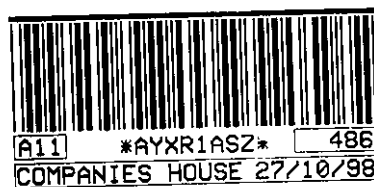




IBM United Kingdom Limited

REPORT AND ACCOUNTS
31 December 1997



IBM United Kingdom Limited

Registered No. 741598

DIRECTORS

C G Symon, Chairman
J Botten
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 1997.

RESULTS AND DIVIDENDS

The company earned a profit for the year after taxation of £210.5 million (1996 £208.1 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.

EVENTS SINCE THE BALANCE SHEET DATE

On 23 January 1998 the IBM UK group transferred all its rights and obligations in respect of Keenhalf Partnership to MEPC plc. Under the terms of the transfer agreement the loans from the company to Keenhalf Partnership and to Keenhalf (Two) Limited together with IBM United Kingdom Holdings Limited's shareholding in Bedfont Property Investments Limited were sold to MEPC plc for an amount equivalent to their total book value. Accordingly no adjustment to the value of the loans and investments reported in these accounts is necessitated by the sale.

DONATIONS

During the year the company made donations in the United Kingdom totalling £0.5 million (1996 £0.7 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.

IBM United Kingdom Limited

DIRECTORS' REPORT

DIRECTORS AND SECRETARY

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, J B Morgans served as a director until 17 February 1997, S Dyson, M J Mawtus and A Parker served as directors until 21 February 1997, G C S Malcolm served as a director until 7 April 1997, D Morriss served as a director until 2 May 1997, G P Denley served as a director until 19 January 1998 and K E Barsoum served as a director from 25 February 1997 until 25 March 1998.

C G Symon was appointed as Chairman on 25 March 1998 when he succeeded K E Barsoum who had served as Chairman since 25 February 1997. J B Morgans also served as Chairman until the date he retired as a director.

D M Campbell was appointed secretary on 8 September 1997 in succession to D W Witt.

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 days of receipt. At the year end the company had an average of 58 days purchases outstanding in trade creditors.

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.

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, employees 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

Following the merger of Price Waterhouse and Coopers & Lybrand, PricewaterhouseCoopers were appointed as auditors on 1 September 1998.

IBM United Kingdom Limited

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

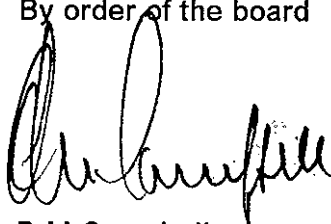
Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- 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

20 October 1998

REPORT OF THE AUDITORS

to the members of IBM United Kingdom Limited

We have audited the financial statements on pages 6 to 19 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

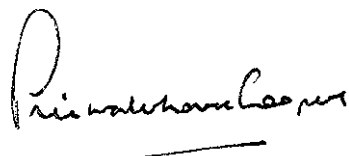
Basis of opinion

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 affairs of the company as at 31 December 1997 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

20 October 1998

IBM United Kingdom Limited

PROFIT AND LOSS ACCOUNT *for the year ended 31 December 1997*

| | <i>Notes</i> | <i>1997 £m</i> | <i>1996 £m</i> |
|--|--------------|--------------------|--------------------|
| TURNOVER | 2 | 4,772.0 | 4,910.8 |
| COST OF SALES | | (4,403.4) | (4,620.8) |
| GROSS PROFIT | | 368.6 | 290.0 |
| Administrative expenses | | (58.6) | (56.0) |
| Distribution costs | | (10.0) | (9.9) |
| Other net operating expense | | (3.2) | (2.4) |
| OPERATING PROFIT | 3 | 296.8 | 221.7 |
| Interest receivable | 6 | 53.3 | 41.4 |
| Interest payable and similar charges | 7 | (33.1) | (50.1) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 317.0 | 213.0 |
| Tax on profit on ordinary activities | 8 | (106.5) | (4.9) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 210.5 | 208.1 |

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.

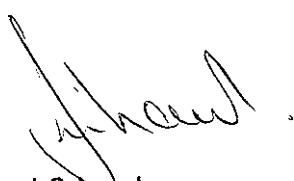
IBM United Kingdom Limited

BALANCE SHEET

at 31 December 1997

| | Notes | 1997 £m | 1996 £m |
|--|-------|---------------|---------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | 399.6 | 393.7 |
| Investments | 10 | 41.2 | 42.2 |
| | | <hr/> 440.8 | <hr/> 435.9 |
| CURRENT ASSETS | | | |
| Stocks | 11 | 188.7 | 239.9 |
| Debtors due within one year | 12 | 1,885.5 | 1,424.3 |
| Debtors due after more than one year | 13 | 42.0 | 41.5 |
| Cash at bank and in hand | | - | 81.4 |
| | | <hr/> 2,116.2 | <hr/> 1,787.1 |
| CREDITORS: amounts falling due within one year | 14 | 1,518.0 | 1,219.0 |
| | | <hr/> 598.2 | <hr/> 568.1 |
| NET CURRENT ASSETS | | | |
| | | <hr/> 1,039.0 | <hr/> 1,004.0 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| CREDITORS: amounts falling due after more than one year | 15 | 67.7 | 243.2 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 17 | - | - |
| | | <hr/> 971.3 | <hr/> 760.8 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 18 | 851.4 | 851.4 |
| Share premium account | | 0.8 | 0.8 |
| Profit and loss account | 19 | 119.1 | (91.4) |
| | | <hr/> 971.3 | <hr/> 760.8 |
| SHAREHOLDERS' FUNDS | 20 | | |
| | | <hr/> 971.3 | <hr/> 760.8 |

All shareholders' funds are attributable to equity interests.



J S Lamb

Director

20 October 1998

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards. 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.

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.

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.

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.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

Pensions

IBM United Kingdom Holdings Limited and its subsidiaries ('the UK group') operate a number of defined benefit and defined contribution pension schemes, all of which are managed in 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 employees' 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 25.

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.

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover is the total of revenue from all sources, exclusive of value added tax.

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

| | 1997 £m | 1996 £m |
|--------|------------|------------|
| Home | 1,944.9 | 1,856.4 |
| Export | 2,827.1 | 3,054.4 |
| | <hr/> | <hr/> |
| | 4,772.0 | 4,910.8 |
| | <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.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

3. OPERATING PROFIT

This is stated after charging:

| | 1997 £m | 1996 £m |
|------------------------------------|------------|------------|
| Depreciation | 90.8 | 104.4 |
| Profit on disposal of fixed assets | 3.5 | 3.3 |
| Operating lease rentals: | | |
| Land and buildings | 16.7 | 20.3 |
| Plant and machinery | 20.4 | 18.1 |
| Restructuring costs | 12.8 | 7.6 |

Auditors' remuneration

| | 1997 £000 | 1996 £000 |
|--------------------|--------------|--------------|
| Audit services | 212 | 168 |
| Non-audit services | 10 | 33 |

4. DIRECTORS' REMUNERATION

The emoluments of and the number of stock options and stock appreciation rights 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 subsidiaries of International Business Machines Corporation are accordingly excluded.

| | 1997 | 1996 |
|---|------------|------------|
| Directors' Total Emoluments | | |
| Aggregate amounts (excluding shares receivable under long term incentive schemes) | £1,716,000 | £1,274,000 |
| Aggregate compensation for loss of office | £251,000 | - |
| Number of directors who exercised share options | 8 | 5 |
| Number of directors who have accrued benefits under defined benefit schemes | 8 | 10 |
| Highest Paid Director | | |
| Aggregate amounts (excluding shares receivable under long term incentive schemes) | £298,000 | £205,000 |
| Accrued pension at end of year in defined benefit pensions scheme | £80,000 | £109,000 |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS at 31 December 1997

5. STAFF COSTS

| | 1997 £m | 1996 £m |
|-----------------------|------------|------------|
| Wages and salaries | 620.6 | 487.7 |
| Social security costs | 57.3 | 46.4 |
| Other pension costs | 9.5 | 6.5 |
| | <hr/> | <hr/> |
| | 687.4 | 540.6 |
| | <hr/> | <hr/> |

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

| | 1997 No. | 1996 No. |
|-----------------------------|-------------|-------------|
| Manufacturing and marketing | 15,561 | 12,364 |
| Product development | 1,272 | 1,248 |
| | <hr/> | <hr/> |
| | 16,833 | 13,612 |
| | <hr/> | <hr/> |

These totals include employees who have fixed-term contracts with the company. They also include 298 employees (1996 304 employees) whose duties were carried on mainly outside the United Kingdom.

6. INTEREST RECEIVABLE

| | 1997 £m | 1996 £m |
|--------------------------------|------------|------------|
| Fellow subsidiary undertakings | 48.7 | 37.3 |
| UK associated undertakings | 4.4 | 3.9 |
| Other interest receivable | 0.2 | 0.2 |
| | <hr/> | <hr/> |
| | 53.3 | 41.4 |
| | <hr/> | <hr/> |

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1997 £m | 1996 £m |
|--------------------------------|------------|------------|
| Fellow subsidiary undertakings | 32.7 | 50.1 |
| Other interest payable | 0.4 | - |
| | <hr/> | <hr/> |
| | 33.1 | 50.1 |
| | <hr/> | <hr/> |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

| | 1997 £m | 1996 £m |
|-------------------------------------|-------------|------------|
| UK CORPORATION TAX | | |
| Based on profit for the year | 95.8 | 75.4 |
| Adjustments relating to prior years | (8.7) | (37.9) |
| DEFERRED TAX (note 17) | | |
| Current year | 12.0 | 3.3 |
| Adjustments relating to prior years | 5.2 | (35.9) |
| Effect of change of tax rate | 2.2 | - |
| | <hr/> 106.5 | <hr/> 4.9 |

Corporation tax has been provided at 31.5% (1996 33%). Deferred tax has been provided at 31% (1996 33%).

The low tax charge for 1996 resulted from the utilisation of prior year tax losses which had not previously been recognised in the accounts.

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

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 1997 | 366.1 | 546.6 | 118.5 | 1,031.2 |
| Additions | 13.0 | 86.2 | 9.5 | 108.7 |
| Disposals | (15.8) | (137.3) | (7.4) | (160.5) |
| Transfers | - | (8.2) | 0.1 | (8.1) |
| Reclass | 0.2 | (1.6) | 1.3 | (0.1) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 31 December 1997 | 363.5 | 485.7 | 122.0 | 971.2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | |
| 1 January 1997 | 185.2 | 385.8 | 66.5 | 637.5 |
| Charge for the year | 14.9 | 65.8 | 10.1 | 90.8 |
| Disposals | (8.8) | (135.6) | (7.2) | (151.6) |
| Transfers | - | (6.8) | - | (6.8) |
| Reclass | - | - | 1.7 | 1.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 31 December 1997 | 191.3 | 309.2 | 71.1 | 571.6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Book Value | | | | |
| 31 December 1997 | 172.2 | 176.5 | 50.9 | 399.6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 1 January 1997 | 180.9 | 160.8 | 52.0 | 393.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Transfers cover assets transferred to and from fellow subsidiary undertakings.
Reclass covers excess space reserves which have been allocated to specific leasehold premises and reclassifications between the different fixed asset categories.

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

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

10. INVESTMENTS

The company's investment in associated undertakings comprise loans advanced to Bedfont Property Investments Limited (formerly IBM United Kingdom Property Investments Limited) to fund the property investment, development and management business carried out by that company in the Keenhalf partnership. The movements on the investment during the year is shown below.

| | £m |
|--|-------|
| Cost | |
| 1 January 1997 | 64.5 |
| Additions | 3.9 |
| Disposals | (1.6) |
| | <hr/> |
| 31 December 1997 | 66.8 |
| | <hr/> |
| Provision for Diminution in Value | |
| 1 January 1997 | 22.3 |
| Charge for the year | 3.3 |
| Disposals | - |
| | <hr/> |
| 31 December 1997 | 25.6 |
| | <hr/> |
| Net Book Value | |
| 31 December 1997 | 41.2 |
| | <hr/> |
| 1 January 1997 | 42.2 |
| | <hr/> |

The company disposed of its investment in Bedfont Property Investments Limited in January 1998 (note 26).

11. STOCKS

| | 1997 £m | 1996 £m |
|-------------------------------------|------------|------------|
| Raw materials and consumables | 111.9 | 172.9 |
| Work in progress | 31.7 | 16.1 |
| Finished goods and goods for resale | 45.1 | 50.9 |
| | <hr/> | <hr/> |
| | 188.7 | 239.9 |
| | <hr/> | <hr/> |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

12. DEBTORS due within one year

| | 1997 £m | 1996 £m |
|---------------------------------------|------------|------------|
| Trade debtors | 66.4 | 219.1 |
| Net investment in finance leases | 26.5 | 25.1 |
| Amounts owed by parent undertakings | 850.4 | 673.9 |
| Interest receivable | 26.3 | 18.1 |
| Amounts owed by UK group undertakings | 873.6 | 455.9 |
| Other debtors | 16.2 | 6.5 |
| Prepayments and accrued income | 26.1 | 25.7 |
| | <hr/> | <hr/> |
| | 1,885.5 | 1,424.3 |
| | <hr/> | <hr/> |

IBM United Kingdom Limited has entered into an agreement under which it sells for cash certain of its trade receivables to IBM International Treasury Services Company, ('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

| | 1997 £m | 1996 £m |
|----------------------------------|------------|------------|
| Deferred tax (note 17) | 13.0 | 32.4 |
| Net investment in finance leases | 29.0 | 9.1 |
| | <hr/> | <hr/> |
| | 42.0 | 41.5 |
| | <hr/> | <hr/> |

14. CREDITORS: amounts falling due within one year

| | 1997 £m | 1996 £m |
|--|------------|------------|
| Bank overdrafts | 9.1 | - |
| Trade creditors | 444.1 | 326.5 |
| Loans from fellow subsidiary undertakings | 180.2 | 180.9 |
| Other amounts owed to fellow subsidiary undertakings | 394.0 | 316.7 |
| Interest payable | 4.2 | 7.4 |
| Corporation tax | 102.8 | 12.6 |
| Other taxes and social security costs | 58.7 | 52.7 |
| Accruals and deferred income | 324.9 | 322.2 |
| | <hr/> | <hr/> |
| | 1,518.0 | 1,219.0 |
| | <hr/> | <hr/> |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

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

| | 1997 £m | 1996 £m |
|--|------------|------------|
| Loans from group undertakings falling due: | | |
| Between one and two years | - | 171.9 |
| Between two and five years | 30.7 | 30.8 |
| In five years or more | - | - |
| Accruals and deferred income | 37.0 | 40.5 |
| | <hr/> | <hr/> |
| | 67.7 | 243.2 |
| | <hr/> | <hr/> |

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

16. OBLIGATIONS UNDER OPERATING LEASES

The commitments arising next year are as follows:

| | 1997 | | 1996 | |
|--------------------------------|-------------------------------------|--------------------|-------------------------------------|--------------------|
| | <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 | 0.8 | 1.4 | - | 1.9 |
| Between one and five years | 1.8 | 14.3 | 2.1 | 11.8 |
| After five years | 11.2 | - | 11.6 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 13.8 | 15.7 | 13.7 | 13.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS at 31 December 1997

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | 1997 £m | 1996 £m |
|-------------------------------------|------------|------------|
| Deferred Tax | | |
| 1 January | (32.4) | 0.2 |
| Transfer to profit and loss account | 19.4 | (32.6) |
| | <hr/> | <hr/> |
| 31 December | (13.0) | (32.4) |
| | <hr/> | <hr/> |
| The deferred tax balance comprises: | | |
| Capital allowances | 5.3 | - |
| Other timing differences | (18.3) | (32.4) |
| | <hr/> | <hr/> |
| Total asset | (13.0) | (32.4) |
| | <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:

| | 1997 £m | 1996 £m |
|-----------------------|------------|------------|
| Deferred capital gain | 1.0 | 1.0 |
| | <hr/> | <hr/> |

18. SHARE CAPITAL

| | 1997 £m | 1996 £m |
|---|------------|------------|
| Authorised, allotted, called up and fully paid: 851,427,000 ordinary shares of £1 each | 851.4 | 851.4 |
| | <hr/> | <hr/> |

19. RESERVES: Profit and loss account

| | 1997 £m | 1996 £m |
|-----------------------|------------|------------|
| At 1 January 1997 | (91.4) | (299.5) |
| Profit after taxation | 210.5 | 208.1 |
| | <hr/> | <hr/> |
| At 31 December 1997 | 119.1 | (91.4) |
| | <hr/> | <hr/> |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

20. SHAREHOLDERS' FUNDS

| | 1997 £m | 1996 £m |
|------------------------------|------------|------------|
| Analysis of movements | | |
| Profit for the year | 210.5 | 208.1 |
| Total movements in the year | 210.5 | 208.1 |
| Balance at 1 January | 760.8 | 552.7 |
| Balance at 31 December | 971.3 | 760.8 |

All shareholders' funds are attributable to equity interests.

21. PURCHASE OF BUSINESS

IBM United Kingdom Limited acquired the assets and liabilities of CGI (GB) Limited, a fellow subsidiary undertaking of International Business Machines Corporation, during the year. The book value of the assets at the date of acquisition were as follows:

| | £m |
|-------------------------------|-------|
| Debtors | 5.3 |
| Cash | 4.1 |
| Corporation tax | (0.5) |
| Creditors due within one year | (2.4) |
| Net assets | 6.5 |

The directors believe that the book value of the assets acquired equates to the fair value of those assets. The purchase consideration of £6.5 million is included in loans from fellow subsidiary undertakings due within one year.

22. POST BALANCE SHEET EVENT

On 23 January 1998 the IBM UK group transferred all its rights and obligations in respect of Keenhalf Partnership to MEPC plc. Under the terms of the transfer agreement the loans from the company to Keenhalf Partnership and to Keenhalf (Two) Limited and the shareholding by IBM United Kingdom Holdings Limited in Bedfont Property Investments Limited were sold to MEPC plc for an amount equivalent to their total book value. Accordingly no adjustment to the value of the loans and investments reported in these accounts is necessitated by the sale.

23. CAPITAL COMMITMENTS

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

| | 1997 £m | 1996 £m |
|------------|------------|------------|
| Contracted | 3.3 | 3.6 |

IBM United Kingdom Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

24. 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.

25. PENSION COMMITMENTS

The IBM UK group operated a number of pension plans of the defined benefit type during the period as well as a new pension plan of the defined contribution type to which the company contributed. Employees who join the group after January 1997 are eligible to become members of this new pension plan. The assets of all these plans are held in trust funds which are administered separately from the group. Details of the latest actuarial valuation of the funds are disclosed in the accounts of IBM United Kingdom Holdings Limited.

The main defined benefit pension plan of which most permanent employees of the group were members during the period is funded in line with the recommendations of a qualified independent actuary. During 1997 the UK Group was able to take a holiday on normal pension contributions to both the main defined benefit and defined contribution plans due to the level of coverage.

The charge for pension costs in the profit and loss account of £9.5 million is calculated in accordance with US Statement of Financial Accounting Standards No 87. The equivalent charge 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 £15.1 million.

The difference between the amounts charged in the profit and loss account and the amounts funded gave rise to a provision of £1.7 million at the end of the period which is included in creditors in the UK group accounts.

26. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The IBM 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 £1.3 million (1996 £1.7 million). The main assumptions used in the calculations were a rate of inflation in the cost of providing benefits of 6.5% per annum and a discount rate for obligations of 8.0% per annum.

27. 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.