsolescence

Information Technology solutions are rapidly evolving and, in order to stay relevant to our clients, in 2017 IBM spent globally over \$5.6 billion (2016: over \$5 billion) on research and development of new products and solutions. The company not only benefits from this research and development work but it also provides skilled UK resources to IBM in support of this innovation work.

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 price competitive in the market as well as promoting 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.

Key performance indicators

The company is managed by the UK board 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 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 2017, which does not form part of this report.

IBM United Kingdom Limited

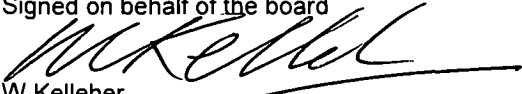
Strategic Report

For the Year Ended 31 December 2017

Future developments

The company is well placed to continue to deliver value to its clients and consistent financial results via the ongoing business transformation, new products and offerings and expansion of the business through acquisition.

Signed on behalf of the board



W Kelleher

Director

18 September 2018

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2017

The directors present their annual report and the audited financial statements of IBM United Kingdom Limited ('the company') for the year ended 31 December 2017.

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

The directors have not recommended a dividend (2016: £nil).

On 15 December 2017 the company received a dividend in cash of £353.3 million and a on 13 October 2017 a dividend in kind of £75.3 million from the subsidiary IBM International Treasury Services Unlimited Company. The dividend in kind was in a form of partnership interest in IBM Atlantic C.V. (Netherlands).

Events after the reporting date

Subsequent to the year end, on 1 April 2018 the company acquired 100% of the share capital of The Analytic Sciences Corporation Limited for £5.1 million from WSI Corporation (USA). On 21 June 2018 Truven Health Analytics UK Limited, the subsidiary of the company, sold the shares of its subsidiary Truven Health Analytics India Private Limited to IBM India Private Limited for \$6.2 million. On 30 June 2018 the company acquired 100% of the share capital of Blue Wolf Global Limited for \$1.2 million from Blue Wolf Group LLC (USA). On 1 August 2018 the company acquired 100% of the share capital of Heartbeat Experts Limited (UK) for \$0.7 million from HBE Solutions LLC (USA).

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. The company also manages its credit risk by factoring certain trade receivables. Any losses incurred in the collection of factored debt sold are not borne by the company.

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 International Business Machines Corporation. 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 2017 or 2016. Currently the company has a net cash position (see note 20) and loans 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 2017

Currency risk

As part of International Business Machines Corporation'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.

Financial instruments

Details of the company's financial risk management objectives and policies, including the use of financial instruments, are included in note 23 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 International Business Machines Corporation and its subsidiaries. The expenditure incurred on these projects in the year of £164 million (2016: £158.7 million) was recharged to International Business Machines Corporation.

Acquisitions

On 31 January 2017 the company acquired 100% of the share capital of Truven Health Analytics UK Limited for £20 million from IBM Technology Holding LLC (USA).

On 3 October 2017 the company acquired 100% of the share capital of IBM International Treasury Services Unlimited Company (Ireland) being 100,000,000 ordinary shares and 379,000,000 redeemable preference shares from IBM Ireland Product Distribution Limited (Ireland) and 1 ordinary share from minority interest shareholder in total for £1,822.8 million. On 31 December 2017 the company transferred its investment in IBM International Treasury Services Unlimited Company (Ireland) to a subsidiary, International Business Machines Limited, by way of share exchange agreement.

On 13 October 2017 the company received the partnership interest in IBM Atlantic C.V. (Netherlands) as dividend in kind from the subsidiary IBM International Treasury Services Unlimited Company (Ireland) in value of £75.3 million.

On 1 December 2017 the company acquired 8.99% ownership in Kenexa Technology Inc. (USA) for £21 million from Kenexa International LLC (USA). Furthermore on 1 December 2017 the company together with International Business Machines Corporation formed a new company Kenexa Technology LLC holding 25% ownership. On 31 December 2017 Kenexa Technology Inc. was merged with and into Kenexa Technology LLC, where Kenexa Technology LLC is a surviving company. After the merger the company is still holding 25% ownership in Kenexa Technology LLC.

On 14 December 2017 the company acquired 100% of the share capital of three entities: 010414 UK Limited, 251211 UK Limited and International Business Machines Limited for £0.1 million, £0.3 million and £0.9 million respectively. All these entities were purchased from IBM International Group B.V. (Netherlands).

Changes in pension plans

The company initiated legal proceedings in May 2010 before the High Court in London seeking a declaration that it acted lawfully both in notifying the Trustee of the IBM United Kingdom Pension Plans that it was closing its UK defined benefit plans to future accruals for most participants and in implementing the company's new retirement policy. On 4 April 2014, the High Court acknowledged that the changes made to its UK defined benefit plans were within the company's discretion, but ruled that the company breached its implied duty of good faith both in implementing these changes and in the manner in which it consulted with employees.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2017

The company appealed and in August 2017, the Appeal Court reversed the High Court judgement, holding that the company was not in breach of its implied duties of good faith and that the changes made to the plans were lawful. The Appeal Court judgment is final.

In addition, the company is a defendant in 285 individual actions brought in 2010 by participants of the defined benefits plans who left the company. These actions, which allege constructive dismissal and age discrimination, have been brought in the Employment Tribunal in Southampton.

Employee involvement

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, by the internal publication 'Link.me', and by their managers. The views of the employees are obtained from opinion surveys, at departmental meetings and through direct contact with their managers.

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 International Business Machines Corporation, through established employee share schemes, membership of which is service related. In addition, all IBM employees have the opportunity to purchase International Business Machines Corporation 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.

Disabled employees

In common with all others, disabled persons are given full consideration in respect of selection, continued employment, training, career development and promotion. If members of staff become disabled the company continues employment, either in the same or alternative position, with appropriate retraining being given if necessary.

IBM United Kingdom Limited

Directors' Report

For the Year Ended 31 December 2017

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. International Business Machines Corporation has purchased Directors' and Officers' liability insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

Directors

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

D Stokes	(resigned 5 June 2017)
T Eagle	
S Leonard	(resigned 1 April 2017)
S Smith	(resigned 14 February 2017)
S Tickle	(resigned 8 February 2017)
V Khurana	(resigned 15 March 2018)
W Kelleher	(appointed 7 June 2017)
F Sciutti	(appointed 15 March 2018)

Statement of disclosure of information to auditors

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

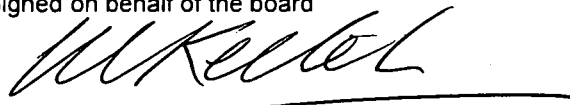
- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

Signed on behalf of the board



W Kelleher
Director

18 September 2018

IBM United Kingdom Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

IBM United Kingdom Limited

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

For the Year Ended 31 December 2017

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 2017; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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.

IBM United Kingdom Limited

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

For the Year Ended 31 December 2017

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2017 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 set out on page 10, 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.

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.

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.

IBM United Kingdom Limited

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

For the Year Ended 31 December 2017

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.

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

We have no exceptions to report arising from this responsibility.



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

18 September 2018

IBM United Kingdom Limited

Income Statement

For the Year Ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue	3	3,713.3	3,899.2
Cost of sales	4	(3,522.2)	(3,712.9)
Gross profit		191.1	186.3
Administrative expenses	4	(11.7)	(139.9)
Other operating income		2.7	18.6
Operating profit		182.1	65.0
Other finance income	9	5.7	8.9
Other finance costs	10	(10.4)	(5.7)
Impairment of investments	14	(517.3)	-
Income from investments	14	428.6	46.4
Net interest on defined benefit asset	24	20.5	11.1
Profit before income tax		109.2	125.7
Income tax expense	11	(59.4)	(64.5)
Profit for the year		49.8	61.2

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		49.8	61.2
Other comprehensive (expense) / income			
Items that will not be reclassified to profit or loss			
Actuarial (loss) / gain on defined benefit pension schemes	24	(962.7)	439.3
Deferred tax in respect of defined benefit pension schemes	16	163.7	(76.5)
Other comprehensive (expense) / income for the year, net of income tax		(799.0)	362.8
Total comprehensive (expense) / income for the year		(749.2)	424.0

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Statement of Changes in Equity For the Year Ended 31 December 2017

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2016		956.4	719.3	844.0	2,519.7
Profit for the financial year		-	-	61.2	61.2
Actuarial gain on defined benefit pension schemes	24	-	-	439.3	439.3
Deferred tax in respect of defined benefit pension schemes	16	-	-	(76.5)	(76.5)
Total comprehensive income		-	-	424.0	424.0
Issue of preference shares	31	-	24.4	-	24.4
Recognition of share-based payments	25	-	-	(0.9)	(0.9)
Total transactions with owners		-	24.4	(0.9)	23.5
At 31 December 2016		956.4	743.7	1,267.1	2,967.2
Profit for the financial year		-	-	49.8	49.8
Actuarial loss on defined benefit pension schemes	24	-	-	(962.7)	(962.7)
Deferred tax in respect of defined benefit pension schemes	16	-	-	163.7	163.7
Total comprehensive expense		-	-	(749.2)	(749.2)
Purchase of own shares	31	-	-	(200.0)	(200.0)
Recognition of share-based payments	25	-	-	(5.0)	(5.0)
Deferred tax in respect of share-based payments	16	-	-	0.3	0.3
Total transactions with owners		-	-	(204.7)	(204.7)
At 31 December 2017		956.4	743.7	313.2	2,013.3

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Statement of Financial Position

As at 31 December 2017

	Note	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	12	227.3	237.7
Intangible assets	13	312.3	312.2
Investments	14	1,829.7	406.8
Deferred tax assets	16	88.5	-
Finance receivables	17	9.3	11.5
Other receivables	19	134.1	122.6
Receivables from related parties	30	-	1,400.0
Retirement benefit asset	24	-	797.7
		2,601.2	3,288.5
Current assets			
Inventories	18	6.5	12.5
Finance receivables	17	12.4	12.6
Trade and other receivables	19	397.9	351.2
Receivables from related parties	30	907.8	1,242.3
Derivatives from related parties	30	-	21.2
Cash and cash equivalents	20	17.0	6.8
		1,341.6	1,646.6
Total assets		3,942.8	4,935.1
Non-current liabilities			
Deferred revenue		(139.4)	(131.6)
Deferred tax liability	16	-	(56.1)
Provisions for liabilities and charges	21	(4.3)	(7.4)
Retirement benefit obligation	24	(33.7)	-
Other payables	22	(4.1)	(11.2)
		(181.5)	(206.3)
Current liabilities			
Deferred revenue		(429.9)	(388.2)
Provisions for liabilities and charges	21	(10.9)	(13.2)
Income tax liabilities		(23.4)	(22.1)
Trade and other payables	22	(459.7)	(405.9)
Payables to related parties	30	(817.1)	(932.2)
Derivatives to related parties	30	(7.0)	-
		(1,748.0)	(1,761.6)
Total liabilities		(1,929.5)	(1,967.9)
Net assets		2,013.3	2,967.2

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Statement of Financial Position

As at 31 December 2017

	Note	2017 £m	2016 £m
Issued capital and reserves			
Share capital	31	956.4	956.4
Share premium	31	743.7	743.7
Retained earnings		313.2	1,267.1
Total equity		2,013.3	2,967.2

The financial statements on pages 14 to 82 were approved by the directors and authorised for issue on 18 September, 2018, and are signed on their behalf by:



W Kelleher
Director

Company registration number: 741598

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Statement of Cash Flows

For the Year Ended 31 December 2017

	Note	2017 £m	2016 £m
Net cash inflows from operating activities	29	26.8	8.5
Cash flows from investing activities			
Payments to acquire property, plant and equipment		(56.8)	(86.2)
Proceeds from the sale of property, plant and equipment		5.4	27.6
Cash acquired with purchase of business		-	2.6
Payments to acquire investments in subsidiaries		(1,865.0)	(9.8)
Dividends received		353.3	-
Purchase of own preference shares		(200.0)	-
Amounts received from / (placed on) deposit		1,400.0	(1,400.0)
Net cash outflow from investing activities		(363.1)	(1,465.8)
Cash flows from financing activities			
Repaid loan received from immediate parent company		578.1	-
Interest received		5.7	5.5
Net cash inflows / (outflows) from financing activities		583.8	5.5
Net increase / (decrease) in cash and cash equivalents		247.5	(1,451.8)
Cash and cash equivalents at beginning of year		473.8	1,925.6
Cash and cash equivalents at end of year	20	721.3	473.8

Cash and cash equivalents are reconciled to the statement of financial position in note 20.

The notes on pages 20 to 82 form part of these financial statements.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies

Basis of preparation

IBM United Kingdom Limited (the 'company') is a private company, limited by shares and is incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. These financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, International Financial Reporting Standards Interpretations Committee interpretations and as applied in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 IFRSs 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 financial statements have been prepared on a going concern basis.

International Financial Reporting Standard No. 8 "Operating Segments" (IFRS 8)

The company is excluded from the scope of IFRS 8 "Operating Segments" and has not voluntarily prepared analysis of operating segments within the notes to these financial statements.

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 2017:

IAS 7, Statement of Cash Flows (disclosure initiative amendments). This does not have a material impact on the company's financial statements.

IAS 12, Income Taxes (recognition of deferred income tax assets for unrealised losses). This does not have a material impact on the company's financial statements.

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:

IFRS 9, Financial Instruments (2014). This is effective for the year ended 31 December 2018 and has not been early adopted.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective and not early adopted by the company (continued)

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard must be applied for financial years commencing on or after 1 January 2018. The company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

The company has reviewed its financial assets and liabilities and expects the new guidance is going to affect the classification and measurement of certain financial assets.

The company made a decision to value equity investments at fair value through the income statement.

In line with IFRS 9 the company's trade receivables with third parties should be treated as 'hold-to-collect and sell' financial instruments and valued at a fair market value through other comprehensive income. The current presentation of trade receivables with third parties is to hold these at amortised cost (i.e. the book value). Upon adoption of IFRS 9 the company does not expect a material impact to the value of these receivables as the fair market value is not materially different to the book value.

In addition, IFRS 9 will not have any impact on related party receivables after adoption of IFRS 9 when the 'hold-to-collect' model is applied. For these receivables there will be no change in the measurement when compared to the current approach.

The company does not expect a material impact of the new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses.

IFRS 15, Revenue from Contracts with Customers. This is effective for the year ending 31 December 2018 and has not been early adopted.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The standard is mandatory for financial years commencing on or after 1 January 2018. The company will adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Given the scope of work required to implement the recognition and disclosure requirements under the new standard, the company began its assessment process in 2014 and has completed its changes to policy, processes, systems and controls. This also included the assessment of data availability and presentation necessary to meet the additional disclosure requirements of the guidance in the notes to the financial statements.

The company expects revenue recognition for its broad portfolio of hardware, software and services offerings to remain largely unchanged. However, the guidance is expected to change the timing of revenue recognition in certain areas. These impacts are not expected to be material.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

New standards, interpretations and amendments not yet effective and not early adopted by the company (continued)

Since the company currently expenses sales commissions as incurred, the requirement in the new standard to capitalise certain in-scope sales commissions will result in an accounting change for the company. This expense capitalisation will result in an increase in retained earnings at 1 January 2018 of £42.1 million. There will be no impact on cash flows.

The standard requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in reclassifications of £45.7 million between contract assets and liabilities as of 1 January 2018.

IFRS 16, Leases. This is effective for the year ended 31 December 2019 and has not been early adopted. The company is currently assessing the impact of IFRS 16 on its financial statements.

The following new standards and their amendments have not yet been endorsed by the European Union:

- IFRIC 22 Foreign currency transactions and advance consideration (effective from 1 January 2018);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019);
- Amendments to IFRS 2 Share-based Payment (effective from 1 January 2018);
- Amendments to IAS 19 Employee Benefits (effective from 1 January 2019);
- Annual Improvements to IFRSs 2014 – 2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective from 1 January 2018);
- Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective from 1 January 2019);
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation (effective from 1 January 2019);
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019).

There are no other new standards, interpretations or amendments not yet effective or endorsed by the European Union which are expected to have a material impact on the future financial statements of the company.

Revenue recognition

Revenue, including intercompany revenue, is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

The company recognises revenue only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The company recognises revenue when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and the collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client, risk of loss has transferred to the client and the client acceptance has been obtained, client acceptance provisions have lapsed or the company has objective evidence that the criteria specified in the client acceptance provisions have been satisfied. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, associated costs or the company's continuing involvement with goods.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1 Accounting policies (continued)

Revenue recognition (continued)

Hardware and Leases

Revenue from hardware sales or finance leases is recognised when the product is shipped to the client and when the significant risk and rewards of ownership have been transferred to the buyer. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognised. Revenue from rentals and operating leases is recognised on a straight-line basis over the term of the rental or lease (see the Leasing accounting policy).

Software

Revenue from perpetual (one-time charge) licensed software is recognised at the inception of the licence term. Revenue from term (monthly licence charge) arrangements is recognised on a subscription basis over the period that the client is using the licence. Revenue from maintenance, unspecified upgrades and technical support is recognised over the period such items are delivered.

Services

The company's primary services offerings include information technology (IT) datacenter and business process transformation outsourcing, Cloud Services, application management services, technology infrastructure and system maintenance, web hosting, and the design and development of complex IT systems to a client's specifications (design and build). These services are provided on a time and materials basis, as a fixed price contract or as a fixed price per measure of output contract, and the contract terms generally range from less than one year to ten years. Revenue from IT datacentre and business process transformation outsourcing contracts is recognised in the year the services are provided using either an objective measure of output or a straight-line basis over the term of the contract. Under the output method, the amount of revenue recognised is based on the services delivered in the year as stated in the contract.

Revenue from Cloud Services (SaaS, IaaS, PaaS, BPaaS) is recognised on a consumption basis.

Revenue from application management services, technology infrastructure and system maintenance, and web hosting contracts is recognised on a straight-line basis over the term of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Revenue related to extended warranty and product maintenance contracts is deferred and recognised on a straight-line basis over the delivery period.

Revenue from fixed-price design and build contracts is recognised where the outcome of a contract can be reliably estimated, and revenue and costs are recognised under the percentage of completion (POC) method. Under the POC method, revenue is recognised based on the costs incurred to date as a percentage of the total estimated costs to fulfil the contract. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in the income statement in the year in which the circumstances that give rise to the revision become known by management.

The company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates, such as revenue, costs of sales or 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Revenue recognition (continued)

In some of the company's services contracts the company bills the client prior to performing the services. These balances are held as deferred income in the statement of financial position until the service is performed. In other services contracts the company performs the services prior to billing the client. These balances are held as amounts recoverable on contracts in the statement of financial position until the client is billed. Billings usually occur in the month after the company performs the services or in accordance with specific contractual provisions.

Multiple-element arrangements

The company enters into multiple-element software and non-software related revenue arrangements, which may include any combination of services, software, hardware and/or financing. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

Software related revenue arrangements

The functionality of the delivered element(s) is not dependent on the undelivered element(s).

There is a fair value of the undelivered element(s).

Delivery of the delivered element(s) represents the culmination of the earnings process for that element(s).

Non-software related revenue arrangements

The delivered item(s) has value to the client on a standalone basis.

There is objective and reliable evidence of the fair value of the undelivered item(s).

If the arrangement includes a general right of return of the delivered item(s), the delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the company.

If these criteria are not met, revenue is deferred until the earlier of when such criteria are met or when the last undelivered element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item(s). The revenue policies described above are then applied to each unit of accounting, as applicable.

Other finance income

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company as lessor

Amounts due under finance leases are recorded as finance receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The company as lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Administrative expenses

Administrative expenses are recognised in the income statement as incurred. Administrative expenses include selling expenses, salaries, office supplies, non-income taxes, insurance and office rental.

Research and development

Costs of product development are recharged to the ultimate parent company, International Business Machines Corporation.

Deferred transition costs

Costs related to delivering services under long-term contractual arrangements, including costs relating to bid and proposal activities, are expensed as incurred.

Non-recurring costs which are directly incurred in the initial transition and transformation stages of a specific outsourcing contract are capitalised as an asset under the heading 'Deferred transition costs'. These consist of transition and set up costs related to the installation of systems and processes and are amortised on a straight line basis over the remaining life of the contract. The company performs periodic reviews to assess the recoverability of the deferred costs by comparing the minimum remaining contractual net cash inflows to the unamortised contract costs. If such minimum contractual net cash inflows are not sufficient to recover the unamortised costs, an impairment is recognised. Any impairment of deferred costs is included within the heading 'cost of sales'.

Finance costs

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

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

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave 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 comprise 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 period. 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.

Remeasurements are charged or credited to equity in other comprehensive income in the period 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.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1 Accounting policies (continued)

Share based payments

Share options

The company has an equity settled share option scheme. Share options of International Business Machines Corporation are granted to certain employees (including key management personnel) of the company. The rights to these options are granted by International Business Machines Corporation, the ultimate parent company. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense with a corresponding adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the effect of any non-market based vesting conditions. Non-market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the income statement for the period, and a corresponding adjustment to retained earnings, as the company does not have a separate equity compensation reserve arising on the issue of share-based payments.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

As per the terms of the arrangement with International Business Machines Corporation, the company is required to compensate International Business Machines Corporation for the difference between the market value of the underlying shares on exercise date and the proceeds from exercise of the share options. This intercompany charge is denominated in US Dollars based on the US Dollar market value of the underlying shares 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 income statement for the period. The intercompany charge is offset to equity against retained earnings.

Share awards

Share awards are equity awards paid out in International Business Machines Corporation 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 International Business Machines Corporation shares on the date of grant.

Employee Share Purchase Plan

International Business Machines Corporation also provides an employee share purchase plan (ESPP), enabling eligible participants worldwide to purchase full or fractional common shares in International Business Machines Corporation through payroll deductions at a 5% discount to the market price. For purchases prior to 1 April 2005, employees obtained a 15% discount on the market price of the shares. Any discount provided to the company's employees under the ESPP is considered compensation expense.

Taxation

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Taxation (continued)

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.

Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses.

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.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

1 Accounting policies (continued)

Property, plant and equipment (continued)

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

Investments in subsidiaries

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

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.

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.

Financial instruments

Classes of financial instruments

The company considers the following to be its classes of financial assets: cash at bank; derivative assets; finance receivables; trade and other receivables; and receivables from related parties. The following financial liabilities are presented as separate classes of financial liabilities: derivative liabilities; trade and other payables and payables to related parties.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities are recognised initially at fair value, plus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. 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, replacement cost and termination cost 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.

Financial assets

Classification

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL); and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. There are no assets available for sale and no transfers between categories.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss (FVTPL) are financial assets held for trading. A FVTPL financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Derivative financial assets

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identical financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the income statement. Gains and losses are included in the 'cost of sales' line item in the income statement. Fair value is determined in the manner described in note 23.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables comprise 'finance receivables', 'trade and other receivables' (excluding 'prepayments' and 'deferred transition costs'), 'cash equivalents' and 'receivables from related parties' (notes 17, 19, 20 and 30).

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Financial instruments (continued)

Cash at bank

Cash at bank comprises cash on hand and demand deposits.

Trade and other receivables and finance receivables

Trade and other receivables and finance receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

An allowance for uncollectible trade and other receivables and finance receivables is recorded based on a combination of write-off history, ageing analysis, and any specific, known troubled accounts. Receivable balances include trade debtors, finance leases and loans. Below are the methodologies the company uses to calculate its impairment reserves, which are applied consistently to its different portfolios.

The company reviews all trade and other receivables and finance receivables on a regular basis. The review consists primarily of an analysis based upon current information available about clients, such as financial statements, news reports and published credit ratings, as well as consideration of the current economic environment, collateral net of repossession costs and prior history. Additionally, portfolios are collectively assessed (excluding accounts that have been specifically reserved), based upon credit ratings, probability of default, term, asset characteristics, and loss history to determine if there is objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

If there is objective evidence that accounts receivable are impaired, the company calculates an impairment loss 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 income statement. The carrying amount of the impaired receivable is reduced through the use of a specific allowance account.

Losses incurred on trade and other receivables are charged against the allowance when management believes the uncollectibility of the receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Classification

Financial liabilities are classified into the following specified categories: financial liabilities 'at fair value through profit or loss' (FVTPL) and financial liabilities measured at 'amortised cost'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Liabilities in this category are classified as current liabilities.

Amortised cost

The amortised cost of a debt instrument is calculated using the effective interest method which allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Financial instruments held at amortised cost include 'trade and other payables' (excluding 'other payables', 'accrued expenses' and 'social security and other taxes'), and 'payables to related parties' (notes 22 and 30).

Derivative financial liabilities

A financial liability is classified as held for trading if:

- It has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identical financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the income statement. Gains and losses are included in the 'cost of sales' line item in the income statement. Fair value is determined in the manner described in note 23.

Trade and other payables

Trade and other payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods or services. Amounts are unsecured and usually settled on standard commercial trade terms. Trade and other payables are initially measured at fair value.

Trade and other payables are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 Accounting policies (continued)

Financial instruments (continued)

The effective interest 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 they expire.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

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.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, and it is probable that the company will be required to settle that obligation. 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 environmental remediation are recognised when the company introduces to market a product which, under European Union directives, the company is required to take back from the customer free of charge at a later date, for disposal in an environmentally friendly manner.

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

Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows comprise cash at bank and short term deposits with related parties that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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 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.

Revenue recognition

Application of the various accounting principles in IFRS related to the measurement and recognition of revenue requires that the company make judgements and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgements include determining whether the company or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

Revenue recognition is also impacted by the company's ability to estimate sales incentives, expected returns and allowances for uncollectible receivables. The company considers various factors, including a review of specific transactions, the credit-worthiness of the customers, historical experience and market and economic conditions when calculating these provisions and allowances.

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.

Long-term contracts

The company enters into numerous service contracts through its Global Technology Services and Global Business Services businesses. During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract, particularly contracts for which the company uses the percentage of completion (POC) method of accounting. If at any time these estimates indicate the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. The company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

2 Significant accounting estimates and judgements (continued)

complete each contract are future labour costs, future product costs and productivity efficiencies.

Impairment review

The company reviews intangible assets and property, plant, equipment annually for impairment. 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 are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, 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.

Pension assumptions

The measurement of the company's defined benefit obligation to its employees and net periodic 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 24).

Pension litigation

As further described in note 24, IBM United Kingdom Limited is a defendant in number of individual actions in the Employment Tribunal in Southampton. The company believes that no material economic outflow will be realised due the Employment Tribunal's decisions, and, therefore, has not made any adjustment to the financial statements.

Income taxes

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that new information becomes available which causes the company to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact income tax expense in the period in which such determination is made (note 11).

Deferred tax assets

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future crystallisation of the underlying temporary differences can be deducted. An assessment of future profits is prepared based on current market and economic conditions, and an estimate of future market and economic conditions. Factors that could result in actual future profits being lower than estimated future profits relate to significant changes in the economy, or a significant change in the economic health of a particular client or industry segment (note 16).

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

3 Revenue

	Home £m	Export £m	Total £m
2017			
Hardware	137.4	-	137.4
Global Services	2,164.9	759.7	2,924.6
Software	651.3	-	651.3
	2,953.6	759.7	3,713.3
2016			
Hardware	117.5	-	117.5
Global Services	2,355.1	798.9	3,154.0
Software	627.7	-	627.7
	3,100.3	798.9	3,899.2

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

Hardware includes sales of servers, from supercomputers to mid range technology, and storage technology.

Global Services offers customers comprehensive IT services integrated with business insight to reduce costs, improve productivity, and gain competitive advantage. Many client contracts in the United Kingdom begin with engagement with the Global Business Services division, where consultants and industry experts provide deep industry knowledge. This division also provides Application Development and Maintenance services. The Global Technology Services unit provides a full range of IT services, including managing and operating entire information technology systems, consulting on the best use of technology infrastructure, maintaining systems, Cloud Service offerings (SaaS, IaaS, PaaS, BPaaS) and Business Continuity and Recovery Services.

Software sales include operating systems, middleware and industry specific solutions for Commerce, Cloud, Security, Analytics, Mobile and use of Social Media. IBM is helping our clients to remove the barriers that impede the flow of information within their enterprises by increasingly providing open standards-based software solutions.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

4 Expenses by nature

	2017 £m	2016 £m
Costs of services and products	1,987.7	2,120.3
Cost of licences	135.0	180.1
Employee expenses (note 7)	1,156.7	1,296.6
Depreciation of property, plant and equipment (note 12)	61.5	68.1
Amortisation of deferred transition costs	61.2	60.3
Impairment of deferred transition costs	-	40.0
Loss / (gain) on disposal of property, plant and equipment	0.3	(0.4)
Property rental costs (note 5)	39.8	34.5
Advertising costs	43.2	15.1
Net foreign currency exchange loss / (gain)	14.8	(10.3)
Other expenses	33.7	48.5
Total cost of sales and administrative expenses	3,533.9	3,852.8

5 Lease income / (costs)

Details of operating lease and finance lease income included in revenue in the income statement are set out below:

	2017 £m	2016 £m
Lease income:		
- Operating lease income	-	0.2
- Finance lease interest income	1.0	0.8

Details of operating lease costs are set out below:

	2017 £m	2016 £m
Operating lease costs:		
- Land and buildings	(39.8)	(34.5)
- Plant and equipment	(12.9)	(11.8)

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

6 Auditors' remuneration

	2017 £000	2016 £000
Audit services in respect of the company's financial statements	805	805
Audit related assurance services	148	115
Taxation advisory services	195	318
All other services	47	10
	1,195	1,248
Audit services in respect of the company's associated pension scheme	82	78

In addition, auditors' remuneration of £122,000 (2016: £122,000) was borne by this company on behalf of fellow IBM United Kingdom group undertakings.

7 Employee expenses

	2017 £m	2016 £m
Wages and salaries	1,003.1	1,067.7
Social security costs	117.6	114.9
Pension cost for defined contribution pension plans	80.9	84.9
Pension cost for defined benefit pension plans (note 24)	8.6	11.3
Release of defined benefit provision to pension cost (note 24)	(70.0)	-
Share based payment expense (note 25)	16.5	17.8
	1,156.7	1,296.6

Pension costs including provision release of £(61.4) million (2016: £11.3 million) in respect of defined benefit pension schemes represent amounts charged to operating profit. These amounts do not include amounts credited to finance income (see note 24) 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 2017

7 Employee expenses (continued)

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

	2017 Number	2016 Number
Services and marketing	9,993	10,811
Product development	2,131	2,401
	12,124	13,212

These totals include employees who have fixed-term contracts with the company. They also include 77 employees (2016: 70 employees) whose duties were carried out mainly outside of the United Kingdom.

8 Directors' emoluments

The emoluments of the directors and the number of share options and share appreciation rights, in International Business Machines Corporation, exercised by the directors in respect of their services as 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 directors' aggregate emoluments in respect of qualifying services were:

	2017 £	2016 £
Aggregate emoluments	1,687,597	2,667,163
Contributions to defined contribution schemes	78,850	141,114
Share-based payments benefits	580,681	1,331,338

	2017 Number	2016 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	7	7
Number of directors who are deferred members of defined benefit schemes	2	4
Number of directors who accrued benefits under defined contribution schemes	7	7

One director was appointed and four directors resigned during the year. One director resigned and one was appointed subsequent to the year end. One director was appointed and one resigned during the prior year.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

8 Directors' emoluments (continued)

Aggregate emoluments receivable under long term incentive schemes, excluding share based payments, were £nil (2016: £nil).

Emoluments of highest paid director:

	2017 £	2016 £
Aggregate emoluments	447,334	660,590
Accrued pension at the year end in the defined benefit pension scheme	-	58,942
Amounts paid, or treated as paid, to a defined contribution scheme in respect of qualifying services	12,582	24,048

The highest paid director received shares in respect of qualifying services under a long term incentive scheme during 2017 and 2016. 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 2017 or 2016.

9 Other finance income

	2017 £m	2016 £m
Interest on loans to parent company	1.6	2.9
Interest on loans to group undertakings	4.0	6.0
Other interest receivable	0.1	-
	5.7	8.9

Interest on amounts owed by parent company and interest bearing amounts owed by group undertakings are charged at variable rates based on LIBOR.

10 Other finance costs

	2017 £m	2016 £m
Finance costs from group undertakings	5.3	5.7
Other interest payable	5.1	-
	10.4	5.7

Interest on loans from group undertakings is charged at variable rates based on LIBOR.

Finance costs incurred from group undertakings include £3.8 million (2016: £5.3 million) of factoring charges.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

11 Income tax expense

(a) Analysis of expense in the year

	2017 £m	2016 £m
Current tax:		
UK corporation tax based on profit for the year at 19.25% (2016: 20.00%)	10.9	2.9
Adjustments relating to prior years	29.1	32.2
Total current tax	40.0	35.1
Deferred tax:		
Movements on temporary differences	28.4	23.5
Adjustments relating to prior years	(9.0)	5.9
Total deferred tax (note 16)	19.4	29.4
Income tax expense	59.4	64.5

(b) Reconciliation of tax expense

The tax assessed on the profit for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%).

	2017 £m	2016 £m
Profit before income tax	109.2	125.7
Tax at the domestic income tax rate of 19.25% (2016: 20.00%)	21.0	25.1
Effects of:		
Adjustments relating to prior years	20.1	38.1
Expenses not deductible for tax purposes	102.3	14.0
Income not subject to UK tax	(82.7)	(11.0)
Share option charge / (credit)	1.3	(1.4)
Withholding tax	1.7	1.3
Movement in unrecognised deferred tax	(0.5)	(0.2)
Adjustment to tax rates	(3.8)	(1.4)
Total income tax expense (note 11(a))	59.4	64.5

The company continues to progress ongoing tax enquiries with Her Majesty's Revenue and Customs ('HMRC') including the agreement to close certain tax audits in June 2017. A charge in relation to this of £18.2 million is reflected within adjustments relating to prior years.

(c) Factors that may affect future tax expense

Finance Act 2016 included legislation to further reduce the rate from 19% to 17% with effect from 1 April 2020. The impact of these changes is reflected in any closing deferred tax balances.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

12 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2016	102.6	442.5	278.4	823.5
Additions	6.5	60.6	19.1	86.2
Disposals	-	(81.6)	(6.8)	(88.4)
At 31 December 2016	109.1	421.5	290.7	821.3
Additions	5.7	40.1	11.0	56.8
Disposals	-	(69.5)	(1.3)	(70.8)
At 31 December 2017	114.8	392.1	300.4	807.3
Accumulated depreciation				
At 1 January 2016	76.1	308.8	191.8	576.7
Charge for year	2.2	52.0	13.9	68.1
Disposals	-	(56.9)	(4.3)	(61.2)
At 31 December 2016	78.3	303.9	201.4	583.6
Charge for year	2.6	44.2	14.7	61.5
Disposals	-	(63.9)	(1.2)	(65.1)
At 31 December 2017	80.9	284.2	214.9	580.0
Net book value				
At 31 December 2017	33.9	107.9	85.5	227.3
At 31 December 2016	30.8	117.6	89.3	237.7

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

Plant and equipment includes assets rented to lessees under operating leases. The capital value of these assets is £nil (2016: £nil) and the accumulated depreciation is £nil (2016: £nil).

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

13 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2016	593.1	0.7	593.8
Transfers from investments (note 14)	30.0	-	30.0
At 31 December 2016	623.1	0.7	623.8
Transfers from investments (note 14)	0.1	-	0.1
At 31 December 2017	623.2	0.7	623.9
Accumulated amortisation and impairment			
At 1 January 2016	(310.9)	(0.7)	(311.6)
At 31 December 2016	(310.9)	(0.7)	(311.6)
At 31 December 2017	(310.9)	(0.7)	(311.6)
Net book value			
At 31 December 2017	312.3	-	312.3
At 31 December 2016	312.2	-	312.2

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

13 Intangible assets (continued)

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 each constituent 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% (2016: 2.5%) used is in line with the long term average growth rate for the industry in which the group operates. The pre-tax discount rate used in this calculation was 11.5% (2016: 11.6%). The post-tax discount rate was 10% for both years. If the pre-tax discount rate used for impairment review increased by 1% to 12.5% 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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

14 Investments

	£m
Cost	
At 1 January 2016	456.6
Additions	34.2
Liquidations	(47.4)
Transfers to goodwill	(30.0)
At 31 December 2016	413.4
Additions	1,940.3
Transfers to goodwill	(0.1)
At 31 December 2017	2,353.6
Impairment	
At 1 January 2016	(6.6)
At 31 December 2016	(6.6)
Impairment charge for the year	(517.3)
At 31 December 2017	(523.9)
Net book value	
At 31 December 2017	1,829.7
At 31 December 2016	406.8

On 3 October 2017 the company acquired 100% of the share capital of IBM International Treasury Services Unlimited Company (Ireland) for £1,822.8 million. Subsequently, as a result of various transactions undertaken by IBM International Treasury Services Unlimited Company (Ireland) between 6 October 2017 and 11 October 2017, the company obtained an indirect 5.06% ownership in IBM Treasury Corporation (Barbados) through its investment in IBM International Treasury Services Unlimited Company (Ireland).

On 13 October 2017 the company received a dividend in kind from IBM International Treasury Services Unlimited Company (Ireland) in the form of partnership interest in IBM Atlantic C.V. The partnership interest had a fair value of £75.3 million. On 15 December 2017, the company received a further dividend in cash from IBM International Treasury Services Unlimited Company (Ireland) of €400.0 million, translated into GBP at the spot rate on the day of the transaction to £353.3 million.

On 14 December 2017 the company acquired 100% of the share capital of International Business Machines Limited for £0.9 million.

On 31 December 2017 the Directors carried out an impairment review of the company's investment in IBM International Treasury Services Unlimited Company (Ireland) and as a result impaired the investment by £517.3 million. The main cause of the impairment, due to the decrease in the fair value of IBM International Treasury Services Unlimited Company (Ireland), was as a result of the decrease in the net assets of IBM International Treasury Services Unlimited Company (Ireland) due to the dividends paid to the company since it was acquired.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

14 Investments (continued)

Subsequent to the above impairment review, on 31 December 2017 the company transferred its investment in IBM International Treasury Services Unlimited Company (Ireland) to a subsidiary, International Business Machines Limited, by way of a share exchange agreement. The company acquired a further 1,305,477,461 £1 shares in International Business Machines Limited in exchange for its holding in IBM International Treasury Services Unlimited Company (Ireland).

In relation to these transactions, the disclosure note above includes within additions in the year:

- £1,822.8 million representing the transaction that took place on 3 October 2017 for the acquisition of IBM International Treasury Services Unlimited Company (Ireland).
- £0.9 million representing the transaction that took place on 14 December 2017 for the acquisition of International Business Machines Limited.

The transfer of the investment in IBM International Treasury Services Unlimited Company (Ireland) to International Business Machines Limited that took place on 31 December 2017 had a net £nil impact on the company's investments as both companies at the time of the transfer were wholly owned subsidiaries. Therefore, this transaction is not visible in the disclosure note above.

The company also made the following acquisitions during the year.

On 31 January 2017 the company acquired 100% of the share capital of Truven Health Analytics UK Limited for £20.0 million. As result of this acquisition, the company indirectly owns Simpler Consulting Limited, Truven Health Analytics, S.L. (Spain), Truven Health Analytics India Private Limited and Truven Health Analytics Mexico, S.A. de C.V. The transfer of the trade and assets of Truven Health Analytics UK Limited to the company has taken place on 1 August 2018.

On 1 December 2017 the company acquired 8.99% ownership in Kenexa Technology Inc. (USA) for £21 million. Furthermore on 1 December 2017 the company together with International Business Machines Corporation formed a new company Kenexa Technology LLC (USA) holding 25% ownership. On 31 December 2017 Kenexa Technology Inc. merged with and into Kenexa Technology LLC. The company retained 25% ownership in Kenexa Technology LLC.

On 14 December 2017 the company acquired 100% of the share capital of two entities: 010414 UK Limited and 251211 UK Limited for £0.1 million and £0.3 million respectively.

The company had beneficial ownership of all the ordinary share capital and voting rights of the following companies at 31 December 2017 and 2016 (unless otherwise stated).

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

14 Investments (continued)

Name of subsidiary	Country of registered office	Holding	Nature of business
Direct holdings			
IBM Atlantic CV (Partnership)	Netherlands	0.003%	Trading
Optevia Limited	Great Britain	100%	Trading
Truven Health Analytics UK Limited	Great Britain	100%	Trading
010414 UK Limited	Great Britain	100%	Non-trading
251211 UK Limited	Great Britain	100%	Non-trading
Algorithmics Risk Management Limited	Great Britain	100%	Non-trading
Cascade Hosting and Applications Services UK Limited *	Great Britain	100%	Non-trading
i2 Holdings Limited	Great Britain	100%	Non-trading
i2 Intermediate Holdings Limited	Great Britain	100%	Non-trading
International Business Machines Limited	Great Britain	100%	Non-trading
Kenexa Quorum Holdings Limited	Great Britain	100%	Non-trading
Kenexa Technology LLC	United States	25%	Non-trading
Cleversafe UK Limited	Great Britain	100%	Dormant
EZLegacy UK Limited	Great Britain	100%	Dormant
Integral Solutions Limited	Great Britain	100%	Dormant
i2 Limited	Great Britain	100%	Dormant
M H (UK) Limited	Great Britain	100%	Dormant
Resilient Systems Europe Limited	Great Britain	100%	Dormant
Silverpop Systems Limited	Great Britain	100%	Dormant
SPSS Limited	Great Britain	100%	Dormant
Sterling Commerce (UK) Limited	Great Britain	100%	Dormant
Transitive Corporation Limited	Great Britain	100%	Dormant

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

14 Investments (continued)

Name of subsidiary	Country of registered office	Holding	Nature of business
Indirect holdings through Algorithmics Risk Management Limited			
Algorithmics (UK) Limited	Great Britain	100% (indirect)	Non-trading
Indirect holdings through Algorithmics (UK) Limited			
Algorithmics (Beijing) Risk Management Consulting Company Limited (China)	China	100% (indirect)	Dormant
Indirect holdings through International Business Machines Limited (UK)			
IBM International Treasury Services Unlimited Company	Ireland	100% (indirect)	Trading
Indirect holdings through IBM International Treasury Services Unlimited Company (Ireland)			
IBM Treasury Corporation	Barbados	5.06% (indirect)	Trading
Indirect holdings through Kenexa Quorum Holdings Limited			
Kenexa Global Recruitment Services Limited	Great Britain	100% (indirect)	Dormant
Indirect holdings through Transitive Corporation Limited			
Transitive Limited	Great Britain	100% (indirect)	Dormant
Indirect holdings through Truven Health Analytics UK Limited			
Simpler Consulting Limited	Great Britain	100% (indirect)	Trading
Truven Health Analytics S.L.	Spain	100% (indirect)	Trading
Truven Health Analytics India Private Limited	India	99.99% (indirect)	Trading
Truven Health Analytics Mexico S.A. de C.V.	Mexico	100% (indirect)	Trading

* Denotes companies that entered liquidation during the year.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

14 Investments (continued)

The registered address for Optevia Limited, Truven Health Analytics UK Limited, 010414 UK Limited, Algorithmics Risk Management Limited, i2 Holdings Limited, i2 Intermediate Holdings Limited, International Business Machines Limited, Kenexa Quorum Holdings Limited, Cleversafe UK Limited, EZLegacy UK Limited, i2 Limited, M H (UK) Limited, Resilient Systems Europe Limited, Silverpop Systems Limited, SPSS Limited, Sterling Commerce (UK) Limited, Transitive Corporation Limited, Algorithmics (UK) Limited, Kenexa Global Recruitment Service Limited, Transitive Limited, Simpler Consulting Limited is PO BOX 41 North Harbour, Portsmouth, Hampshire, United Kingdom, PO6 3AU.

The registered addresses for the remaining subsidiary undertakings are following:

Name of subsidiary	Registered address
IBM Atlantic CV (Partnership)	Johan Huizingalaan 765, 1066 VH Amsterdam, the Netherlands
251211 UK Limited	76 Upper Ground, London, United Kingdom, SE1 9PZ
Cascade Hosting and Applications Services UK Limited	15 Canada Square, London, United Kingdom, E14 5GL
Kenexa Technology LLC	Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, USA
Integral Solutions Limited	15 Canada Square, London, United Kingdom, E14 5GL
Algorithmics (Beijing) Risk Management Consulting Company Limited (China)	2212A, 21/F Building 5, No 27 Central North 4 th Ring Road, Chaoyang District, Beijing, China (PRC)
IBM International Treasury Services Unlimited Company	IBM House, Shelbourne road, Ballsbridge, Dublin 4, D04NP20, Ireland
IBM Treasury Corporation	Radley Court, Lower Collymore Rock, St. Michael, Barbados
Truven Health Analytics S.L.	Calle Gran Via 6, 5 ^o Planta Izquierda, 28033 Madrid, Spain
Truven Health Analytics India Private Limited	1/124, DFL IT Park, V1 Floor, Block 10 Mount Poonamalle Road, Manapakkam Chennai, tamil Nadu 600089, India
Truven Health Analytics Mexico S.A. de C.V.	Mario Pani 400, Piso 13-2, Col. Santa Fe Cuajimalpa, 05348, Mexico, D.F.

During the year the directors conducted an impairment review of the investments held and consider all investments to be supported by their underlying net assets.

During the prior year the company made the following acquisitions:

On 26 February 2016 the company acquired 100% of the share capital of Silverpop Systems Limited for £24.4 million. Goodwill of £22.5 million arose on transfer of the trade and assets to the company.

On 18 March 2016 the company acquired 100% of the share capital of Optevia Limited for £6.7 million. Goodwill of £4.6 million arose on transfer of the trade and assets to the company.

On 29 June 2016 the company acquired 100% of the share capital of Cleversafe UK Limited for £3.0 million.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

14 Investments (continued)

Goodwill of £2.9 million arose on transfer of the trade and assets to the company.

On 30 December 2016 the company acquired 100% of the share capital of Resilient Systems Europe Limited for £0.1 million. Goodwill of £nil arose on transfer of the trade and assets to the company.

During the prior year the company also acquired 100% of the share capital of two dormant companies: Cascade Hosting and Applications Services UK Limited; and EZLegacy UK Limited for £1 each.

During the year Cascade Hosting and Applications Services UK Limited went into liquidation, the net book value of investment of £1 was written off to the income statement.

During the prior year Ashbourne Assessment Systems Limited, Aspera UK Limited, Cloudant Limited, Daeja Image Systems Limited, Kenexa Limited, Kenexa Compensation UK Limited and Outstart (EMEA) Limited went into liquidation. The amounts written off investments represents the net book value of investment cost less the recovered share capital. The amount written off to the income statement was £47.4 million.

15 Purchase of business

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

During the prior year the company acquire the trade and associated assets and liabilities of these subsidiary undertakings: Cleversafe UK Limited, Optevia Limited and Silverpop Systems Limited for a consideration of £4.1 million. The transfers of assets and liabilities were at net book value. All of the transfers were completed through a non-interest bearing related party payable.

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

	2016 £m
Property, plant and equipment	-
Trade and other receivables due within one year	6.0
Cash	1.8
Trade and other payables due within one year	(3.3)
Deferred tax	-
Corporation tax	(0.4)
Total net assets acquired at book value	4.1

Included within trade and other receivables due within one year was £0.8 million of amounts held on short term deposit.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

16 Deferred tax assets / (liabilities)

Movement in the deferred tax asset / (liability)

	Fixed asset temporary differences £m	Short term temporary differences £m	Retirement benefit £m	Total £m
At 1 January 2016	71.4	33.4	(55.0)	49.8
Charged to the income statement	(15.9)	(9.5)	(4.0)	(29.4)
Charged to statement of comprehensive income	-	-	(76.5)	(76.5)
At 31 December 2016	55.5	23.9	(135.5)	(56.1)
Credited / (charged) to the income statement	8.2	(5.1)	(22.5)	(19.4)
Credited to statement of comprehensive income	-	-	163.7	163.7
Credited to reserves in respect of share options	-	0.3	-	0.3
At 31 December 2017	63.7	19.1	5.7	88.5

Movement in the unrecognised deferred tax asset:

	Total £m
At 1 January 2016	0.8
Movement in unrecognised amounts in the year	(0.2)
At 31 December 2016	0.6
Movement in unrecognised amounts in the year	(0.5)
At 31 December 2017	0.1

The company has £ 0.1 million (2016: £ 0.6 million) of potential deferred tax assets in respect of trading balances from acquired companies, which has not been recognised on the grounds that this is not considered recoverable in the foreseeable future. There is no unrecognised deferred tax in respect of the retirement benefit scheme.

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

17 Finance receivables

	2017 £m	2016 £m
Non-current		
Finance lease receivables	-	0.1
Customer loans	9.3	11.4
	9.3	11.5
Current		
Finance lease receivables	0.1	0.1
Customer loans	12.3	12.5
	12.4	12.6

Finance lease receivables are for leases that relate principally to the company's equipment and are generally for terms ranging from two to seven years. Customer loan receivables are provided by the company to clients to finance the purchase of IBM's software and services.

Finance lease and customer loan receivables include invoiced amounts not paid at the end of the year. The average contractual credit period on invoiced amounts is 30 days. Unless specifically negotiated, interest is charged at 8% above base rate per annum, in line with the Late Payment of Commercial Debts (Interest) Act 1998, on the outstanding balance. The company has fully provided for all invoiced amounts aged over 365 days.

Before entering into a finance lease arrangement, the company undertakes a credit assessment on the proposed transaction, either through the IBM Credit Team or, for certain transactions of a lower size, a credit scoring system based on external credit agency information, to assess the customer's credit quality and define credit limits by customer. Credit limits for most customers are valid for no more than six months, and are reviewed if required to be extended. The balances on leases for hardware are usually secured over the leased equipment and the fair value of the collateral held by the company is £ 0.2 million (2016: £ 0.1 million).

As of 31 December 2017, finance lease and customer loan receivables of £nil (2016: £nil) were past due but not impaired.

In determining the recoverability of the finance lease and customer loan receivables, the company considers any change in the credit quality of the receivables balance 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 credit provision required.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

17 Finance receivables (continued) Amounts receivable under finance leases:

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
	£m	£m	£m	£m
Not later than one year	0.1	0.1	0.1	0.1
Later than one year and not later than five years	-	0.1	-	0.1
	0.1	0.2	0.1	0.2
Less:				
Unearned finance income	-	-	-	-
	0.1	0.2	0.1	0.2

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest contracted is approximately 4.26% (2016: 3.65%) per annum.

Assets with an unguaranteed residual value totalled £nil (2016: £nil).

Assets purchased by the company for supply to customers under finance leases totalled £nil in the year (2016: £nil).

18 Inventories

	2017	2016
	£m	£m
Finished goods and goods for resale	6.5	12.5

Finished goods and goods for resale includes an allowance for obsolescence of £1.9 million (2016: £nil million).

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £190.2 million (2016: £ 156.6 million).

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

19 Trade and other receivables

	2017 £m	2016 £m
Non-current		
Prepayments	17.8	14.9
Deferred transition costs	116.3	107.7
	134.1	122.6
Current		
Trade receivables (i)	73.8	27.9
Less: provision for impairment of trade receivables (ii)	(0.5)	(0.4)
Amounts recoverable on contracts	51.9	57.4
Other receivables	13.5	19.4
Prepayments	79.5	73.3
Deferred transition costs	40.4	37.4
Accrued income	139.3	136.2
	397.9	351.2

IBM United Kingdom Limited has entered into an agreement under which it sells for cash certain of its trade receivables to IBM United Kingdom Financial Services Limited ("the factor"), a group undertaking, based in the United Kingdom, of IBM. The terms of the agreement preclude the repurchase of any trade receivables which have been sold to the factor. Any losses incurred in the collection of the debt sold under this agreement are not borne by the company. These trade receivables totalling £158.7 million (2016: £212.8 million) have been excluded from the statement of financial position in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". An increase in the trade receivables was mainly driven by lower volume of the factored receivables.

(i) The majority of customers are on immediate payment terms. No interest is charged on the trade receivables for the first 30 days from the date of the invoice. Thereafter, interest is charged at 8% above base rate per annum, in line with the Late Payment of Commercial Debts (Interest) Act 1998, on the outstanding balance. The company has provided fully for all receivables over 365 days old. Trade receivables between 30 and 365 days old are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the company uses an external credit scoring system to assess the potential customer's credit quality and define credit limits by customer. Limits and scoring attributed to customers are reviewed annually.

Included in the company's trade receivable balance are receivables with a carrying amount of £58.5 million (2016: £26.4 million) which are past due at the reporting date for which the company has not provided as there has not been a significant change in credit quality and the company believes that the amounts are still considered fully recoverable. The company does not hold any collateral over these balances. The average past due age of these receivables is 14 days (2016: 7 days). Ageing of past due but not impaired, as calculated from the last day of the month in which the invoice is raised:

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

19 Trade and other receivables (continued)

	2017 £m	2016 £m
Up to 3 months	56.5	25.1
3 to 6 months	1.4	1.1
Over 6 months	0.6	0.2
	58.5	26.4

(ii) Movement for the provision for impairment of trade receivables:

	2017 £m	2016 £m
Balance at the beginning of the year	(0.4)	(0.2)
Impairment losses recognised on receivables	(0.4)	(0.3)
Amounts written off during the year	0.3	-
Unused amounts reversed	-	0.1
Balance at the end of the year	(0.5)	(0.4)

In determining the recoverability of the trade receivables, the company considers any change in the credit quality of the trade receivables 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.

Ageing of impaired trade receivables:

	2017 £m	2016 £m
Over 6 months	(0.5)	(0.4)
	(0.5)	(0.4)

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

20 Cash and cash equivalents

	2017	2016
	£m	£m
Cash at bank	17.0	6.8

Cash at bank is held at financial institutions with short-term credit ratings of P-2 (Moody's Investors). For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2017	2016
	£m	£m
Cash at bank	17.0	6.8
Short term deposits with related parties (note 30)	704.3	467.0
	721.3	473.8

21 Provisions for liabilities and charges

	2017	2016
	£m	£m
Non-current		
Restructuring provision	-	2.8
Asset retirement obligation	4.3	4.6
	4.3	7.4
Current		
Restructuring provision	3.0	9.2
Asset retirement obligation	3.3	4.0
Other provisions	4.6	-
	10.9	13.2

The restructuring provision relates both to the consolidation of the company's property portfolio and to workforce restructuring. These provisions are expected to be utilised over the next year. The property element of the provision recognised is based on the excess of the estimated cash flows to meet the unavoidable cost under the rental contract over the estimated cash flows to be received from sub-leasing. The estimated cash flows are discounted using a market determined risk adjusted rate.

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.

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

21 Provisions for liabilities and charges (continued)

	Restructuring provision £m	Asset retirement obligation £m	Other provisions £m	Total £m
At 1 January 2016	14.5	9.7	-	24.2
Charged to the income statement	13.5	-	-	13.5
Utilised during the year	(15.5)	(0.3)	-	(15.8)
Unwinding of discount	0.1	-	-	0.1
Released to the income statement	(0.6)	(0.8)	-	(1.4)
At 31 December 2016	12.0	8.6	-	20.6
Charged to the income statement	7.1	0.8	4.6	12.5
Utilised during the year	(15.0)	(1.4)	-	(16.4)
Unwinding of discount	0.1	-	-	0.1
Released to the income statement	(1.2)	(0.4)	-	(1.6)
At 31 December 2017	3.0	7.6	4.6	15.2

22 Trade and other payables

	2017 £m	2016 £m
Non-current		
Other payables	4.1	11.2
Current		
Payable to trade suppliers	125.5	131.2
Accrued expenses	188.0	151.9
Social security and other taxes	146.2	122.8
	459.7	405.9

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

23 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, International Business Machines Corporation.

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 30, 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.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	2017 Loans and receivables £m	2017 Amortised cost £m	2017 FVTPL £m
Financial assets			
Finance receivables	21.7	-	-
Trade and other receivables	264.5	-	-
Receivables from related parties	907.8	-	-
Cash at bank	17.0	-	-
	1,211.0	-	-
Financial liabilities			
Trade and other payables	-	(191.6)	-
Payables to related parties	-	(817.1)	-
Derivatives to related parties	-	-	(7.0)
	-	(1,008.7)	(7.0)

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

23 Financial instruments (continued)

	2016 Loans and receivables £m	2016 Amortised cost £m	2016 FVTPL £m
Financial assets			
Finance receivables	24.1	-	-
Trade and other receivables	240.5	-	-
Receivables from related parties	2,642.3	-	-
Derivatives from related parties	-	-	21.2
Cash at bank	6.8	-	-
	2,913.7	-	21.2
Financial liabilities			
Trade and other payables	-	(131.2)	-
Payables to related parties	-	(932.2)	-
	-	(1,063.4)	-

Financial risk management objectives

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

Price risk

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

Foreign currency risk

The company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Foreign currency forward contracts are entered into with a third party bank by the IBM International Treasury Services Unlimited Company ('the Treasury Centre') which in turn passes down the impacts of these derivatives by entering into matching intercompany derivatives with the company. The company does not apply hedge accounting for these derivatives. 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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

23 Financial instruments (continued)

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 2017, if British Pounds Sterling weakened/strengthened against the US dollar by 1 percent, with all other variables held constant, pre-tax profit for the year would have been £0.7 million (2016: £ 0.7 million) lower/higher, arising principally on the foreign exchange translation of the related party payables at the reporting date.

At 31 December 2017, 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 £0.9 million (2016: £1.1 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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

23 Financial instruments (continued)

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.

Interest rate risk management

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

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date. For variable rate liabilities, the analysis is prepared assuming the amount of liability 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 £9.0 million (2016: decrease/increase by £24.5 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 International Business Machines Corporation. Currently the company has a net cash position (see note 20) 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 2017

23 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
2017					
Non-interest bearing:					
Trade and other payables	-	191.6	-	-	191.6
Payable to related parties	-	797.3	-	-	797.3
Derivatives to related parties	-	7.0	-	-	7.0
	-	995.9	-	-	995.9
Interest bearing:					
Payable to related parties	5.75	19.8	-	-	19.8
	-	19.8	-	-	19.8
2016					
Non-interest bearing:					
Trade and other payables	-	131.2	-	-	131.2
Payable to related parties	-	921.3	-	-	921.3
	-	1,052.5	-	-	1,052.5
Interest bearing:					
Payable to related parties	3.70	10.9	-	-	10.9
	3.70	10.9	-	-	10.9

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 2017

23 Financial instruments (continued)

	Weighted average effective interest rate %	Less than 1 year £m	1 - 5 years £m	+ 5 years £m	Total £m
2017					
Non-interest bearing:					
Trade and other receivables	-	264.5	-	-	264.5
Receivables from related parties	-	203.5	-	-	203.5
	-	468.0	-	-	468.0
Interest bearing:					
Receivables from related parties	0.22	704.3	-	-	704.3
Cash at bank	1.25	17.0	-	-	17.0
Finance lease receivables	4.26	0.1	-	-	0.1
Customer loans	3.59	13.0	9.7	-	22.7
	-	734.4	9.7	-	744.1
2016					
Non-interest bearing:					
Trade and other receivables	-	240.5	-	-	240.5
Receivables from related parties	-	199.3	-	-	199.3
Derivatives from related parties	-	21.2	-	-	21.2
	-	461.0	-	-	461.0
Interest bearing:					
Receivables from related parties	0.28	1,043.0	1,400.0	-	2,443.0
Cash at bank	-	6.8	-	-	6.8
Finance lease receivables	3.65	0.1	0.1	-	0.2
Customer loans	4.29	13.5	11.9	-	25.4
	-	1,063.4	1,412.0	-	2,475.4

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 2017

23 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
2017		
Non-current financial assets		
Customer loans	9.3	10.3
2016		
Non-current financial assets		
Finance lease receivables	0.1	0.1
Customer loans	11.4	12.1

The fair value of the financial assets above is determined in accordance with level 2 fair value measurements with pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes or similar instruments.

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 2017

23 Financial instruments (continued)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2017 and 31 December 2016:

	2017 Level 2 £m	2016 Level 2 £m
Financial assets		
Derivatives from related parties	-	21.2
Financial liabilities		
Derivatives to related parties	(7.0)	-

There are no financial instruments measured at fair value level 1 or level 3.

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

Derivative gain and loss recognised in the income statement

The amount recognised in the income statement in the year in respect of foreign currency forward exchange contracts was a loss of £15.8 million (2016: gain of £43.9 million).

24 Retirement benefits

	2017 £m	2016 £m
Statement of financial position (liability)/asset for		
Defined benefits plan	(33.7)	797.7
Income statement (income) / charge for:		
Defined benefits plan	(74.2)	4.8
Remeasurement (losses) / gains recognised in the statement of other comprehensive income		
Defined benefits plan	(962.7)	439.3
Cumulative actuarial losses recognised in the statement of other comprehensive income	(1,078.2)	(115.5)

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

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. An additional pension plan ('Prudential Platinum Plan') administers the pensions of employees transferring to IBM under a specific outsourcing contract. This is a defined benefit pension plan 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 2015 were carried out by an independent qualified actuary in October 2016 using the projected unit credit method. The actuarial valuation of the defined benefit sections of these plans as at this date showed a funding deficit of £392.0 million.

The Trustees of the Main and I Plans have agreed with the Company a schedule of contributions for each of the plans that sets out the amount of the Company's annual contributions from October 2016 to 20 October 2021 for the Main Plan and from October 2016 to 30 June 2022 for the I Plan, following the formal valuation of the plans at 31 December 2015. Under the agreed schedules the company is making deficit contributions of £23.0 million per year from 1 April 2017 to the defined benefit section of the Main Plan, and at a rate of the higher of 49% of pensionable earnings and £3.9 million, for the sub-section of the I Plan population for which accrued benefits are continuing to accrue, plus deficit contributions of £30.0 million per year from 1 January 2017 to the I Plan. Since March 2016, the company has the option to transfer Treasury Bills issued by the United States Government on a quarterly basis in lieu of cash contributions.

The Trustees and International Business Machines Corporation have signed a deed whereby International Business Machines Corporation has agreed to pay or procure payment of contributions shown in the schedules in the event that the company fails to do so. This deed expired on 31 March 2017.

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 2017 the IAS 19 valuation for these plans showed a liability of £33.7 million (2016: asset £789.3 million), while the tri-annual funding actuarial valuation at 31 December 2015 showed a deficit of £392.0 million. The year to year decrease in the value of the net surplus to a net liability according to the IAS 19 valuation is caused by applying of a ceiling to the net pension surplus. The reasons for the difference between the IAS 19 valuation and the tri-annual funding actuarial valuation is driven by the assumptions used. The tri-annual funding valuation was completed in October 2016. The technical provisions adopted in the tri-annual 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 2017, and as such does not include the assumptions incorporated into the funding valuation at 31 December 2015.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

The main assumptions used for the funding valuation as at 31 December 2015 were as follows:

		Main Plan %	I Plan %
Initial discount rate:	WTW nominal gilt yield curve plus	0.85	1.36
Long-term discount rate:	WTW nominal gilt yield curve plus	0.52	0.52
Consumer price inflation (CPI):	RPI minus	1.00	1.00
Pensionable earnings increase:	RPI plus	0.75	0.75
Pension increases in payment:			
- RPI maximum 5%	RPI minus	0.20	0.20
- RPI maximum 2.5%	RPI minus	1.00	n/a
- CPI maximum 5%:	RPI minus	1.00	n/a
- CPI maximum 2.5%:	CPI minus	0.30	n/a

WTW: Willis Towers Watson - scheme actuaries

RPI: Retail Price Inflation - Willis Towers Watson gilt breakeven inflation curve

Due to the size of the Prudential Platinum Plan, detailed disclosure has not been made. The present value of the Prudential Platinum Plan defined benefit obligation amounts to £57.7 million (2016: £53.6 million). The fair value of the Prudential Platinum Plan ('Prudential') assets amounts to £64.2 million (2016: £62 million).

The company initiated legal proceedings in May 2010 before the High Court in London seeking a declaration that it acted lawfully both in notifying the Trustee of the IBM United Kingdom Pension Plans that it was closing its UK defined benefit plans to future accruals for most participants and in implementing the company's new retirement policy. On 4 April 2014, the High Court acknowledged that the changes made to its UK defined benefit plans were within the company's discretion, but ruled that the company breached its implied duty of good faith both in implementing these changes and in the manner in which it consulted with employees.

The company appealed and in August 2017, the Appeal Court reversed the High Court, holding that the company was not in breach of its implied duties of good faith and that the changes made to the plans were lawful. The Appeal Court judgement is final.

In addition, the company is a defendant in 285 individual actions brought in 2010 by participants of the defined benefits plans who left the company. These actions, which allege constructive dismissal and age discrimination, have been brought in the Employment Tribunal in Southampton.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

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.

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.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

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.

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

Defined benefit obligation

	2017 £m	2016 £m
Present value of defined benefit obligation at beginning of year	(8,224.1)	(7,250.2)
Current service cost	(7.4)	(6.3)
Interest cost	(203.1)	(250.6)
Contributions by plan participants	(0.4)	(0.4)
Actuarial (loss) / gain - experience	(44.1)	79.8
Actuarial loss - financial assumptions	(365.9)	(1,082.0)
Actuarial loss - demographic assumptions	-	(55.2)
Benefits paid	372.8	345.8
Past service income / (cost)	68.8	(5.0)
Present value of defined benefit obligation at end of year	(8,403.4)	(8,224.1)

Fair value of plan assets

	2017 £m	2016 £m
Fair value of plan assets at beginning of year	9,021.9	7,529.8
Interest income	223.6	261.7
Return on plan assets	345.8	1,496.7
Contributions by the employer	57.0	83.7
Contributions by plan participants	0.4	0.4
Benefits paid	(372.8)	(345.8)
Administration costs	(7.7)	(4.6)
Fair value of plan assets at end of year	9,268.2	9,021.9

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

Impact of unrecognised surplus and minimum funding requirement liability

	2017	2016
	£m	£m
Unrecognised surplus and minimum funding requirement at beginning of year	-	-
Change in unrecognised surplus and minimum funding requirement during the year	(898.5)	-
Unrecognised surplus and minimum funding requirement at end of year	(898.5)	-

As a result of the final Court of Appeal ruling received in August 2017, the company adjusted its obligation under the plan. This adjustment resulted in a gain of £70 million for the year ended 31 December 2017, which was recorded in employee expenses in the Income statement.

The significant reduction of the retirement benefit balance (from a net pension asset of £797.7 million to a net pension liability of £33.7 million) resulted from a re-assessment of a previous judgment to recognise the accounting surplus as an asset. On the basis of the latest circumstances and updated professional advice, and recognising the divergence in practice amongst the companies in the accounting treatment adopted, management have decided to de-recognise the pension surplus asset and record a liability of £33.7 million in respect of the minimum funding requirements.

Amounts recognised in the income statement

	2017	2016
	£m	£m
Current service cost	7.4	6.3
Past service cost	1.2	5.0
Past service income - plan amendments	(70.0)	-
Employee expense (note 7)	(61.4)	11.3
Administration costs	7.7	4.6
Interest cost on obligation	203.1	250.6
Interest income on plan assets	(223.6)	(261.7)
Net interest on defined benefit asset	(20.5)	(11.1)
Defined benefit (gain)/expense in the income statement	(74.2)	4.8
Defined contribution expense in the income statement	80.9	84.9

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

Amounts recognised in other comprehensive income

	2017 £m	2016 £m
Remeasurement gains on plan assets	345.8	1,496.7
Remeasurement losses on plan liabilities	(410.0)	(1,057.4)
Change in unrecognised surplus and minimum funding requirement during the year	(898.5)	-
Change to (losses) / gains recognised in other comprehensive income	(962.7)	439.3
Cumulative remeasurement losses recognised in other comprehensive income at the start of the year	(115.5)	(554.8)
Cumulative remeasurement losses recognised in other comprehensive income at the end of the year	(1,078.2)	(115.5)

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

	2017 Level 1 £m	2017 Level 2 £m	2017 Level 3 £m	2017 Total £m
Equity				
Equity securities	625.2	562.6	217.1	1,404.9
Fixed Income				
Government securities	-	4,033.5	-	4,033.5
Corporate bonds	-	750.6	-	750.6
Unit trust bonds	-	1,368.5	-	1,368.5
Other fixed income	-	180.8	-	180.8
Cash and cash equivalents				
Cash and cash equivalents	12.0	422.0	-	434.0
Others				
Real estate	-	-	342.7	342.7
Private equity	-	-	328.1	328.1
Other	0.4	424.7	-	425.1
Total market value of assets	637.6	7,742.7	887.9	9,268.2

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m
Equity				
Equity securities	924.4	516.7	258.3	1,699.4
Fixed interest				
Government securities	-	3,477.3	-	3,477.3
Corporate bonds	-	728.3	-	728.3
Unit trust bonds	-	1,369.6	-	1,369.6
Other fixed income	8.0	29.0	-	37.0
Cash and cash equivalents				
Cash and cash equivalents	10.6	453.7	-	464.3
Others				
Real estate	-	-	310.6	310.6
Private equity	-	-	285.5	285.5
Other	-	649.9	-	649.9
	943.0	7,224.5	854.4	9,021.9

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 2017

24 Retirement benefits (continued)

Significant actuarial assumptions

The main assumptions for the tri-annual funding valuations are shown on page 67 and the main assumptions for the current year IAS 19 valuation are as follows:

	2017 %	2017 %	2017 %
	Main Plan	I Plan	Prudential
Discount rate	2.30	2.40	2.50
Retail price inflation assumption	3.10	3.10	3.10
Consumer price inflation assumption	2.10	2.10	2.10
Rate of salary increase	2.60	2.60	2.60
Pension increases for in-payment benefits			
- accrued before 6 April 1997 (until 2020)	1.55	3.10	-
- accrued before 6 April 1997 (thereafter)	-	3.10	-
- accrued between 6 April 1997 and 5 April 2005	2.10	3.10	-
- accrued after 5 April 2005	2.10	3.10	3.10
Pension increases for deferred benefits			
- accrued before 6 April 2009	2.10	2.10	-
- accrued after 5 April 2009	2.10	2.10	3.10

	2016 %	2016 %	2016 %
	Main Plan	I Plan	Prudential
Discount rate	2.50	2.60	2.70
Retail price inflation assumption	2.90	2.90	2.90
Consumer price inflation assumption	2.00	2.00	2.00
Rate of salary increase	2.50	2.50	2.50
Pension increases for in-payment benefits			
- accrued before 6 April 1997 (until 2020)	1.45	2.90	-
- accrued before 6 April 1997 (thereafter)	-	2.90	-
- accrued between 6 April 1997 and 5 April 2005	2.00	2.90	-
- accrued after 5 April 2005	2.00	2.90	2.90
Expected future pension increases			
- accrued before 6 April 2009	2.00	2.00	-
- accrued after 5 April 2009	2.00	2.00	2.90

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued)

The actuarial valuation incorporates mortality assumptions in line with published statistics. The base tables adopted are the standard tables SAPS "S1" Light for males and Light for females with improvements up to 2013 in line with the CMI medium cohort projections. The mortality assumptions for the current year IAS19 valuation are as follows:

	2017 Years	2016 Years
Longevity at age 65 for current pensioners		
- Men	88.6	88.5
- Women	91.5	91.4
Longevity at age 65 for future pensioners		
- Men	90.7	90.5
- Women	93.8	93.7

Sensitivities

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

	Main Plan	I Plan	Prudential
Discount rate			
0.25% increase	(258.0)	(62.0)	(2.7)
0.25% decrease	274.0	67.0	2.9
Mortality			
Increase of 1 year in expected lifetime of participant at age 65	222.0	43.0	2.1

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	57.5
Contributions by plan participants	0.4
	57.9

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Retirement benefits (continued) Maturity Profile

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

	Main Plan	I Plan
Duration of the plans in years	15	22.1

25 Share-based payments

Share-based incentive awards are provided to employees for shares in the ultimate parent company, International Business Machines Corporation, under the terms of the plans. Shares in the ultimate parent company are denominated in US dollars.

During the year the company recognised total expenses, excluding deferred tax, of £16.5 million (2016: £17.8 million) related to equity-settled share-based payment transactions.

Share options

Share options are awards which allow the employee to purchase shares of International Business Machines Corporation at a fixed price. They are granted at an exercise price equal to or greater than the ultimate parent company's share price at the date of the grant. These awards, which generally vest 25 percent per year, are fully vested four years from the date of grant and have a contractual term of 10 years.

Under the terms of the arrangement with International Business Machines Corporation, 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 exercise date and the proceeds from exercise of the share options is £5.0 million (2016: £0.9 million).

Details of the number of share options and the weighted average exercise price outstanding during the year are as follows:

	No. (('000))	2017 Weighted average exercise price £	No. (('000))	2016 Weighted average exercise price £
Outstanding at the beginning of the year	5	83.31	13	64.43
Exercised during the year	(4)	79.84	(7)	66.17
Expired during the year	(1)	79.84	-	-
Transferred out during the year	-	-	(1)	70.04
Outstanding at the end of the year	-	-	5	83.31
Exercisable at the end of the year	-	-	5	83.31

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

25 Share-based payments (continued)

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

The weighted average share price at the date of exercise for share options exercised during the year was £122.16 (2016: £112.66).

The range of weighted average exercise prices for share options outstanding is disclosed below:

Range of exercise prices	Weighted average exercise price \$	2017		2016	
		No. ('000)	Weighted average remaining life: contractual years	No. ('000)	Weighted average remaining life: contractual years
\$86 - \$105	-	-	-	5	0.35
		-		5	

During the year no share options were granted (2016: no share options).

Share awards

In addition to share options, 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 International Business Machines Corporation's common stock as the award vests, typically over a two-to-five year period. The fair value of the award is determined and fixed on the grant date based on International Business Machines Corporation's share price. For RSUs awarded after 31 December 2007, dividend equivalents will not be paid. The fair value of such RSUs is determined and fixed on the grant date based on International Business Machines Corporation's share price adjusted for the exclusion of dividend equivalents.

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

	2017 No. ('000)	2016 No. ('000)
Outstanding at the beginning of the year	550	502
Granted during the year	174	229
Released during the year	(166)	(134)
Forfeited during the year	(36)	(43)
Transferred during the year	(42)	(4)
Outstanding at the end of the year	480	550

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

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

25 Share-based payments (continued)

The weighted average fair value of RSUs granted during the year was £81.83/\$105.36 (2016: £72.23/\$97.64).

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 International Business Machines Corporation through payroll deductions at a 5% deduction from fair value.

In relation to the ESPP, £0.2 million (2016: £0.2 million) was recognised in the income statement during the year.

26 Operating lease commitments

At the reporting date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

		2017		2016
	Land and buildings	Other items	Land and buildings	Other items
	£m	£m	£m	£m
Within 1 year	26.6	9.7	35.1	11.1
Within 2 to 5 years	39.2	10.0	53.5	9.9
After more than 5 years	-	-	3.2	-
	65.8	19.7	91.8	21.0

At the reporting date the total value of future minimum sub-lease payments expected to be received under non-cancellable sub-leases amounted to £0.3 million (2016: £nil).

27 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 (2016: £nil).

The company initiated legal proceedings in May 2010 before the High Court in London against the IBM United Kingdom Pensions Trustee and two representative beneficiaries of the IBM United Kingdom Trust Plans. The High Court pensions litigation ended in the Court of Appeal where IBM United Kingdom Limited was successful on appeal. The right to appeal expired at the end of August 2017. The company is a defendant in 285 individual cases brought in 2010 by participants of the defined benefit plans who left IBM. These claims are still undecided by the Employment Tribunal in Southampton. See note 24 for further details.

IBM United Kingdom Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

28 Events after the reporting date

Subsequent to the year end, on 1 April 2018 the company acquired 100% of the share capital of The Analytic Sciences Corporation Limited for £5.1 million from WSI Corporation (USA). On 21 June 2018 Truven Health Analytics UK Limited, the subsidiary of the company, sold the shares of its subsidiary Truven Health Analytics India Private Limited to IBM India Private Limited for \$6.2 million. On 30 June 2018 the company acquired 100% of the share capital of Blue Wolf Global Limited for \$1.2 million from Blue Wolf Group LLC (USA). On 1 August 2018 the company acquired 100% of the share capital of Heartbeat Experts Limited (UK) for \$0.7 million from HBE Solutions LLC (USA).

29 Notes to the cash flow statement

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

	2017 £m	2016 £m
Profit for the year	49.8	61.2
Adjustments for:		
Depreciation	61.5	68.1
Impairment of investments	517.3	-
Loss / (gain) on disposal of property, plant and equipment	0.3	(0.4)
Loss on liquidation	-	47.4
Difference between pension charge and cash contribution	(110.8)	(67.7)
Finance income	(26.2)	(20.0)
Finance cost	10.4	5.7
Income from investments	(428.6)	(46.4)
Difference between share based payment charge and cash contribution	(5.0)	(0.9)
Income taxes	59.4	64.5
Changes in operating assets and liabilities:		
Increase in trade and other receivables	(67.6)	(28.4)
(Decrease)/ Increase in trade and other payables	2.2	29.8
Decrease/ (Increase) in inventories	6.0	(11.0)
Decrease in provisions	(5.4)	(3.6)
Cash generated from operations	63.3	98.3
Interest paid	(10.4)	(5.7)
Income tax paid	(26.1)	(84.1)
Net cash inflow from operating activities	26.8	8.5

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

30 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, in relation to group funding arrangements with related parties and in relation to the factoring of trade receivables with related parties. Receivables from related parties also arise from group relief. The group relief receivable arises on the surrender of company losses to other group companies which are used in that company's tax return.

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

Class of related party	Transaction type	2017	2016
		£m	£m
Immediate parent	Interest receivable	1.7	2.9
	Purchase of investments (note 14)	-	24.4
Subsidiary undertakings	Interest receivable	3.8	-
	Disposal of investments (note 14)	-	47.4
	Goodwill from transfer of trade (note 13)	-	30.0
	Dividends received	353.3	46.4
	Dividends in kind received (note 14)	75.3	-
Other group undertakings	Sales	783.3	810.4
	Purchases	1,857.6	1,840.7
	Interest receivable	0.2	6.0
	Interest payable	5.3	5.7
	Sale of trade receivables	1,825.4	2,423.4
	Purchase of investments (note 14)	1,865.0	3.1

IBM United Kingdom Limited

Notes to the Financial Statements For the Year Ended 31 December 2017

30 Related party transactions (continued)

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

Receivables from related parties

	2017 £m	2016 £m
Immediate parent	-	519.6
Subsidiary undertakings	709.4	5.5
Other group undertakings	198.4	2,117.2
	907.8	2,642.3

Included in amounts receivable from related parties is £704.3 million (2016: £2,443.0 million) which is interest bearing.

Included within amounts owed by group undertakings is £nil million (2016: £1,400.0 million) of amounts held on long term deposit.

Included within amounts owed by subsidiary undertakings is £704.3 million (2016: owed by other group undertakings £467.0 million) of amounts held on short term deposit. This is included as cash and cash equivalents in the statement of cash flows.

(i) Movement in the provision for impairment of related party receivables:

	2017 £m	2016 £m
Balance at the beginning of the year	-	(56.5)
Impairment losses reversed on receivables from related parties	-	56.5

The impaired related party receivable was repaid in full in July 2017 and, as such, the impairment loss has been reversed.

Payables to related parties

	2017 £m	2016 £m
Immediate parent	45.1	45.0
Subsidiary undertakings	304.2	306.9
Other group undertakings	467.8	580.3
	817.1	932.2

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30 Related party transactions (continued)

Included in amounts payable to related parties is £19.8 million (2016: £10.9 million) which is interest bearing.

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

Derivative from related parties

	2017 £m	2016 £m
Other group undertakings	(7.0)	21.2

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 23.

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:

	2017 £m	2016 £m
Short-term employee benefits	4.1	6.3
Post-employment benefits	0.3	0.4
Share-based payment benefits	1.3	2.0
	5.7	8.7

Aggregate key management personnel benefits under long term incentive schemes excluding share based payments were £nil (2016: £nil).

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31 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 2016	956,427,059	956.4	-	719.3	1,675.7
Issue of preference shares	2	-	-	24.4	24.4
At 31 December 2016	956,427,061	956.4	-	743.7	1,700.1
Purchase of own preference shares	(5)	-	-	-	-
At 31 December 2017	956,427,056	956.4	-	743.7	1,700.1

During the year the company purchased five own preference shares from IBM International Holding Finance Company Limited, par value £1. As a consequence the company created a capital redemption reserve in the amount of £5. The related share premium remained in the share premium capital account and the purchase price of £200.0 million was charged against the retained earnings of the company.

During 2016 year the company issued two preference shares, par value £1, for a premium of £24.4 million to acquire Silverpop Systems Limited. These new shares have the same rights as the other preference share capital.

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.

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 Corporate Headquarters, New Orchard Road, Armonk, New York 10504.