



741598

IBM United Kingdom Limited

REPORT AND ACCOUNTS
31 December 1998



IBM United Kingdom Limited

Registered No. 741598

DIRECTORS

C G Symon, Chairman
A Greaves
A M Grinstead
J S Lamb
B Sellwood

SECRETARY

D M Campbell

AUDITORS

PricewaterhouseCoopers
30 Channel Way
Ocean Village
Southampton SO14 3QG

BANKERS

National Westminster Bank PLC
69 High Street
Cosham PO6 3DA

SOLICITORS

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

REGISTERED OFFICE

North Harbour
Portsmouth PO6 3AU

IBM United Kingdom Limited

DIRECTORS' REPORT

The directors present their report and the accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The company earned a profit for the year after taxation of £295.0 million (1997 £210.5 million) which has been transferred to reserves.

PRINCIPAL ACTIVITIES

The company's principal activities during the year continued to be the provision of information technology services and solutions through its sales organisation and business partners, and the development, production and supply of advanced information technology products.

FUTURE DEVELOPMENTS

The directors believe that the continuing growth in revenues and profits place the business in a strong position for the future.

RESEARCH AND DEVELOPMENT

Specific product development projects are carried out at the laboratories in Hursley and Warwick on behalf of International Business Machines Corporation and its subsidiaries.

DONATIONS

During the year the company made donations in the United Kingdom totalling £0.9 million (1997 £0.5 million) for educational, cultural and social welfare activities. The company made no donations for political purposes.

DISABLED EMPLOYEES

Disabled persons in common with all others are given full consideration in respect of selection, continued employment, training, career development and promotion.

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 electronic mail announcements from the directors, by the publication 'READ.ME', and by their managers. The views of employees are obtained from opinion surveys, at departmental meetings and through direct contact with their managers.

DIRECTORS

The directors of the company shown on page 1 served throughout the year except for C G Symon who was appointed on 25 March 1998. In addition, G P Denley served as a director until 19 January 1998, K E Barsoum served as a director until 25 March 1998 and J Botten served as a director until 31 December 1998.

C G Symon succeeded K E Barsoum as Chairman on 25 March 1998.

IBM United Kingdom Limited

DIRECTORS' REPORT

SUPPLIER PAYMENT POLICY AND PRACTICE

Payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers provided that all such trading terms and conditions have been met. The company's normal practice is to pay valid invoices within 30 or 45 days of receipt depending on the business concerned. At the year end the company had an average of 70 days (1997 58 days) purchases outstanding in trade creditors, of which 34 days represent invoiced goods and services and the balance accrued items. The high level of accrued items being due to a peak in the company's business activity prior to the year end.

YEAR 2000

Year 2000 is significant because many computer hardware and software systems use only two digits to represent the year. As a result these systems may not calculate dates beyond 1999 correctly and this may cause errors in information or systems' failures. The IBM worldwide group is taking appropriate steps to ensure that its internal systems are able to handle Year 2000 correctly. It has also developed its current hardware and software offerings to be Year 2000 ready and is working to provide its customers with the products and services they require to deal with Year 2000 issues. Further details including costs incurred to date and an estimation of future costs to be incurred in this respect are reported in the International Business Machines Corporation Annual Report.

THE EURO

The commencement of European Monetary Union on 1 January 1999 is likely to have a significant impact on the company's transactions with suppliers, customers and the government as well as affecting pricing strategies, customer information, accounting and reporting. In addition the increased economic stability which the Euro is expected to bring to Europe, the lessening of the importance of currency fluctuations and the increased ease of entry to other EC member state markets are likely to result in an even more competitive trading environment which will further accelerate the growth of electronic commerce, e-business and the Internet.

For further information about preparing for the euro and its impact on businesses visit our website www.europe.ibm.com/euro.

CLOSE COMPANY STATUS

The company is not a close company within the meaning of the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS

PricewaterhouseCoopers were appointed as auditors on 1 September 1998 following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998. A resolution reappointing PricewaterhouseCoopers was approved at the Annual General Meeting on 23 September 1999.

IBM United Kingdom Limited

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

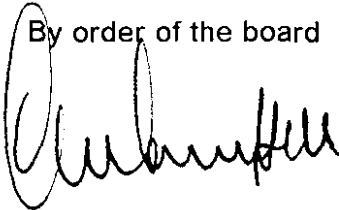
Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

The directors confirm that they have complied with the above requirements and responsibilities.

By order of the board



D M Campbell
Secretary

15 October 1999

Auditors' Report to the members of IBM United Kingdom Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

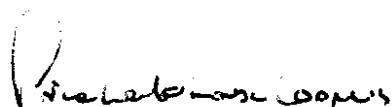
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Southampton

15 October 1999

IBM United Kingdom Limited

PROFIT AND LOSS ACCOUNT *for the year ended 31 December 1998*

	<i>Notes</i>	<i>1998 £m</i>	<i>1997 £m</i>
TURNOVER	2	5,080.0	4,772.0
COST OF SALES		(4,673.5)	(4,403.4)
GROSS PROFIT		406.5	368.6
Administrative expenses		(55.6)	(58.6)
Distribution costs		(11.2)	(10.0)
Other net operating income/(expense)		16.8	(3.2)
OPERATING PROFIT	3	356.5	296.8
Interest receivable	6	85.3	53.3
Interest payable and similar charges	7	(33.0)	(33.1)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		408.8	317.0
Tax on profit on ordinary activities	8	(113.8)	(106.5)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	295.0	210.5

There are no recognised gains or losses other than the profit for the year.

All of the operations of the company during the year are classed as continuing activities.

IBM United Kingdom Limited

BALANCE SHEET

at 31 December 1998

	Notes	1998 £m	1997 £m
FIXED ASSETS			
Tangible assets	9	432.2	399.6
Investments	10	-	41.2
		<hr/> 432.2	<hr/> 440.8
CURRENT ASSETS			
Stocks	11	162.8	188.7
Debtors due within one year	12	2,551.2	1,885.5
Debtors due after more than one year	13	52.1	42.0
Investments	14	42.0	-
		<hr/> 2,808.1	<hr/> 2,116.2
CREDITORS: amounts falling due within one year	15	1,623.1	1,518.0
		<hr/> 1,185.0	<hr/> 598.2
NET CURRENT ASSETS			
		<hr/> 1,617.2	<hr/> 1,039.0
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS: amounts falling due after more than one year	16	350.9	67.7
PROVISIONS FOR LIABILITIES AND CHARGES	18	-	-
		<hr/> 1,266.3	<hr/> 971.3
CAPITAL AND RESERVES			
Called up share capital	19	851.4	851.4
Share premium account		0.8	0.8
Profit and loss account	20	414.1	119.1
		<hr/> 1,266.3	<hr/> 971.3
SHAREHOLDERS' FUNDS	21		

All shareholders' funds are attributable to equity interests.



C G Symon

Chairman and Chief Executive

15 October 1999

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards. The main accounting policies are set out in this note. The accounts do not include a cash flow statement in accordance with Financial Reporting Standard No 1 (Revised) as the company is included in the consolidated accounts prepared by IBM United Kingdom Holdings Limited which contain a group cash flow statement.

Turnover

Turnover is derived from the company's principal activity. It excludes value added tax and trade discounts, and represents the value of goods and services provided in respect of the period to which they relate. Amounts invoiced prior to the year end in respect of services provided in the following year are included in accruals and deferred income at the year end.

Long term contracts

Long term contracts extend for more than twelve months or are material to the activity of the period covered by the accounts. Amounts receivable under them are included in debtors valued according to the work done at contract prices less payments received on account. Agreed claims are normally included in amounts receivable and a reasonable estimate of claims is included in any assessment of anticipated losses. Profit is recognised on each contract as the lower of the profit earned to date and forecast at completion once the outcome can be determined with reasonable accuracy. Full provision for anticipated future losses and any excess of payments received over amounts recoverable are included in creditors.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life as follows:

Land improvements and buildings	5 - 50 years
Plant and machinery	2.5 - 7 years
Fixtures and fittings	5 - 15 years

Investments

Investments are valued at the lower of cost, less any provision for any permanent diminution in value, or valuation.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, including a proportion of overheads where appropriate. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

Finance leases

Assets owned by the company which are leased to customers under finance lease agreements are not included in fixed assets as amounts receivable under such agreements are included in debtors.

The net investment in finance leases represents the total minimum lease payments receivable less finance charges allocated to future periods excluding amounts already invoiced which are included in trade debtors. Finance charges are allocated over the lease term to give a constant periodic rate of return on the net cash investment in the lease in each period taking into account the effects of taxation.

Operating leases

Rental income and charges under operating leases are taken to the profit and loss account in the year in which they occur.

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. The company did not enter into any foreign currency borrowings or forward exchange contracts during the year.

Pensions

IBM United Kingdom Holdings Limited operates a number of pension plans which incorporate both defined benefit and defined contribution sections which require contributions to be made to trust funds which are administered separately from the group. Contributions to these funds are charged to the profit and loss account so as to spread the cost of pensions over the employee's working lives within the group. The regular cost, which is assessed in accordance with the advice of a qualified actuary, is attributed to individual years using the projected unit credit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Details of the group's pension commitments are shown in Note 24.

Post-retirement benefits other than pensions

The UK group has agreed to provide certain additional post retirement benefits to some former employees. The estimated cost of providing such benefits is charged against profit on a systematic basis over the period for which this group of retirees will receive the benefit.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

2. TURNOVER AND SEGMENTAL ANALYSIS

The geographical analysis of the company's turnover is as follows:

	1998 £m	1997 £m
Home	2,253.9	1,944.9
Export	2,826.1	2,827.1
	<hr/>	<hr/>
	5,080.0	4,772.0
	<hr/>	<hr/>

All turnover is supplied from the United Kingdom and relates to the company's activities in the field of information technology. In the opinion of the directors, these activities constitute one class of business.

Exports are to fellow subsidiary and associated undertakings.

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1998 £m	1997 £m
Depreciation	95.6	90.8
Profit on disposal of fixed assets	(15.9)	3.5
Operating lease rentals:		
Land and buildings	19.4	16.7
Plant and machinery	19.7	20.4
Restructuring costs	4.1	12.8
Gain on sale of investment (note 10)	(25.6)	-

Auditors' remuneration

	1998 £000	1997 £000
Audit services	200	212
Non-audit services	148	10

4. DIRECTORS' REMUNERATION

The emoluments of and the number of stock options and stock 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, are shown in the following sections of this note. Those directors whose emoluments, stock options and stock appreciation rights are received exclusively in respect of other duties performed for other subsidiaries of International Business Machines Corporation are accordingly excluded.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

	1998	1997
Directors' Total Emoluments		
Aggregate amounts (excluding shares receivable under long term incentive schemes)	£1,623,000	£1,716,000
Aggregate compensation for loss of office	£42,000	£251,000
Number of directors who exercised share options	8	8
Number of directors who have accrued benefits under defined benefit schemes	8	8
Highest Paid Director		
Aggregate amounts (excluding shares receivable under long term incentive schemes)	£414,000	£298,000
Accrued pension at end of year in defined benefit pensions scheme	£58,000	£80,000

The highest paid director exercised share options in both 1998 and 1997.

5. STAFF COSTS

	1998 £m	1997 £m
Wages and salaries	750.8	620.6
Social security costs	66.3	57.3
Other pension costs (note 24)	(21.6)	9.5
	<hr/> 795.5	<hr/> 687.4

The average number of employees during the year was made up as follows:

	1998 No.	1997 No.
Manufacturing and marketing	16,427	15,561
Product development	1,313	1,272
	<hr/> 17,740	<hr/> 16,833

These totals include employees who have fixed-term contracts with the company. They also include 275 employees (1997 298 employees) whose duties were carried on mainly outside the United Kingdom.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

6. INTEREST RECEIVABLE

	1998 £m	1997 £m
Fellow subsidiary undertakings	84.6	48.7
UK associated undertakings	0.3	4.4
Other interest receivable	0.4	0.2
	<hr/>	<hr/>
	85.3	53.3
	<hr/>	<hr/>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £m	1997 £m
Fellow subsidiary undertakings	29.0	32.7
Early payment discount	3.8	0.3
Other loans	0.2	0.1
	<hr/>	<hr/>
	33.0	33.1
	<hr/>	<hr/>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	1998 £m	1997 £m
UK CORPORATION TAX		
Based on profit for the year	111.3	95.8
Adjustments relating to prior years	0.1	(8.7)
DEFERRED TAX (note 18)		
Current year	2.4	12.0
Adjustments relating to prior years	-	5.2
Effect of change of tax rate	-	2.2
	<hr/>	<hr/>
	113.8	106.5
	<hr/>	<hr/>

Corporation tax has been provided at 31% (1997 31.5%). Deferred tax has been provided at 31% (1997 31%).

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

9. TANGIBLE FIXED ASSETS

	<i>Land and buildings £m</i>	<i>Plant and machinery £m</i>	<i>Fixtures and fittings £m</i>	<i>Total £m</i>
Cost				
1 January 1998	363.5	485.7	122.0	971.2
Additions	25.5	91.8	36.2	153.5
Disposals	(14.4)	(91.5)	(8.4)	(114.3)
Transfers	-	(1.8)	-	(1.8)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1998	374.6	484.2	149.8	1,008.6
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
1 January 1998	191.3	309.2	71.1	571.6
Charge for the year	13.4	70.6	11.6	95.6
Disposals	(0.4)	(88.5)	(1.7)	(90.6)
Transfers	-	(0.2)	-	(0.2)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1998	204.3	291.1	81.0	576.4
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
31 December 1998	170.3	193.1	68.8	432.2
	<hr/>	<hr/>	<hr/>	<hr/>
1 January 1998	172.2	176.5	50.9	399.6
	<hr/>	<hr/>	<hr/>	<hr/>

Transfers cover assets transferred to and from fellow subsidiary undertakings.

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

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

10. INVESTMENTS

The company's investment in associated undertakings comprised loans advanced to Bedfont Property Investments Limited to fund the property investment, development and management business carried out by that company in the Keenhalf partnership. These loans were redeemed in January 1998 when the IBM UK group transferred all its rights and obligations in respect of the Keenhalf Partnership to MEPC plc.

	£m
Cost	
1 January 1998	66.8
Additions	0.6
Disposals	(67.4)
	<hr/>
31 December 1998	-
	<hr/>
Provision for Diminution in Value	
1 January 1998	25.6
Credit for the year	(25.6)
	<hr/>
31 December 1998	-
	<hr/>
Net Book Value	
31 December 1998	-
	<hr/>
1 January 1998	41.2
	<hr/>

11. STOCKS

	1998 £m	1997 £m
Raw materials and consumables	89.3	111.9
Work in progress	26.6	31.7
Finished goods and goods for resale	46.9	45.1
	<hr/>	<hr/>
	162.8	188.7
	<hr/>	<hr/>

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

12. DEBTORS due within one year

	1998 £m	1997 £m
Trade debtors	77.8	66.4
Net investment in finance leases	40.2	26.5
Amounts owed by parent undertakings	1,018.3	850.4
Interest receivable	1.0	26.3
Amounts owed by UK group undertakings	1,169.8	873.6
Other debtors	176.7	16.2
Prepayments and accrued income	67.4	26.1
	<hr/> 2,551.2	<hr/> 1,885.5

IBM United Kingdom Limited has entered into an agreement under which it sells for cash certain of its trade receivables to IBM International Holdings Finance Company Limited ('the factor'), a fellow subsidiary undertaking based in Dublin of International Business Machines Corporation. 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 borne by the factor. These trade receivables have been excluded from the balance sheet in accordance with Financial Reporting Standard No 5 *Reporting the Substance of Transactions*.

13. DEBTORS due after more than one year

	1998 £m	1997 £m
Deferred tax (note 18)	10.6	13.0
Net investment in finance leases	16.3	29.0
Pension prepayment (note 24)	25.2	-
	<hr/> 52.1	<hr/> 42.0

14. CURRENT ASSETS INVESTMENTS

	1998 £m	1997 £m
Marketable securities	42.0	-
	<hr/>	<hr/>

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

15. CREDITORS: amounts falling due within one year

	1998 £m	1997 £m
Bank overdrafts	18.3	9.1
Trade creditors	526.6	444.1
Loans from fellow subsidiary undertakings	41.9	180.2
Other amounts owed to fellow subsidiary undertakings	439.0	394.0
Interest payable	2.7	4.2
Corporation tax	118.8	102.8
Other taxes and social security costs	54.7	58.7
Accruals and deferred income	421.1	324.9
	<hr/> 1,623.1	<hr/> 1,518.0

16. CREDITORS: amounts falling due after more than one year

	1998 £m	1997 £m
Loans from group undertakings falling due:		
Between one and two years	70.0	-
Between two and five years	116.7	30.7
In five years or more	1.2	-
Accruals and deferred income	163.0	37.0
	<hr/> 350.9	<hr/> 67.7

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

17. OBLIGATIONS UNDER OPERATING LEASES

The commitments arising next year are as follows:

	1998		1997	
	<i>Land and buildings</i> £m	<i>Other</i> £m	<i>Land and buildings</i> £m	<i>Other</i> £m
Operating leases which expire:				
Within one year	0.7	2.0	0.8	1.4
Between one and five years	6.2	15.8	1.8	14.3
After five years	12.5	-	11.2	-
	<hr/> 19.4	<hr/> 17.8	<hr/> 13.8	<hr/> 15.7

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

18. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £m	1997 £m
Deferred Tax		
1 January	(13.0)	(32.4)
Transfer to profit and loss account	2.4	19.4
	<hr/>	<hr/>
31 December	(10.6)	(13.0)
	<hr/>	<hr/>
The deferred tax balance comprises:		
Capital allowances	-	5.3
Other timing differences	(10.6)	(18.3)
	<hr/>	<hr/>
Total asset	(10.6)	(13.0)
	<hr/>	<hr/>

Deferred tax assets are shown on the balance sheet as debtors due after more than one year (note 13).

The taxation effect of timing differences which have not been provided for are as follows:

	1998 £m	1997 £m
Deferred capital gain	1.0	1.0
	<hr/>	<hr/>

19. SHARE CAPITAL

	1998 £m	1997 £m
Authorised, allotted, called up and fully paid: 851,427,000 ordinary shares of £1 each	851.4	851.4
	<hr/>	<hr/>

20. RESERVES: Profit and loss account

	1998 £m	1997 £m
At 1 January 1998	119.1	(91.4)
Profit after taxation	295.0	210.5
	<hr/>	<hr/>
At 31 December 1998	414.1	119.1
	<hr/>	<hr/>

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

21. SHAREHOLDERS' FUNDS

	1998 £m	1997 £m
Analysis of movements		
Profit for the year	295.0	210.5
	<hr/>	<hr/>
Total movements in the year	295.0	210.5
Balance at 1 January	971.3	760.8
	<hr/>	<hr/>
Balance at 31 December	1,266.3	971.3
	<hr/>	<hr/>

All shareholders' funds are attributable to equity interests.

22. CAPITAL COMMITMENTS

Future capital expenditure not provided in the accounts is as follows:

	1998 £m	1997 £m
Contracted	4.0	3.3
	<hr/>	<hr/>

23. CONTINGENT LIABILITIES

The company has contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. No material liability is expected to arise in respect of these arrangements.

24. PENSION COMMITMENTS

The UK group operates a number of pension plans which incorporate both defined benefit and defined contribution sections. Employees who join the group after January 1997 are eligible to become members of the defined contribution section of the main plan. The assets of the plans are held in trust funds which are administered separately from the group. Details of the latest actuarial valuation of the main pension plan is disclosed in the accounts of IBM United Kingdom Holdings Limited.

The main plan of which most employees of the group were members during the year is funded in line with the recommendations of a qualified independent actuary. During 1998 the group was able to take a holiday on normal pension contributions to this plan due to the coverage previously mentioned.

The credit for pension costs in the profit and loss account of £21.6 million (1997 charge of £9.5 million) is calculated in accordance with US Statement of Financial Accounting Standards No 87. The equivalent credit calculated in accordance with Statement of Standard Accounting Practice No 24 using the straight line method of spreading the surplus over the members future working lifetime is £12.7 million (1997 charge £15.1 million).

The difference between the amounts credited in the profit and loss account and the amounts funded gave rise to a prepayment of £25.2 million (1997 provision of £1.7 million) at the end of the year which is included in debtors (1997 creditors).

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

25. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The UK group also provides health care cover to certain former employees for years up to their normal retirement date. The liabilities in respect of these benefits are assessed by a qualified independent actuary. The charge for the year in the UK group accounts is £1.5 million (1997 £1.3 million). The main assumptions used in the calculations were a rate of inflation in the cost of providing benefits of 5.5% per annum and a discount rate for obligations of 7.5% per annum.

26. RELATED PARTIES

The company's immediate parent undertaking is IBM United Kingdom Holdings Limited which is registered in Great Britain. Copies of the consolidated accounts of this undertaking may be obtained from the UK Headquarters, North Harbour, Portsmouth.

The company's ultimate parent undertaking and controlling party is International Business Machines Corporation which is incorporated in the United States of America. Copies of the accounts of this undertaking may be obtained from Corporate Headquarters, Armonk, New York 10504.

Transactions with other companies within the group are not disclosed in accordance with Financial Reporting Standard No 8 *Related Party Disclosures* as the consolidated accounts of International Business Machines Corporation in which the company is included are available at the address noted above.