

REPORT AND ACCOUNTS
31 DECEMBER 1985

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IBM UNITED KINGDOM LIMITED

REPORT AND ACCOUNTS
31 DECEMBER 1985

IBM UNITED KINGDOM LIMITED

REPORT OF THE DIRECTORS - 31 DECEMBER 1985

The directors submit their annual report and the accounts for the year ended 31 December 1985.

DIRECTORS

Sir Edwin Nixon, CBE (Chairman)

A B Cleaver

J Foster

A N Henderson

D J Livermore

J W H Miller

P W L Morgan

J B Morgans

T H Osborne

I T Reynolds

B F Robinson

SECRETARY

A F Green

REGISTERED OFFICE

PO Box 41, North Harbour, Portsmouth, Hampshire PO6 3AU

PRINCIPAL BANKERS

National Westminster Bank PLC

ACTIVITIES OF THE COMPANY

The activities of the company consist of the manufacture, sale and lease of information handling equipment and the provision of related services and supplies.

IBM UNITED KINGDOM LIMITED

REPORT OF THE DIRECTORS - 31 DECEMBER 1985 (CONTINUED)

REVIEW OF ACTIVITIES

During the year, the company earned profits before tax of £361 million (1984 £250 million) on revenues of £1329 million (1984 £1097 million) from home sales and £731 million (1984 £634 million) from exports.

FUTURE DEVELOPMENTS

The company anticipates continued growth in the demand for its products and services.

SIGNIFICANT CHANGES IN FIXED ASSETS

Included in asset additions of £175 million was £87 million invested in plant and machinery for both capacity and productivity reasons.

RESERVES

The board of directors has recommended dividends of £159 million (1984 £98 million), of which £122 million (1984 £98 million) was paid during the year, and it is proposed that an amount of £49 million (1984 £49 million) be transferred to reserves.

EMPLOYMENT OF DISABLED PERSONS

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

EMPLOYMENT ACT 1982

Employees receive information on the financial and economic factors affecting the performance of the company, product announcements, organisation changes and other matters from their managers, noticeboard announcements, the company newspaper "UK News" and a yearly report on the company's activities. This yearly report, called the Annual Review, is circulated to all employees and contains details on a wide range of matters of direct concern and interest to them. Employee views are canvassed in bi-annual opinion surveys, through regular departmental meetings and through direct contact with their managers. There is a suggestion scheme which recognises employees' contribution to the business.

A F Groen,
Secretary,
North Harbour,
Portsmouth.
20 March 1986

IBM UNITED KINGDOM LIMITED


PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1985

	<u>Notes</u>	<u>1985</u> £m	<u>1984</u> £m
TURNOVER	1,2	2060.4	1731.4
COST OF SALES		(1649.3)	(1449.3)
GROSS PROFIT		411.1	282.1
Administrative expenses		(77.7)	(61.0)
Other operating income		<u>0.3</u>	<u>6.0</u>
OPERATING PROFIT		333.7	227.1
Interest receivable	3	30.7	23.3
Interest payable	4	<u>(3.6)</u>	<u>(0.4)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	360.8	250.0
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	9	<u>(153.1)</u>	<u>(102.5)</u>
PROFIT FOR THE FINANCIAL YEAR		207.7	147.5
DIVIDENDS		<u>(159.0)</u>	<u>(98.2)</u>
AMOUNT SET ASIDE TO RESERVES		48.7	49.3
RESERVES BROUGHT FORWARD		291.3	289.5
RESTATEMENT OF DEFERRED TAXATION		<u>-</u>	<u>(47.5)</u>
RESERVES CARRIED FORWARD		<u>340.0</u>	<u>291.3</u>

IBM UNITED KINGDOM LIMITED

BALANCE SHEET AT 31 DECEMBER 1985

	<u>Notes</u>	<u>1985</u> £m	<u>1984</u> £m
FIXED ASSETS			
Tangible assets	11	421.6	320.7
CURRENT ASSETS			
Stocks	13	206.2	192.5
Debtors	14	672.3	567.6
Investments	15	25.8	53.4
Cash at bank and in hand		<u>33.6</u>	<u>42.1</u>
		937.9	855.6
CREDITORS (amounts falling due within one year)	16	<u>804.8</u>	<u>704.7</u>
NET CURRENT ASSETS		<u>133.1</u>	<u>150.9</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		554.7	471.6
CREDITORS (amount falling due after more than one year)	17	156.8	132.0
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>55.7</u>	<u>46.1</u>
		<u>342.2</u>	<u>293.5</u>
CAPITAL AND RESERVES			
Called up share capital	19	1.4	1.4
Share premium account		0.8	0.8
Profit and loss account		<u>340.0</u>	<u>291.3</u>
		<u>342.2</u>	<u>293.5</u>


Approved by the board on 20 March 1986
Sir Edwin Nixon, A B Cleaver
(Directors)

IBM UNITED KINGDOM LIMITED

SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1985

	<u>1985</u> £m	<u>1984</u> £m
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	360.8	250.0
Increase in long-term loans	3.1	-
Adjustments for items not involving the movement of funds:		
Depreciation and disposal of fixed assets	73.8	67.0
(Decrease)/Increase in long-term accruals	<u>(12.7)</u>	<u>6.1</u>
	425.0	323.1
APPLICATION OF FUNDS		
Dividend paid	122.0	98.2
Taxation paid	83.6	87.2
Group relief paid	14.1	-
Purchase of fixed assets	<u>174.7</u>	<u>112.3</u>
	<u>394.4</u>	<u>297.7</u>
	<u>30.6</u>	<u>25.4</u>
MOVEMENT IN WORKING CAPITAL		
Increase in stocks	13.7	46.2
Increase in debtors	104.7	258.9
(Increase) in creditors	(26.1)	(109.3)
(Decrease) in net liquid funds	<u>(61.7)</u>	<u>(170.4)</u>
	<u>30.6</u>	<u>25.4</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985

1 ACCOUNTING POLICIES

ACCOUNTING CONVENTION

These accounts have been prepared under the historical cost convention.

TURNOVER

Turnover is the total of revenue from all sources.

RENTAL TRANSACTIONS

Credit for rental income and charges for rental expense under operating leases are taken in the profit and loss account in the year in which they accrue.

FIXED ASSETS

Grants are deducted from the cost of fixed assets where applicable and depreciation is provided on the net amount.

Freehold land is not depreciated, all other assets being depreciated on a straight line basis over their expected useful lives.

Depreciation periods are as follows:

Land improvements and buildings	5-50 years
Leasehold land	over lease term
Plant and machinery	2.5-5 years
Fixtures and fittings	5-10 years

STOCKS

Stocks and work in progress are stated at the lower of cost, including a proportion of overheads where appropriate, and net realisable value.

DEFERRED TAXATION

Deferred taxation is calculated under the liability method.

Provision for deferred taxation is made where there is a likelihood that such deferred taxation will become payable.

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCY TRANSLATION

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end, with the exception of forward foreign currency transactions when contracted rates are used.

Transactions during the year are translated at the rates of exchange in effect at the dates of the transactions. Profits and losses on exchange are dealt with in the profit and loss accounts.

2 SEGMENT INFORMATION

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

	<u>1985</u> £m	<u>1984</u> £m
Home	1329.4	1097.0
Export	<u>731.0</u>	<u>634.4</u>
	<u>2060.4</u>	<u>1731.4</u>

3 INTEREST RECEIVABLE

	<u>1985</u> £m	<u>1984</u> £m
IBM Corporation and its subsidiaries	-	6.8
IBM United Kingdom Holdings Limited and its subsidiaries	26.6	7.7
Other interest receivable	<u>4.1</u>	<u>8.8</u>
	<u>30.7</u>	<u>23.3</u>

4 INTEREST PAYABLE

	<u>1985</u> £m	<u>1984</u> £m
IBM United Kingdom Holdings Limited and its subsidiaries	0.2	0.1
Bank overdrafts and short-term loans	2.7	0.3
Other interest payable	<u>0.7</u>	<u>-</u>
	<u>3.6</u>	<u>0.4</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<u>1985</u> £m	<u>1984</u> £m
Wages and salaries	259.6	221.9
Social security costs	16.0	13.0
Other pension costs (note 8)	45.6	66.0
Depreciation	67.7	50.5
Hire of equipment	1.7	3.6
Other operating lease rentals	24.8	17.1

Auditors' remuneration amounted to £121 000 (1984 £98 000).

6 EMPLOYEES

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

	<u>1985</u>	<u>1984</u>
Manufacturing	5,398	4,957
Non-manufacturing	<u>10,744</u>	<u>9,778</u>
	<u>16,142</u>	<u>14,735</u>

These totals include 425 (1984 491) whose duties were mainly carried out outside the United Kingdom.

Range of emoluments excluding pension contributions:

	<u>1985</u>	<u>1984</u>
£30 001 - £35 000	565	424
£35 001 - £40 000	346	209
£40 001 - £45 000	171	97
£45 001 - £50 000	111	40
£50 001 - £55 000	53	10
£55 001 - £60 000	18	13
£60 001 - £65 000	14	+
£65 001 - £70 000	6	2
£70 001 - £75 000	5	1

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

7 DIRECTORS' EMOLUMENTS

	<u>1985</u>	<u>1984</u>
	<u>£000</u>	<u>£000</u>
Emoluments	1,154	1,118
Additional contribution to the Chairman's pension	266	-
	<u>1,420</u>	<u>1,118</u>

Range of emoluments excluding pension contributions:

	<u>1985</u>	<u>1984</u>
£ 55 001 - £ 60 000	-	1
£ 60 001 - £ 65 000	1	1
£ 65 001 - £ 70 000	1	-
£ 70 001 - £ 75 000	1	3
£ 75 001 - £ 80 000	1	1
£ 80 001 - £ 85 000	3	1
£ 85 001 - £ 90 000	2	2
£125 001 - £130 000	-	1
£130 001 - £135 000	1	-
£170 001 - £175 000	-	1
£180 001 - £185 000	1	-

Included in the above is:
Chairman

£184,408 £171,446

8 PENSION COSTS

The charge to the profit and loss account consists of:

	<u>1985</u>	<u>1984</u>
	<u>£m</u>	<u>£m</u>
Normal actuarial valuation	37.8	34.7
Unfunded liability contribution	<u>7.8</u>	<u>31.3</u>
	<u>45.6</u>	<u>66.0</u>
Unfunded liability remaining	<u>33.8</u>	<u>33.4</u>

The unfunded liability is due to the pension fund in respect of improvements to the scheme of benefits for which provision has yet to be made. The remaining balance will be charged to the profit and loss account by 1996.

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

9 TAXATION

The charge to the profit and loss account consists of:

	<u>1985</u> £m	<u>1984</u> £m
CORPORATION TAX		
Based on profits for the year	144.5	110.1
Adjustments relating to prior years	(1.0)	(8.9)
DEFERRED TAXATION		
Current year	7.9	4.6
Prior year	<u>1.7</u>	<u>(3.3)</u>
	<u>153.1</u>	<u>102.5</u>

Corporation tax has been provided at 41.25% (1984 46.25%).

10 LEASE COMMITMENTS

At 31 December 1985 the company had annual commitments under non-cancellable operating leases as follows:

	<u>1985</u>		<u>1984</u>	
	<u>Land and buildings</u> £m	<u>Other</u> £m	<u>Land and buildings</u> £m	<u>Other</u> £m
COMMITMENTS EXPIRE				
Within one year	0.3	0.9	0.1	1.0
Between one and five years	9.2	8.9	5.4	4.9
After five years	<u>4.5</u>	<u>-</u>	<u>5.3</u>	<u>-</u>
	<u>14.0</u>	<u>9.8</u>	<u>10.8</u>	<u>5.9</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

11 TANGIBLE ASSETS

COST	1 January 1985	Additions	Disposals	Transfers	31 December 1985
	£m	£m	£m	£m	£m
Land & buildings					
-freehold	152.7	3.4	(4.2)	0.3	152.2
-leasehold over 50 years	36.5	0.5	-	2.6	39.6
Plant & machinery	208.4	86.9	(24.3)	26.4	297.4
Fixtures & fittings	61.5	13.1	(1.9)	4.7	77.4
Assets in course of construction	<u>27.5</u>	<u>70.8</u>	<u>-</u>	<u>(34.0)</u>	<u>64.3</u>
Total	<u>486.6</u>	<u>174.7</u>	<u>(30.4)</u>	<u>-</u>	<u>630.9</u>

DEPRECIATION	1 January 1985	Charge for year	Disposals	Transfers	31 December 1985
	£m	£m	£m	£m	£m
Land & buildings					
-freehold	44.5	6.2	(3.6)	-	47.1
-leasehold over 50 years	2.3	1.5	-	-	3.8
Plant & machinery	91.1	50.8	(18.8)	(0.1)	123.0
Fixtures & fittings	<u>28.0</u>	<u>9.2</u>	<u>(1.9)</u>	<u>0.1</u>	<u>35.4</u>
Total	<u>165.9</u>	<u>67.7</u>	<u>(24.3)</u>	<u>-</u>	<u>209.3</u>

NET BOOK VALUE	1 January 1985	31 December 1985
	£m	£m
Land & buildings		
-freehold	108.2	105.1
-leasehold over 50 years	34.2	35.8
Plant & machinery	117.3	174.4
Fixtures & fittings	33.5	42.0
Assets in course of construction	<u>27.5</u>	<u>64.3</u>
Total	<u>320.7</u>	<u>421.6</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

12 CAPITAL COMMITMENTS

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

	<u>1985</u> £m	<u>1984</u> £m
Contracted	<u>61.0</u>	<u>56.6</u>
Authorised but not contracted	<u>39.9</u>	<u>39.3</u>

Since 1969 the company has owned a house in London which is available for conferences and overseas visitors. The Chairman, Sir Edwin Nixon, has a licence to occupy and a restricted option to purchase the house at a price which will not exceed the cost; the values, as defined by Section 340 of the Companies Act 1985, are £3,000 and £54,000 respectively.

13 STOCKS

	<u>1985</u> £m	<u>1984</u> £m
Raw materials and consumables	68.7	69.8
Work in progress	57.6	52.4
Finished goods and goods for resale	<u>79.9</u>	<u>70.3</u>
	<u>206.2</u>	<u>192.5</u>

14 DEBTORS

	<u>1985</u> £m	<u>1984</u> £m
Trade debtors	235.8	181.9
IBM Corporation and its subsidiaries	119.1	109.0
IBM United Kingdom Holdings Limited and its subsidiaries	268.4	233.8
Other debtors	23.1	14.1
Prepayments and accrued income	<u>25.9</u>	<u>28.8</u>
	<u>672.3</u>	<u>567.6</u>

Amounts falling due after more than one year included in debtors:

	<u>1985</u> £m	<u>1984</u> £m
Trade debtors	<u>0.1</u>	<u>0.1</u>
IBM United Kingdom Holdings Limited and its subsidiaries	<u>134.4</u>	<u>59.5</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

15 INVESTMENTS

	<u>1985</u> £m	<u>1984</u> £m
Investments at lower of cost or valuation - marketable securities	<u>25.8</u>	<u>53.4</u>

16 CREDITORS (amounts falling due within one year)

	<u>1985</u> £m	<u>1984</u> £m
Bank loans and overdrafts	25.6	-
Trade creditors	59.5	40.3
IBM Corporation and its subsidiaries	136.3	150.4
IBM United Kingdom Holdings Limited	-	128.2
Fellow subsidiaries of IBM United Kingdom Holdings Limited	289.0	161.1
Corporation tax	63.6	60.5
Other taxation and social security	49.5	44.1
Accruals and deferred income	122.1	106.2
Group relief payable	22.2	13.9
Dividends payable	<u>37.0</u>	-
	<u>804.8</u>	<u>704.7</u>

17 CREDITORS (amounts falling due after more than one year)

	<u>1985</u> £m	<u>1984</u> £m
Bank loans and overdrafts	3.1	-
Corporation tax payable 1 January 1987	144.5	110.1
Accruals and deferred income	<u>9.2</u>	<u>21.9</u>
	<u>156.8</u>	<u>132.0</u>

The bank loans comprise two fixed-term unsecured loans repayable in two to five years on which interest is payable at 12.4% pa.

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

18 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation	£m
At 1 January 1985	46.1
Transfer from profit and loss account	<u>9.6</u>
At 31 December 1985	<u>55.7</u>

The liability for deferred taxation is made up as follows:

	<u>1985</u> £m	<u>1984</u> £m
Capital allowances	65.9	54.4
Short-term timing differences	<u>(10.2)</u>	<u>(8.3)</u>
	<u>55.7</u>	<u>46.1</u>

The taxation effect of timing differences which have not been provided for amounts to:

	<u>1985</u> £m	<u>1984</u> £m
Deferred capital gain	0.9	0.9
Timing differences arising from taxed accruals	<u>(3.1)</u>	<u>(2.7)</u>
	<u>(2.2)</u>	<u>(1.8)</u>

19 CALLED UP SHARE CAPITAL

	<u>1985</u> £m	<u>1984</u> £m
Authorised, called up and fully paid ordinary shares of £1 each	<u>1.4</u>	<u>1.4</u>

20 CONTINGENT LIABILITIES

	<u>1985</u> £m	<u>1984</u> £m
Guarantees of loans to employees under the company's removal and home guarantee plan	<u>13.5</u>	<u>12.3</u>

IBM UNITED KINGDOM LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1985 (CONTINUED)

21 ULTIMATE HOLDING COMPANY

The ultimate holding company is International Business Machines Corporation which is incorporated in the United States of America.

REPORT OF THE AUDITORS TO THE MEMBERS OF
IBM UNITED KINGDOM LIMITED

We have audited financial statements on pages 3 to 15 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

Price Waterhouse, Chartered Accountants
London, 20 March 1986