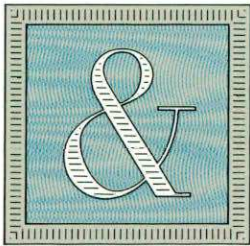


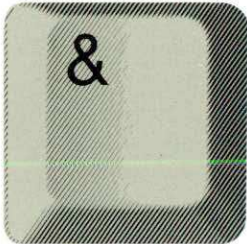
IBM



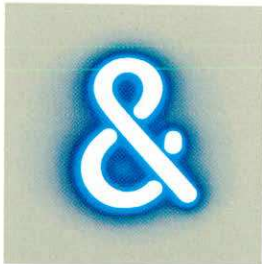
Shareholders



Customers



Employees



Business Associates



The Community

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Letter to the stakeholders

IBM United Kingdom Holdings Group achieved an excellent performance in 1985, maintaining the pattern of significant growth of recent years. Gross revenue for the Group increased by 30 per cent from £2349m to £3043m; net profit before tax by 60 per cent from £325m to £521m; and net profit after tax by 54 per cent from £200m to £308m.

There were two main reasons for our increase in gross revenue. First, we achieved growth in sales throughout our product range, despite intense competition. Sales of IBM Personal Computers and workstations were notably strong. Revenue from UK customers rose by 24 per cent to £1,461m. Second, our manufacturing plants at Greenock and Havant continued to make an important contribution through increased exports. Total exports, which include hardware,

software and services, rose by 35 per cent from £1175m to £1582m. IBM is currently ranked as Britain's seventh largest exporter.*

The improvement in our profits in 1985 was particularly gratifying. It was achieved mainly as a result of two factors which enabled us to maximise the benefits of our growth: lower manufacturing costs and careful control of expenditure.

In manufacturing, we have begun to benefit from the cost efficiency effects of recent investments in automation at Havant and Greenock. And throughout the company we have maintained rigorous financial control, examining carefully the cost implications of every business decision, and trimming unnecessary expenditure.

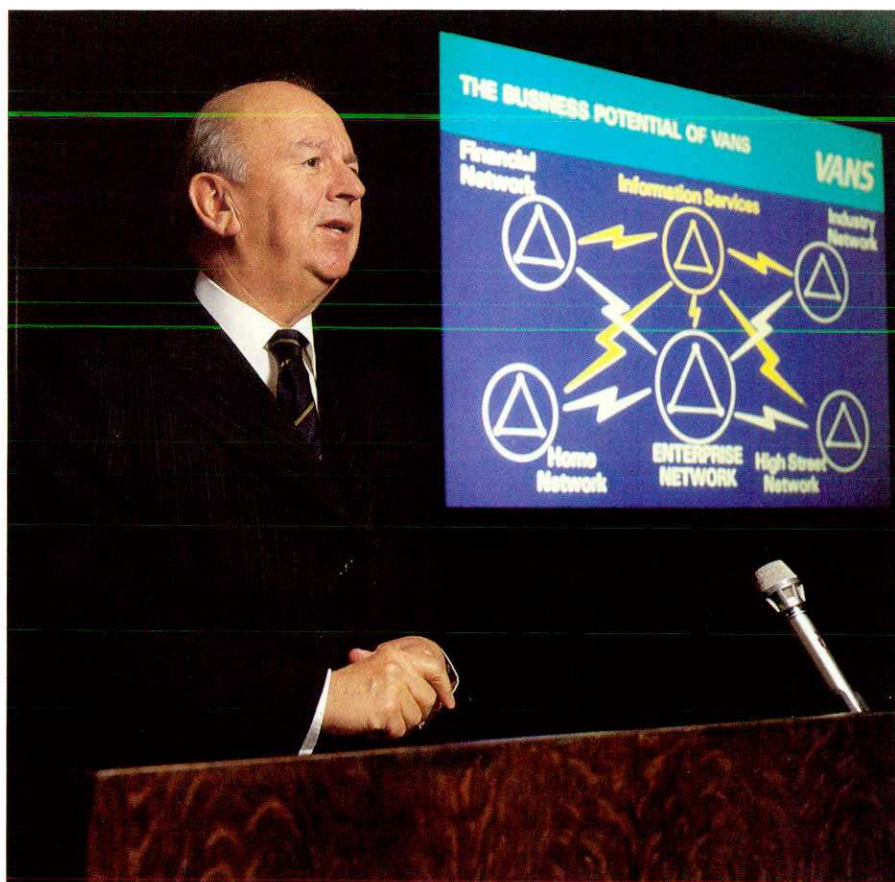
Inevitably, the growth we have enjoyed in recent years is having an effect on many elements of the company – our workforce, production facilities, and marketing activities – as well as the companies with whom we are associated.

We recruited 1,798 new employees in 1985, of whom 420 were graduates. The number of new jobs created during the year was 1,327, bringing our year-end total of employees to 18,798.

Another consequence of our growth has been the expansion of our plant and office accommodation. During 1985, extensions have been completed at Greenock, Warwick, Hursley, Basingstoke and St John's Wood, London. We are also planning new offices in Woking, Surrey.

Our factories at Greenock and Havant are also undergoing significant changes in order to ensure that we remain internationally competitive in the years ahead. Both plants continue to invest heavily in the use of automation and robotic systems. In order to achieve the maximum efficiency from that investment, we are encouraging our suppliers to do the same.

To keep pace with the growth of our industry we must continue to develop new and appropriate products. Last year we announced approximately 1,000 new products and modifications of hardware, software and services. Notable among these were a new top of the range processor, the 3090 series, and a telecommunications product, the Token-Ring Network. Our own Hursley laboratory played its part in developing new products for the company's worldwide range of offerings, including



'We will play our part as a responsible member of the business community of the UK in the years ahead.'

Sir Edwin Nixon CBE, Chairman,
IBM United Kingdom Limited.

* Financial Times Top 100 Exporters 1984, (28 November 1985.)

two new graphics terminal products, and the CICS 1.7, a new release for IBM's highly successful information control system.

We also announced the first ROLM product in Europe since the company linked with the IBM Corporation in 1984. ROLM are makers of advanced digital telecommunications systems, and the ROLM 8000 ACD system is designed to handle high volume telephone calls. It will be marketed in Britain by IBM UK.

We recognise that our continued growth in the future also depends on our ability to adopt the most appropriate marketing and delivery channels.

During 1985 we made significant advances in providing leasing facilities,

offering new opportunities for customers to acquire equipment best suited to their needs, but which they might otherwise be unable to purchase outright. This arrangement has been welcomed by many of our customers.

In 1985 we continued to develop our relationships with Third Parties: agents; authorised dealers; and authorised remarketers. These links represent a significant trend in our business strategy, intended to provide consumers with local networks of skilled and authorised purchasing points for small systems, Personal Computers and typewriters.

Our suppliers have also been affected by our sustained growth. In 1985, expenditure with our suppliers rose by 84 per cent to £834 million.

In my Letter to Stakeholders last year, I described the five stakeholder groups who benefit from our achievements, and to whom we believe we owe a responsibility. The fourth of these groups was our suppliers. In view of our developing relationships with Third Parties, and increasing partnership activity in many parts of our business, we have now redefined this stakeholder group as our business associates. Our suppliers, agents, authorised dealers and authorised remarketers are all our business associates.

They have a stake in our business achievements, as contributors and beneficiaries. As our business grows in the future, our relationships with these associates will become increasingly important – to us as much as to them.

Our continued growth is, of course, affected by external factors. Three particular issues concerned us during 1985: Britain's manufacturing performance; information technology standards; and telecommunications policy.

Britain's trading performance

The recent performance of British manufacturing in world trade has been debated during the past year. The House of Lords Select Committee on Overseas Trade gave a strong warning about the need for improvement, especially as our oil trade surplus begins to diminish.



Some recent government reports on information technology. IBM executives are increasingly involved in government bodies working for the future of Britain's IT industry.

We share the concern of many British companies about the need to sustain a strong manufacturing base in the UK, in order to maintain employment opportunities and to stimulate the service sector of the economy, as well as to contribute to the wealth of the nation. While we in industry can work to improve our own effectiveness through better management, training, investment in technology, and quality control, we do need the support of all in the community to ensure that the climate is right for success.

In particular, the educational preparation of employees must be appropriate to the needs of industry, and more of our most able young people should be encouraged to consider careers in the industrial sector.

Only through a proper understanding of our role in the community, and of the need to nurture enterprise and business skills can we in industry maintain and improve our trading performance.

IT standards

One of the most important questions facing the IT industry is how to develop technical standards which permit interconnection of products from different manufacturers. In 1985 IBM emphasised its support for the Open Systems Interconnection project, which defines international standards intended to achieve this. We announced a number of new products which meet agreed standards, and we were involved in the development of a joint project with others to define tests which will prove compliance with those standards.

Telecommunications

Telecommunications is becoming an increasingly important sector of our industry. Significant moves were made by Government in 1985 to lay the ground rules for the development of telecommunications products and services in the UK.

IBM contributed its views on the need for licensing procedures which ensure a competitive environment, to the benefit of the industry and our customers. We are confident that a sound framework for liberal competition is now in place, but we will monitor the licensing structure carefully as it develops.

As many of you know, I retired as Chief Executive of IBM United Kingdom on 31 December last year.

For the last twenty years it has been my privilege to lead IBM United Kingdom. During that time, the company has played an important role in the remarkable evolution of the computer industry. I would like to thank all IBM employees, past and present, who have contributed so much to that achievement.

Yet, despite the advances made, it is my belief that we have barely begun to realise the full potential of this industry. Clearly we must be careful to ensure that in harnessing this powerful information technology we secure the greatest possible benefits for all our stakeholders: our shareholders, our employees, our customers, our business associates, and the community at large.

My successor as Chief Executive is Tony Cleaver. I wish him well, and a successful tenure of office. We will continue to regard our employees as our most valuable resource. And we will play our part as a responsible member of the business community of Britain in the years ahead.



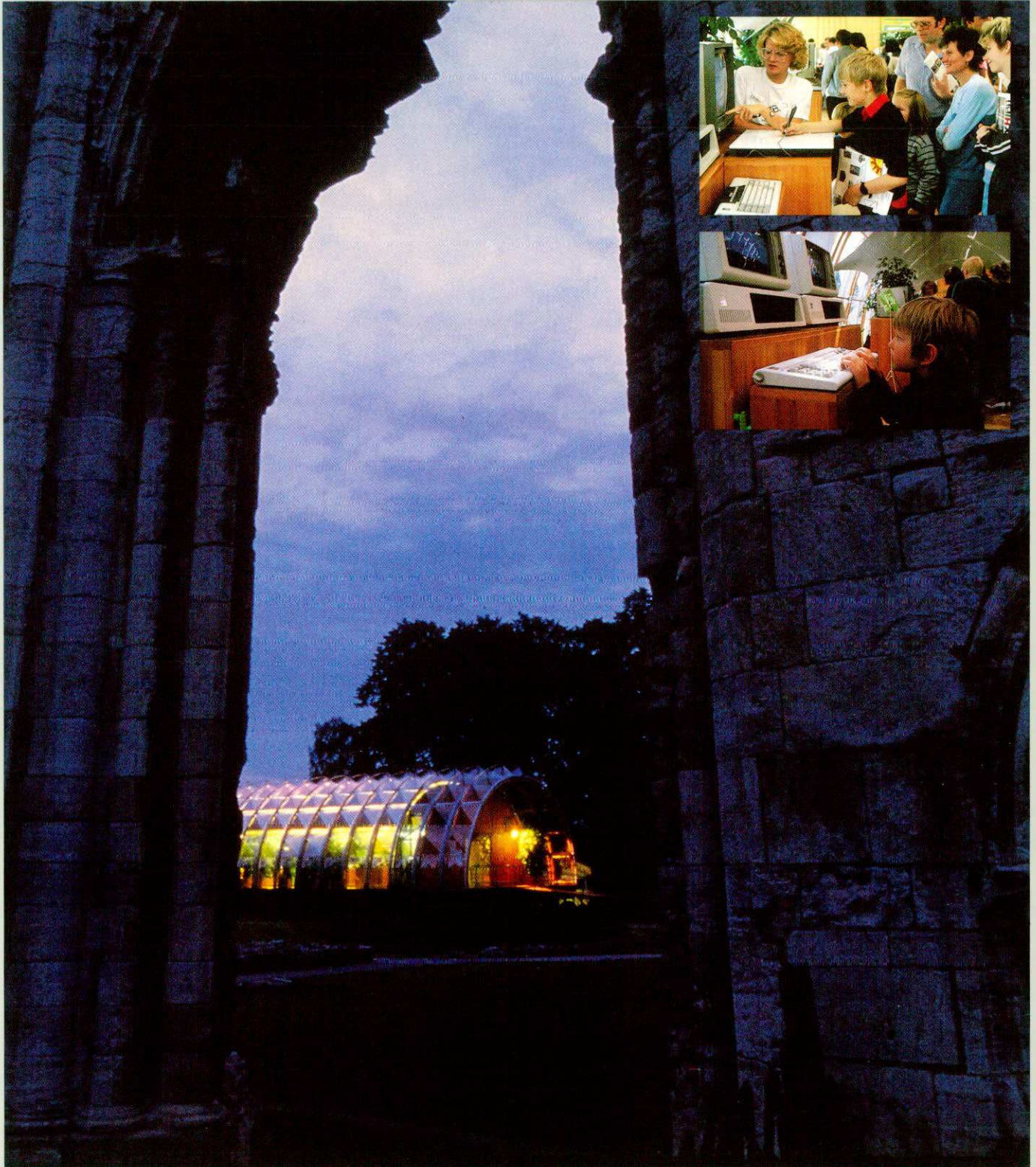
Sir Edwin Nixon CBE, Chairman



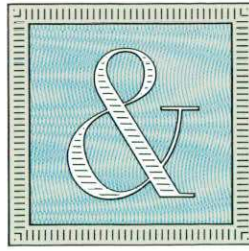
The new Chief Executive, Tony Cleaver, with Sir Edwin Nixon.

Partnership for success. IBM worked closely with civic authorities in York to stage the mobile exhibition, EXHIBIT, in the city's museum gardens. The main objective was to introduce information technology to young people. Well over 100,000 people visited the pavilion in the six week stay on this eighth stop of its European tour.

4



IBM



Stakeholders: Partnerships for success

IBM's approach to business can be summed up in the concept of 'Three, Four, Five'.

'Three' represents our basic business beliefs:

- Respect for the individual
- Service to the customer
- The pursuit of excellence.

The 'Four' represents IBM's business goals for the Eighties:

- To grow with the industry
- To exhibit product leadership across our entire product line, excelling in technology, value and quality
- To be the most efficient in everything we do – to be the low-cost producer, the low-cost seller, the low-cost servicer and the low-cost administrator
- To sustain our profitability, which funds our growth.

And 'Five' represents our responsibilities to our stakeholders:

- Shareholders
- Employees
- Customers
- Business Associates and
- The Community.

IBM has long recognised that these five groups are of major relevance to the Corporation. Our reputation as an employer has been built on the concept of partnership – between managers and their employees. Our commercial success has depended on creating a partnership between IBM and customers. Our financial strength has been assisted by our partnership with shareholders. We have forged strong links with suppliers to our manufacturing plants and offices. They are business associates who value our work, and on whom we rely for quality. In recent years we have established new relationships with dealers, agents, remarketers and consultants. They are our business associates too. And our integrity as a responsible corporate citizen is built on the idea of creating partnerships with the communities where we do business.

The theme of this Annual Review is partnership. We start by looking in depth at our new business associates – the third parties and suppliers – and our traditional partners – our customers. From such partnerships emerges a stronger information technology industry in the United Kingdom.



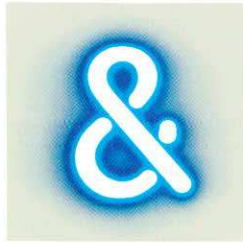
IBM's new business associates include Territory Agents such as DCS, of Leamington Spa. Their 'Dealerman' software package for car distributors is used by Warwick Wright Motors of Chiswick and runs on an IBM System/36 computer.

Typewriter dealers use point-of-sale materials to display the range of IBM typewriters and supplies available.

6



IBM



Third Parties: Expanding the industry

Third party organisations play an increasingly important role in expanding the IT industry. Amongst our new business associates are authorised dealers, agents, remarketers and consultants. These organisations, frequently locally-based, bring with them marketing skills, offer a choice of different manufacturers' products, and provide a 'shop-window' for IBM products.

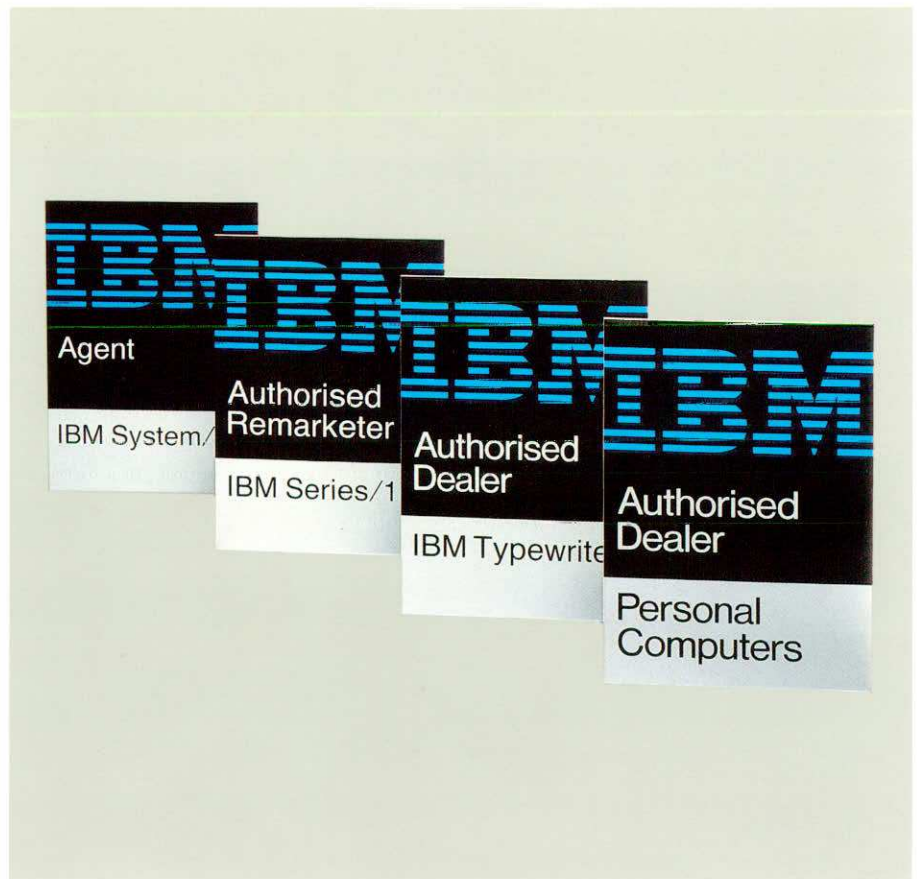
Authorised Dealers

In total, IBM has over 500 authorised dealers who buy, and sell under their own terms and conditions, such products as IBM Personal Computers, typewriters and supplies. Dealers must reach high standards of customer service, systems expertise and business management skills. These high standards, the quality of their service, new software offerings and productivity aids, all contributed to the outstanding results achieved by our dealers in 1985.

IBM provides extensive dealer training facilities. For example, 460 engineers were trained in 1985, and advanced product training packages were provided. Further technical assistance is available by telephone.

The dealers' staff, together with their support services, aim to understand the customers' needs thoroughly from business goals, objectives and strategy right through to users' training needs and after-sales service. As our advertisements said in 1985, IBM dealers really do 'earn their stripes'.

Some of our new business associates.



PC Dealers

One well-established PC dealer is Specialist Computer Centres (SCC). The company won IBM's Quality Outlet Award in 1985, for consistently exceeding performance criteria and demonstrating particular commitment to management development, skills training and customer satisfaction. This Birmingham-based company acquired the 'Byte Shop' chain in 1985, and is developing a nationwide branch network of IBM Authorised Dealers.

Vertical marketing

IBM also works in partnership with dealers and software vendors in 'vertical marketing', that is, examining the overall needs of particular industries such as farming, insurance broking, health care and retail. This approach has received

considerable approval and co-operation from our dealers, to the extent that some dealers employ their own industry specialists.

Typewriter Dealers

In 1985, the number of authorised typewriter dealers almost tripled – with a corresponding increase in training and related activities.

One of the first typewriter dealers to be appointed by IBM was Solent Office Services Limited of Otterbourne, Hampshire, a small company with a growing reputation for quality of service. The company believes in working with its customers and providing a total service, including after-sales service and advice. Says Managing Director Bob Purdue 'We have participated in a number of IBM

promotional events which have proved to be very good for our customer relations'.

Solent was awarded a Marketing Excellence Award for its 1985 performance as an IBM Authorised Dealer – IBM Typewriters.

Agents

Agents are software and service organisations authorised to market certain IBM systems and services under IBM's own terms and conditions. They usually add value to the products by selling their own application software packages.

Currently, more than 160 IBM Complementary Marketing Agents offer application packages and skills to meet IBM's customers' needs, in addition to managing system implementation at the customers' premises. The agents work in contact with the local IBM branch.

In 1985, IBM appointed its first Territory Agents, recruited from amongst our existing agents. These agents must have the skills and resources to undertake *full* marketing responsibility for certain IBM systems in a given territory, defined either geographically or as a particular business application such as estate agents, hotels and motor dealers.

One well-established IBM agent is DCS, founded in 1976, and with 100 staff in 1985, still growing. DCS is based in Leamington Spa, with offices in Slough and Maidstone. Its application software packages for IBM intermediate systems are already running at 450 sites. They include distribution applications, both tailored and 'off-the-peg', and a full range of general business software packages covering accounting, payroll and inventory. DCS has an application territory agency for motor dealers and several geographic territory agencies for IBM.

The telephone 'hotline' for PC dealers is open in office hours with an answerphone service at night.



Information Processing Services Limited (IPS), which has offices in Bristol, Plymouth, Nottingham, Manchester and London, began supplying software for IBM computers in 1979. It is now an IBM Territory Agent for five areas in the UK, ranging from Cornwall to the Midlands. It offers modular packages for the IBM Systems/36 and/38 covering financial and general business (distribution) applications, a personnel system, and skills in manufacturing gained from its activity as a Complementary Marketing Agent for the IBM MAAPICS system.

Agents have to demonstrate that they have marketing and technical skills, as well as appropriate facilities and people. In return, IBM offers technical, marketing and sales education support. A business management course has been developed on IBM's behalf by a leading British management consultancy, to help smaller agencies manage the development of their business.

Remarketers

IBM Authorised Remarketers such as Universal Money Centers plc use their expertise to add value to IBM products before remarketing them to customers. This added value can often take the form of a total application solution, which may involve integrating competitors' products with IBM systems. Universal Money remarks IBM Series/1 computers and specialises, amongst other things, in financial terminal control systems for cash dispensers in major building societies and banks. It was amongst the first IBM Authorised Remarketers to be appointed when the programme was introduced in 1984. In 1985 the company won a Marketing Excellence Award from IBM.

Consultants

Consultants are called in by companies who want an impartial view of the computer market before choosing their supplier. The consultant may well organise several visits to suppliers including IBM. IBM's Agents and Consultants Marketing department acts

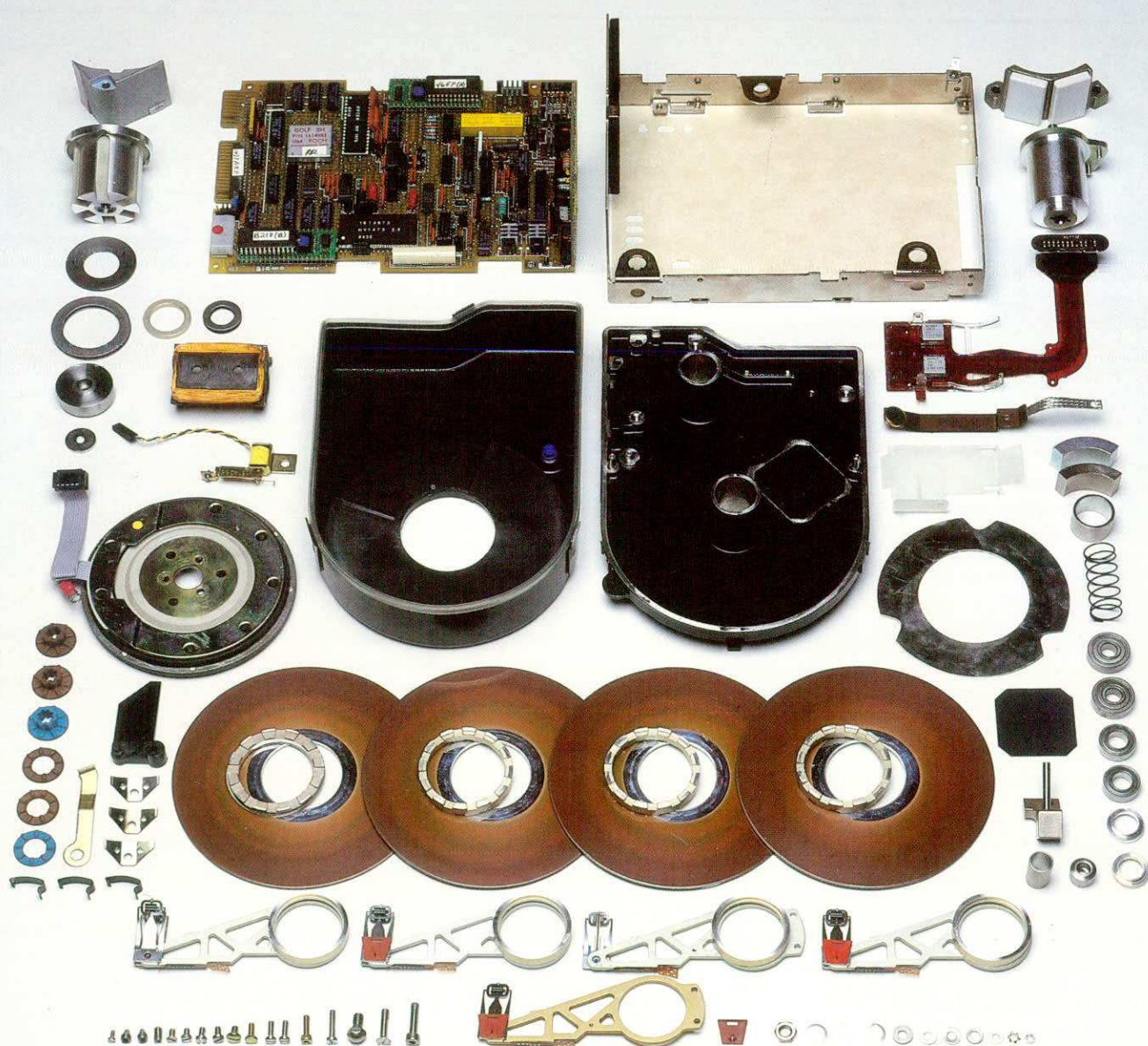
as an information and advisory centre, building co-operative relationships with these organisations.

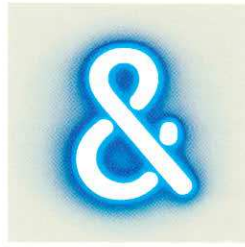
Robotics

Close partnerships are also being developed between IBM and specialists in robotic systems. These companies, called Manufacturing Systems Integrators (MSIs), create 'turnkey' systems for IBM robots. These are total, flexible automation systems, which they handle from initial specification to delivery and service.



PA Technology are Manufacturing Systems Integrators in co-operation with IBM. They have developed production equipment for making an intricate sub-assembly for computer keyboards.





Suppliers: Responding quickly to change

IBM's expenditure with its suppliers rose significantly in 1985, to £834 million. This growth, in which the IBM Personal Computer continued to play a major part, provided work for new suppliers and additional business for many existing suppliers.

For the manufacturing plants, some of the more extensively purchased items in 1985 were printed circuit boards and assemblies, disk drives, monitors, power supplies, plastics, cathode ray tubes, and printing and publication services.

For the rest of the company, the major expenditure was on advertising, construction, repair and rearrangement, maintenance services, furniture, food and kitchen supplies.

The rapid pace of technological change in the information technology business has placed increased demands on our suppliers. New products are coming more

rapidly to the marketplace and new methods of making them are being introduced.

We work closely with suppliers in the initial stages of design and manufacturing. Flexibility is needed to react to changes in technology and in the requirements of the customers.

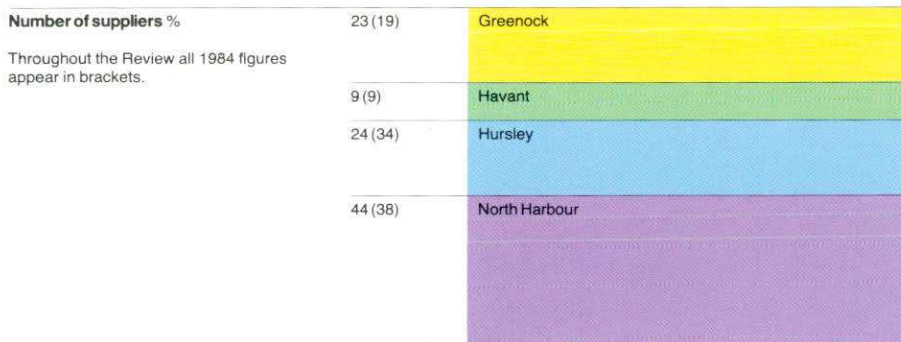
One new method of manufacturing that involves our suppliers is continuous flow manufacturing. Parts are supplied directly to the manufacturing lines and are used immediately, instead of being stockpiled in warehouses. IBM has arranged seminars for suppliers where they can examine and discuss the benefits of this concept to the company and to them.

The introduction of continuous flow manufacturing is part of our drive for quality, the essence of which is 'Right first time, every time'. The quality of

parts delivered to our plants is always of a high standard. For two months in 1985, shipments of castings, plastics and machined parts to Havant Plant achieved 100 per cent quality. That involved 68,000 parts each week.

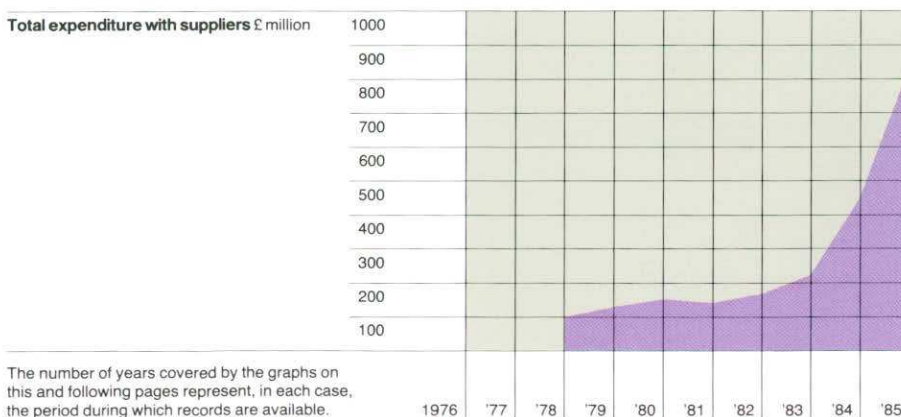
High volumes lead to fluctuations in demand from time to time. IBM seeks to maintain a close working relationship with suppliers, to provide them with as much warning as possible of changes in the pattern of demand. We also try to protect suppliers by limiting the amounts of business we place to avoid their becoming too dependent on IBM.

The relationship between IBM and our suppliers is one of mutually beneficial partnership. IBM receives goods and services of high quality. Suppliers benefit in the development of their skills, expertise and overall business opportunities.



Total number of suppliers: 7,780 (9,253)

Although the actual expenditure with suppliers rose by 84 per cent, the number of suppliers declined. This was due to a continuing focus on quality and cost effectiveness, leading to a consolidation of numbers. However, the larger companies are in fact supplied by the original purchase source.



Residents of Sparkbrook visit their Neighbourhood Office to pay the rent and request housing repairs. This is part of Birmingham's network of 39 such offices.



IBM



Customers: Sharing our experience

IBM's relationship with customers has been based on a sharing of knowledge and experience. Our first and main point of contact with our customers is through the branch office, through sales representatives, systems and customer engineers and branch administrators. Liaison with our customers through courses, seminars, briefings and exhibitions also played an important part in the achievement of quality customer service in 1985.

Over 18,000 customer students attended IBM classroom courses in 1985, many of them at the newly re-opened St John's Wood Education Centre. This centre, together with others at North Harrow, Basingstoke and Warbrook, illustrates IBM's commitment to the development of skills and knowledge through education. In addition, IBM's twelve Learning Centres, used for an increasing number of courses both for customers and IBM's own employees, brought education closer to over 4,000 customers in 1985. The Customer Executive Education Service, based at IBM's laboratory at Hursley, has welcomed over 1,400 company executives, a 20 per cent increase over 1984. For many it was their first contact with IBM.

The Executive Briefing Centre, at IBM UK's Headquarters at North Harbour in Portsmouth, offered 78 tailor-made briefings in 1985, when senior executives from Government, commerce and industry discussed management issues.

IBM has two marketing centres, at IBM's London South Bank office and at Sale, near Manchester, where business application seminars demonstrate the business solutions that can be provided by IBM products.

Information

IBM has extended its own use of information technology to customers, through the setting up of IBM Infosearch and the IBM Direct Information Service.

IBM Infosearch, introduced during 1984, provides direct access to a constantly updated database of technical questions and answers regarding installation and operational information on a range of IBM products. In addition, specialised systems engineers provide skilled technical answers to new questions electronically submitted by customers.

The IBM Direct Information Service (DIS), was set up in June 1985. DIS allows on-line retrieval of detailed information on many aspects of our range of products and services. This electronic mail service provides a DIS user with direct links to his local support team and to central IBM departments.

Both DIS and Infosearch provide improved access to the many sources of IBM support, and all represent the changing style of partnership between IBM and its customers.

System/36 Infodisk was distributed in the spring of 1985. Once installed on the user's system, Infodisk can handle more than 1,000 technical and operational questions immediately for specialist System/36 users.

ESIC

The Engineering Scientific and Industrial Centre (ESIC) offers specialised application skills and a programme of industry education for customers, prospective customers and agents as well as for IBM's own staff. ESIC was formed in 1984 as the Industrial Applications Marketing Group, in response to the growth of the engineering, industrial and scientific sectors in the UK. Throughout the year the group held events featuring applications designed to meet the needs of these sectors.

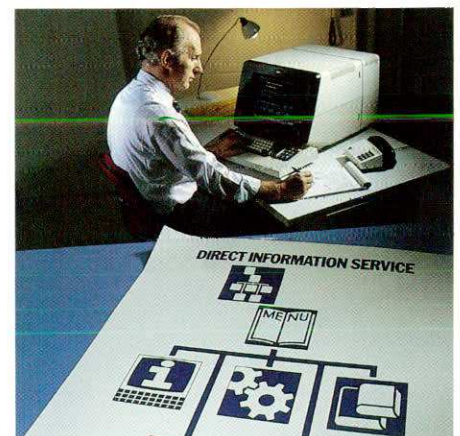
Leasing

The lease offerings available on IBM equipment through IBM Financial Services Limited have proved even more popular in 1985.

The content of the lease offering has already expanded and as the full changes introduced by the 1984 Finance Act take effect during 1986, so the lease offering will continue to be modified.

Service

Throughout 1985 IBM Customer Engineering has continued to offer a high quality and efficient maintenance service to customers. The Hardware Service Centre at Sudbury provides a constant source of advice and information about customers' installations. IBM Servicepoint, introduced in 1983, offers IBM customers a rapid repair or replacement service for defective machines.



Direct Information Service (DIS) – one of the services set up to give customers access to IBM's information databases.

Three practical examples of the partnership between IBM and customers in action in 1985 are:

Freight Rover

Freight Rover was formed in 1981 to develop and market the well-established Sherpa commercial vehicle range. When the company was formed, it had few computer systems and no experienced computer staff.

In the last four years, the company's turnover has trebled, and its output has more than doubled.

Freight Rover has used IBM Application System (AS) to develop a comprehensive range of systems to support the growth of its business. AS has enabled the company to develop these new systems rapidly and minimise the need for specialist staff.

Freight Rover has also made extensive use of computer-aided engineering with CATIA* to shorten dramatically the time taken for product development. CATIA is making a major contribution to engineers' productivity. It is enabling them to speed up product development and to consider more alternatives at the design stage.

City of Birmingham

The City of Birmingham, serving a population of 1.1 million, is one of Europe's largest City authorities, with an annual budget of £1 billion. The City is responsible for 140,000 homes, the education of 170,000 pupils and students, the administration of social services, public buildings and amenities.

The City installed its first IBM system in 1981 and since then has rapidly developed its information systems. In 1985 the City upgraded its mainframe

computer to an IBM 3084 and installed IBM Personal Computers to form the core of its Office System implementation. Through the use of information systems technology Birmingham plans, by the early 1990s, to install more than 10,000 office and application system terminals to serve many of its 52,000 employees.

One benefit of the use of IBM systems has been the ease with which the City has implemented the decision to decentralise its administration to thirty nine Neighbourhood Offices. These offices

provide local access to the City's administration and information systems, enabling residents to pay rents and rates, make benefit claims, seek advice on social services or housing questions, request housing repairs and make many other enquiries, all within walking distance of their homes. The service offers a more convenient and efficient way to serve the local residents, while enabling the City to improve the application of its resources through more effective information processing and communication.



Engineers at Freight Rover use a computer-aided engineering system to design a new lorry.

* CATIA is a trademark of Dassault Systemes

UNIDEX

1985 saw the introduction of the UK Network for Insurance Data Exchange (UNIDEX), IBM's first value added networks for the insurance industry.

UNIDEX provides telecommunications links for the insurance industry, enabling viewdata terminals, Personal Computers and other small systems to communicate with participating insurance companies' applications.

UNIDEX attracted fifteen insurance companies to the services in 1985.

They were:

Cannon
Commercial Union
Eagle Star
Equity and Law
Friends' Provident
Gresham Life
Guardian Royal Exchange
Legal and General
Norwich Union
Provident Life
The Prudential
Royal Life
Save and Prosper
Sun Alliance
Sun Life.

Between them, these companies introduced 32 building societies with terminals in most of their branches, three major banks and over 260 insurance brokers to the services, helping them to establish the link and to understand how to use the networks.

UNIDEX represents an important first step towards the establishment of the electronic marketplace for financial services, with great potential benefits for insurance companies, for brokers and for other insurance intermediaries.

During the year the IBM Interactive Video System was introduced, providing education to our dealers and their customers. These excellent facilities, available at IBM's twelve Learning Centres, were used for an increasing number of courses for dealers, customers and IBM's own employees.

Defective machines or elements can be carried in or delivered to an IBM Servicepoint by an IBM-nominated courier. Fast repair or replacement of modules means that the machine is quickly back in business.



Customer visits

28,727

South Bank Marketing Centre

16,686

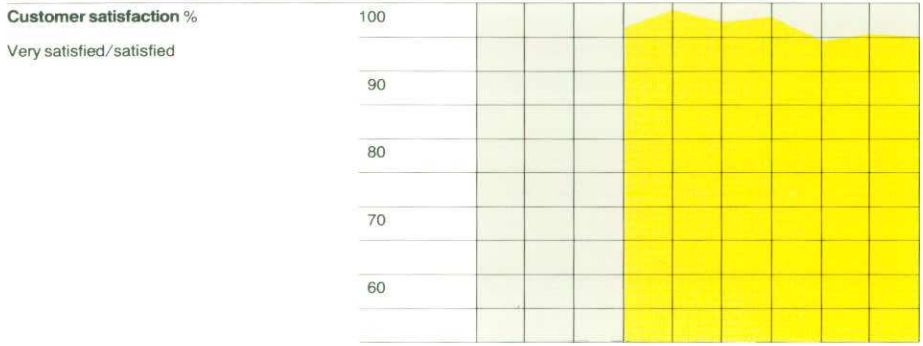
Manchester Marketing Centre

15,755

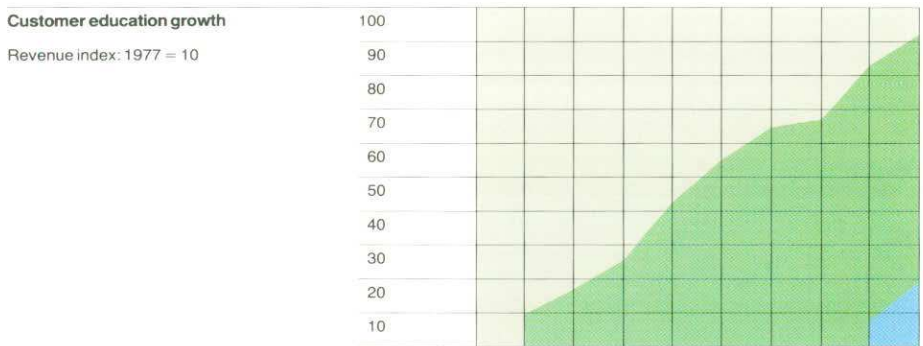
Warwick Customer Centre

Non-IBM visitors to Customer Centres.

Total: 61,168



IBM's objective is to ensure that customers are either satisfied or very satisfied with the company's products and services. Increasing emphasis, particularly through the Quality Programme, is now devoted to reaching survey satisfaction rates of 100%.

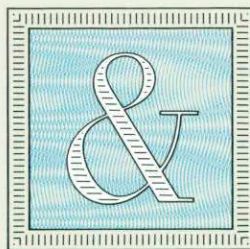


41,000 courses were taken by customers' staff in 1985. The courses on management and technical skills were provided through classrooms, Learning Centres and the independent study facilities of Science Research Associates Limited, an educational subsidiary of the IBM Corporation.

SRA



The chart shows the historical cost of storing 1 million characters of data on IBM high speed disk storage devices, adjusted for inflation. In 1985 IBM started shipping the IBM 3380 Model E Disk Storage Device. With a total capacity of 5,000 million characters per unit, the Model E represents the most advanced technology available in the industry today.



Shareholders: A financial review

The following information is extracted from the 1985 Report and Accounts of IBM United Kingdom Holdings Limited.

| Highlights | 1985 £ million | 1984 £ million | Increase % |
|-------------------|----------------|----------------|------------|
| Revenue | 3,043 | 2,349 | 30 |
| Exports | 1,582 | 1,175 | 35 |
| Profit before tax | 521 | 325 | 60 |
| Profit after tax | 308 | 200 | 54 |

Companies Act 1985

The actual results for the year ended 31 December 1985 as shown in this statement are not the full accounts. Full accounts have not yet been delivered to the Registrar of Companies, nor have the company's auditors yet made their report on them. (March 1986).

1985 proved to be another successful year, with sustained growth in revenue and profits for both the home and export markets coupled with a strengthening balance sheet. All of this provides us with a strong base for the achievement of our Corporate goals in 1986 and beyond. Our total group revenue rose by 30 per cent to £3043 million, and profits before tax increased to £521 million representing a growth of 60 per cent.

Growth in revenue has been supported by new product announcements in all areas of our business, coupled with strong PC sales. Additionally, the capital investment programmes advanced by our customers to take advantage of tax changes announced in the 1984 budget, had a beneficial impact on revenue.

A further avenue of growth has been our successful leasing subsidiaries, where the value of leases signed this year increased significantly over 1984.

The increased profit growth over revenue experienced this year was helped by reduced manufacturing costs and a careful management of expense and other resources. These measures, amongst others, enable us to remain competitive, while providing the flexibility necessary given the rapid pace of change within the industry.

We continue to contribute significantly as a taxpayer. The current year's tax charge amounts to £213 million, representing 41 per cent of profits before tax.

The Group's balance sheet remains strong as a result of continued focus on the control of working capital. The collection of our trade debt has improved. Inventories increased to £336 million, largely as a result of business expansion.

We must, however, maintain our stocks at a manageable level, to ensure the flexibility that is required in today's environment.

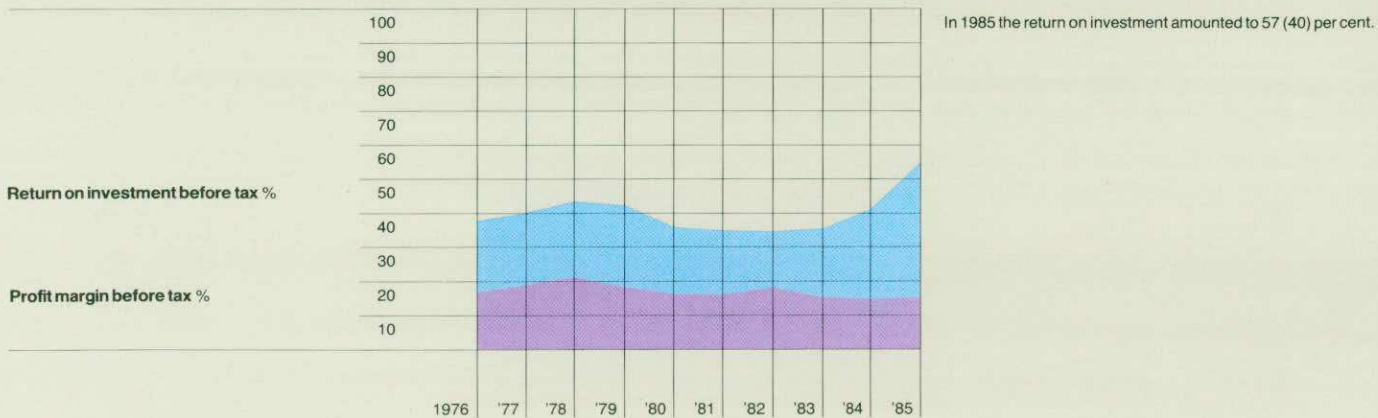
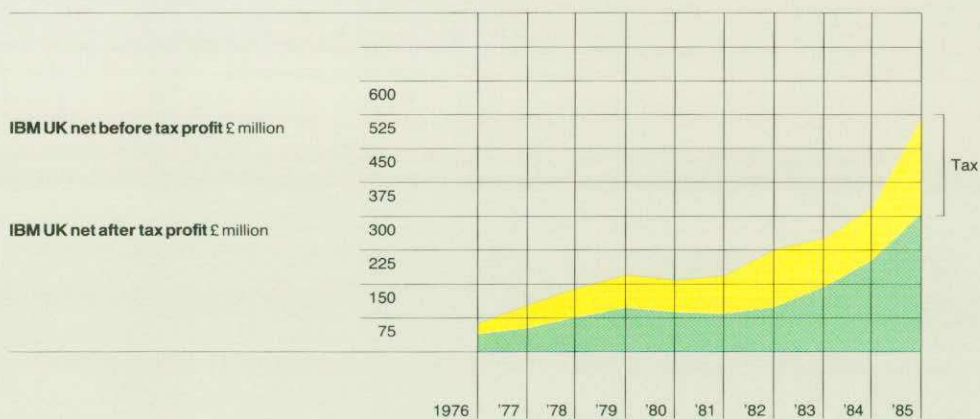
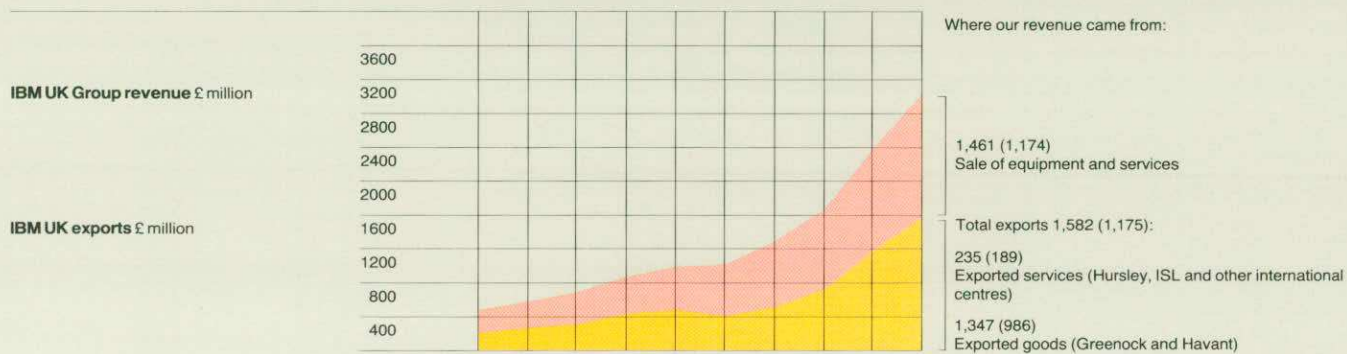
Total capital expenditure amounted to £207 million. Over one half of this was on computer equipment, networks and related manufacturing equipment designed to yield significant productivity gains in the future. Additionally, our investment in leasing subsidiaries has more than doubled.

The use that we make of our net assets as measured by the return on investment has improved to 57 per cent. This increase has been assisted by the volume of PC sales in relation to total revenue.

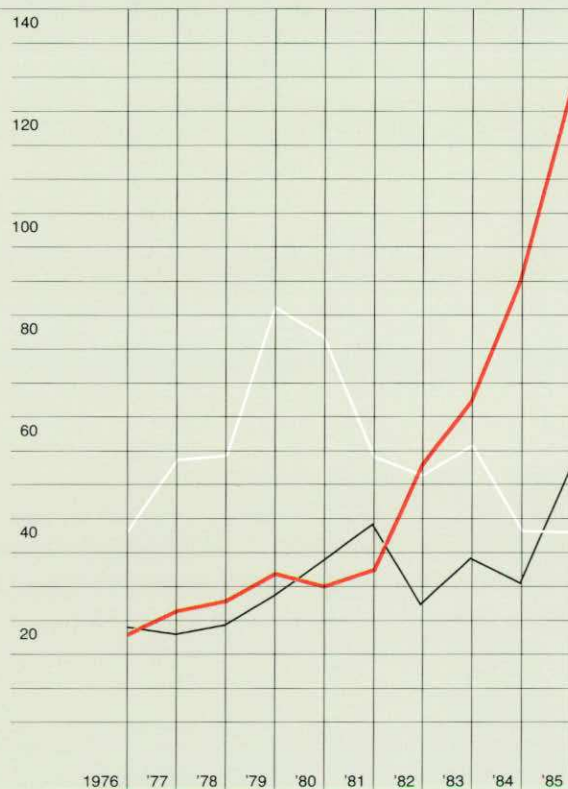
Our drive to reduce expenses and inventory levels, and collect our trade debt more quickly is fundamental to remaining competitive. At the same time this provides the funds to make yet further investments to yield productivity improvements and innovative products and services.

A B Cleaver, Chief Executive

J B Morgans, Director of Finance and Planning



Investment in capital equipment £ million



In addition to this, 98 (61) has been invested during the year in our leasing subsidiaries.

Machinery and computers

Land and buildings

Other (including fixtures / fittings and customer rentals)

Value added £ million

2,041 (1,564)

Purchased goods and services

Total: 3,043 (2,349)

The wealth we create is the difference between total revenue – £3,043m and what we buy in – £2,041m

1,002 (785)

Value added

A

B

C

D

The value added was distributed to:

384 (361)

Employees as salaries, wages and pension costs

A

Total: 1,002 (785)

213 (125)

Government as tax

B

173 (99)

Shareholders as dividend

C

232 (200)

Reinvestment in the business

D

This is the increase in the reserve set aside for replacement of buildings and equipment 97 (99) and retained profits 135 (101)

20 Consolidated Profit and Loss Account
for the year ended 31 December 1985

| Revenue | 1985 £ million | 1984 £ million |
|---|-----------------------|-----------------------|
| Export goods | 1,347 | 986 |
| Export services | 235 | 189 |
| Total exports | 1,582 | 1,175 |
| UK sales | 1,461 | 1,174 |
| Total | 3,043 | 2,349 |
| Expenditure | | |
| Costs and overheads | 2,041 | 1,564 |
| Salaries, wages and pension costs | 384 | 361 |
| Depreciation and disposal of fixed assets | 97 | 99 |
| Total | 2,522 | 2,024 |
| Profit before taxation | 521 | 325 |
| Taxation | 213 | 125 |
| Profit after taxation | 308 | 200 |
| Dividend | 173 | 99 |
| Retained profit | 135 | 101 |
| Add reserves brought forward | 462 | 435 |
| Less prior year's taxation adjustment | 0 | 74 |
| Reserves carried forward | 597 | 462 |

Source and Application of Funds
for the year ended 31 December 1985

| Source of funds | 1985 £ million | 1984 £ million |
|---|-----------------------|-----------------------|
| Profit before taxation | 521 | 325 |
| Items not involving the movement of funds | 90 | 109 |
| Long term loans | 3 | 0 |
| | 614 | 434 |
| Application of funds | | |
| Dividend paid | 134 | 99 |
| Tax paid | 134 | 135 |
| Additions to fixed assets and investments | 304 | 210 |
| | 572 | 444 |
| Movement in working capital | 42 | (10) |

**Consolidated Balance Sheet
at 31 December 1985**

| | 1985 £ million | 1984 £ million |
|----------------------------------|-----------------------|-----------------------|
| Fixed assets | | |
| Land and buildings | 217 | 183 |
| Other fixed assets | 419 | 269 |
| | <hr/> 636 | <hr/> 452 |
| Current assets | | |
| Stocks and work in progress | 336 | 294 |
| Debtors and prepayments | 303 | 282 |
| IBM Corporation and subsidiaries | 89 | 0 |
| Cash and short-term deposits | 75 | 108 |
| | <hr/> 803 | <hr/> 684 |
| Current liabilities | | |
| Creditors and accrued charges | 334 | 218 |
| Tax due | 197 | 109 |
| | <hr/> 531 | <hr/> 327 |
| Net current assets | <hr/> 272 | <hr/> 357 |
| Fixed and net current assets | 908 | 809 |
| Long term liabilities | 171 | 207 |
| Net assets | <hr/> 737 | <hr/> 602 |
| Funded by | | |
| Share capital | 140 | 140 |
| Reserves | 597 | 462 |
| | <hr/> 737 | <hr/> 602 |

IBM



Employees: A stimulating environment

22 IBM's partnership with its employees can be viewed in two ways: financial – the pay and benefits that IBM provides for the time, skill and effort that employees contribute; and social – the provision of a job and career, of companionship in the workplace, and a stimulating, yet caring, environment.

Recruitment

During 1985, IBM recruited almost 1,800 new employees, a net gain to the company of over 1,300, and the highest level of recruitment for over ten years. 420 graduates were brought into the company, our highest-ever number in one year. In the last two years our headcount has grown by 17 per cent.

International assignments

Employees may go on assignments to other IBM national companies in various parts of the world, for up to three years. This transfer of skills and expertise benefits both the home company and the host. At the end of 1985, 513 IBM UK employees were on assignment to other countries. The number in the UK from abroad was 402, most of whom were engaged on work in support of IBM companies overseas.

Of the total of assignees into the UK, 215, that is 62 per cent were working in the international centres, which are shared by groups of IBM national subsidiaries in Europe.

Awards

There are several award programmes designed to reward employees who contribute to the company's business performance. Such awards are given to employees who make a special contribution to the company.

In 1985, the following awards were made:

| | |
|-----------------------------------|-------------|
| Special contribution | 1673 (1566) |
| Exceptional achievement | 163 (125) |
| Outstanding technical achievement | 3 (25) |
| Outstanding innovation | 4 (3) |

The outstanding innovation award represents the highest technical achievement award in IBM.

Suggestion programme

The company welcomes constructive ideas that improve our products and services, that result in cost savings or productivity benefits, or that promote better or safer working conditions. The suggestion programme is open to all employees, and cash awards are made, except where the suggestion falls under the direct job responsibilities of the employee concerned.

In 1985, the number of suggestions received was 4,624, and the total savings achieved was £864,000 – an increase of 74 per cent over 1984, and the highest figure ever. During the year, 902 suggestions were evaluated for awards totalling over £216,000.



Willie Dinning of IBM's Greenock Manufacturing Plant received £18,000 in the Employee Suggestion Award Programme. His idea avoids duplication in the labelling of IBM Personal Computers.

Education

IBM encourages its employees to pursue qualifications in further education, preferably career-related.

Tuition Support

Whilst skills and job training are considered to be a departmental responsibility, some employees independently attend external education courses, for example to acquire professional qualifications relevant to their career development. Employees who do so may claim tuition support from IBM, which pays tuition fees to the educational establishment. In 1985, IBM supported tuition in 549 such cases.

Success Awards

The company also congratulates employees who achieve qualifications in their own time, even when outside their formal career aspirations. 130 Examination Success Awards were presented to employees in 1985, in recognition of qualifications achieved.

Equal Opportunity

Measurement of the company's progress in the employment and career development of women is made by regular review of percentages of women among all employees.

In 1985 women held 19.4 (18.5) per cent of all jobs and were 4.2 (3.6) per cent of managers, 14.7 (12.9) per cent of professional employees, 34.4 (32.3) per cent of administration and technical employees, and 28.3 per cent of new graduate hires.

Disabled employees:

There are 100 employees who are registered as disabled. Because registration is voluntary, the total number of disabled employees is not known. However, a further 63 employees have informed IBM of a disability.

Speak Up! and Open Door

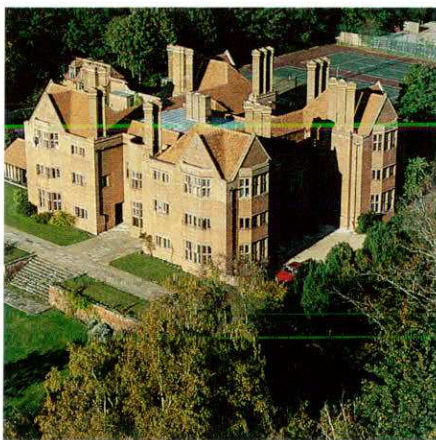
IBM's employee relations policy centres on the relationship the employee has with his or her first line manager. Sometimes concerns arise which cannot be solved at this level, and there are two appeals procedures which may be used:

Speak Up!

Speak Up! is a programme which enables an employee, in strict confidence, to seek clarification about any business-related subject, and to receive a considered written reply from senior management.

In 1985 a total of 872 Speak Up! letters was received, a marginal decrease from 1984 (878). In the case of 200 letters (23 per cent), management took some action as a result of receiving the letter.

Two subjects accounted for almost a third of all letters. 186 letters were received on the subject of office administration and procedures, and 82 on the working environment.



New Place, at Shedfield, Hampshire is IBM's new Administration and General Education Centre. Employees attend job and skills training courses in this 1904 mansion designed by Sir Edwin Lutyens.



The Fit for Work Award was presented to the Greenock Manufacturing Plant in recognition of IBM's achievements in employing disabled people.

Open Door

The Open Door procedure allows an employee to appeal against a manager's decision. Cases are usually resolved at middle or senior management level, but appeals may, and sometimes do, reach the office of the Chief Executive, IBM UK. The very highest point of appeal is the Chairman of the IBM Corporation.

In 1985, 23 (19) cases reached the office of the Chairman and Chief Executive, IBM UK, or higher:

The cases concerned:

| | |
|----------------------------|---|
| Advancement/Promotion | 4 |
| Employee/Manager relations | 4 |
| Suggestion Plan | 3 |
| Policies/Practices | 2 |
| Pay/Compensation | 2 |
| Present Assignment | 2 |
| Behaviour of others | 2 |
| Other | 4 |

Outcome:

| | |
|-------------------------|----|
| Appeal upheld | 3 |
| Appeal partially upheld | 3 |
| Not upheld | 13 |
| Pending | 4 |

Opinion Surveys

Opinion Surveys covering all employees are conducted every two years. Last year employees at Hursley Laboratory, in Entry Systems Europe and in Manufacturing were invited to participate. Manufacturing achieved a 99 per cent participation rate. The results were consistently high, particularly the responses to the questions on quality, customer service and pursuit of excellence.

The Manufacturing results also show improvements arising from the country action plans put in place after the previous survey, reflecting the amount of management attention given to the plans.

Length of Service

The average length of service was 11 years 4 months (11 years 5 months).

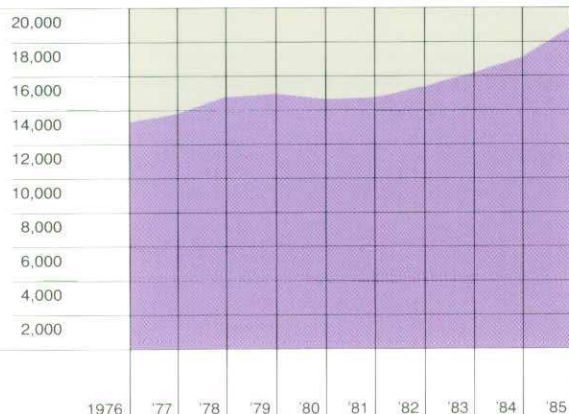
| | |
|---------------|----------|
| Up to 5 years | 29 (26)% |
| 6-10 years | 18 (22)% |
| 11-15 years | 21 (23)% |
| Over 16 years | 32 (29)% |

Staff Turnover

Annual turnover for the company stood at 2.7 (2.7) per cent.

IBM UK employee growth

(based on year-end figures)



The 1985 figure (18,798) represents the number of employees who have a permanent contract of employment. Included are:

17,772 full-time permanent employees based in the UK
 513 British employees on assignment overseas
 220 deemed inactive – eg. secondment, maternity leave
 293 permanent part-time employees.

| | | | |
|--|---------------|------------------------------|---|
| Employee population % (based on year-end figures) | 37* (38) | Marketing and Services | <p>* The Marketing and Services figure includes the people who work for the UK-based international centres.</p> <p>Total: 18,798 (17,506)</p> |
| | 27 (27) | Manufacturing | |
| | 22 (20) | Administration and General | |
| | 9 (10) | Laboratories | |
| | 5 (5) | Information Services Limited | |
| Age of employees % | 1 (1) | Under 20 | <p>The average age of employees was 37 years 5 months (37 years 7 months).</p> |
| | 29 (26) | 21-30 | |
| | 34 (38) | 31-40 | |
| | 26 (25) | 41-50 | |
| | 9 (9) | 51-60 | |
| | 1 (1) | Over 60 | |
| Employee earnings | 4,047 (4,035) | Under £10,000 | <p>Employee earnings statistics are based on the average number throughout the year (permanent or temporary) who were involved in UK-based activity.</p> <p>Salaries, wages and pension costs rose by 13% in 1985. This increase includes adjustment for the exceptional payment relating to enhancement of benefits, made to the pension fund in 1984.</p> |
| | 9,223 (9,249) | £10,000 – £20,000 | |
| | 3,987 (2,895) | £20,000 – £30,000 | |
| | 1,035 (693) | £30,000 – £40,000 | |
| | 302 (148) | £40,000 – £50,000 | |
| | 123 (52) | Above £50,000 | |
| Graduates recruited | 205 (172) | Marketing and Services | Total: 420 (363) |
| | 31 (28) | Manufacturing | |
| | 91 (71) | Administration and General | |
| | 44 (48) | Laboratories | |
| | 49 (44) | Information Services Limited | |
| Student employment | 679 (537) | Industrial trainees | <p>These are the highest totals in each category during the year, and together they represent a 15% increase over the 1984 figure.</p> <p>The Youth Training Scheme placements for 1985 are excluded. Information of IBM's support to YTS appears in the Community report.</p> <p>Total: 1,410 (1,231)</p> |
| | 276 (293) | Vacation students | |
| | 251 (189) | Sponsored students | |
| | 131 (162) | Pre-university students | |
| | 73 (50) | Apprentices | |



The Community: Enterprise and education

During 1985 IBM remained committed to the cause of good corporate citizenship through long-term, planned and carefully implemented community support programmes, embracing education, job creation, sponsorship and secondment of IBM employees.

Key elements of our support for the community were:

Enterprise Agencies

The maintenance of existing jobs and the creation of new posts through the Enterprise Agency movement continues to flourish. These partnerships, now totalling over 200, between business, local authorities, the voluntary sector and others, created 56,000, or 16.5 per cent of all new jobs in 1984. Private and Public Sector support for all agencies is

now placed at £21 million compared to £12.5 million in 1984.

IBM supports Business in the Community (BIC) and ScotBIC, and is directly involved in the Scottish Enterprise Foundation, Glasgow Opportunities and Warwickshire Enterprise Agency, and a further 20 or so agencies, including Sheffield, Croydon, Trafford, Aberdeen and Liverpool. Cash donations to Enterprise Agencies are always linked to employee involvement.

The Graduate Enterprise scheme at Stirling University continues to flourish, introducing the spirit of enterprise to all of Scotland's university and polytechnic graduates. IBM has helped to sponsor similar schemes at Durham University Business School, in Wales and in Northern Ireland.

Secondments

Since IBM UK's first secondment in the early 1970s, 150 men and women have participated full-time in a wide range of projects benefiting society. Last year saw IBM's Director of Personnel and Corporate Affairs take up a 3-year secondment as the first Personnel Director of the National Health Service. His brief is to help improve the general management performance within the service. A similar task has been taken up by another IBM secondee, who has joined the Prime Minister's Efficiency Unit, which is concerned with improving efficiency throughout the Civil Service.

At any time, about 26 people were on secondment to organisations involved in work creation, education for working life, helping the disabled and the Third World.

Support to education

Many IBM locations have increased their involvement with schools, through careers evenings, visits by children, mock interviews and opportunities for work experience. Twinning with schools is expanding, and there has been support for in-service teacher training in industrial liaison. Some 150 employees

now participate in conferences organised by the Industrial Society and the Careers Research and Advisory Council.

The IBM Schools and Colleges Computer Information Service has continued to provide materials and support to information technology across the curriculum.

In the last 18 months 180 IBM Personal Computers, together with appropriate support, have been donated to 40 schools, from small primary and special schools to large secondary comprehensive schools and sixth form colleges.

Charity

In the Charities' Aid Foundation's publication 'Charity Statistics', IBM ranked third among UK companies (fifth in 1984) in the value of its charitable contributions. The size and spread of the involvement requires efficient administration of programmes in all areas of corporate social responsibility. The IBM United Kingdom Trust is a key element in this.

Expenditure

IBM's total corporate responsibility expenditure for 1985 stood at £3.7 million, a 30 per cent increase on 1984. This included donations by the IBM United Kingdom Trust.

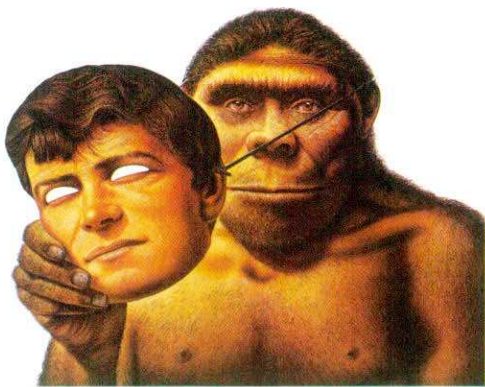
Sponsorship

IBM sponsored two major exhibitions in London in 1985. The Renoir Exhibition at the Hayward Gallery attracted some 365,000 visitors in 3 months. 'The Human Story' at the Commonwealth Institute was opened in November by Her Majesty the Queen.

IBM sponsored some thirty cultural events including a new production for Ballet Rambert and the National Theatre's education workshop production of 'Hamlet'.

Community Programmes

Over 20 IBM volunteers helped at the Stoke Mandeville games for paraplegics,



'The Human Story' exhibition tells the evolution of man over the last 35 million years.

an annual event that has been supported by IBM for many years. IBM made its single largest contribution ever in Northern Ireland, when a System/34 computer with relevant software was donated to the Quest Information Technology Centre which trains over 100 unemployed young people each year in basic computing and electronics.

Support has been provided to the development of a pilot scheme in Sunderland, the Prince of Wales Community Venture. The aim is to enable young people to enter a one-year programme of organised community work.

Environment

IBM UK has supported the Groundwork Foundation and the newly-formed UK Centre for Economic and Environmental Development (CEED), which promotes

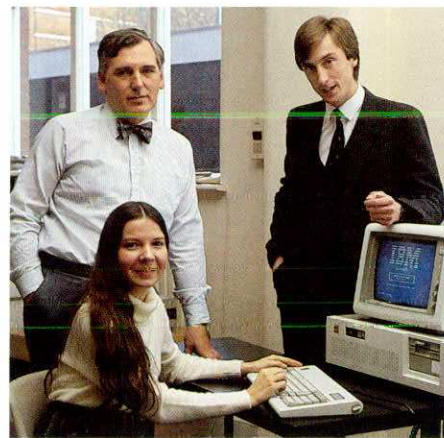
the aims of the World Conservation strategy.

Higher Education

Through the IBM Institute, sponsorship is provided for a series of educational projects in university and polytechnic departments. Projects already underway include one with Cambridge University Engineering Department, and another, involving the teaching of advanced industrial process control techniques, at the Chemical Engineering Department of Imperial College, London. In 1985, a third project was started, at the Manchester Business School. The purpose is to integrate modern business and management computing techniques into the School's MBA programmes.

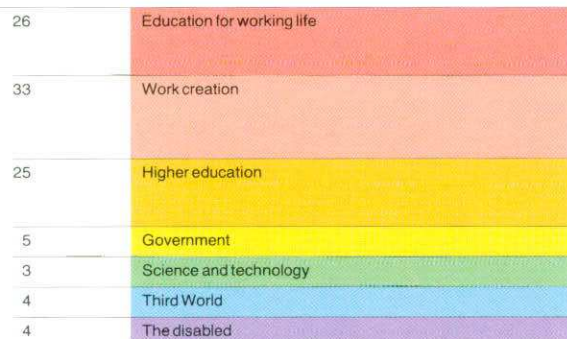
IBM has also donated a number of IBM PCs to the Computing Teaching Centre at

Oxford, together with some programmer support. This network will be used for the teaching of arts and humanities students, with initial development work concentrating on economics and philosophy within the University's PPE course. The IBM Information Technology Fellow, recently seconded to Somerville College, Oxford, will also contribute to this course.



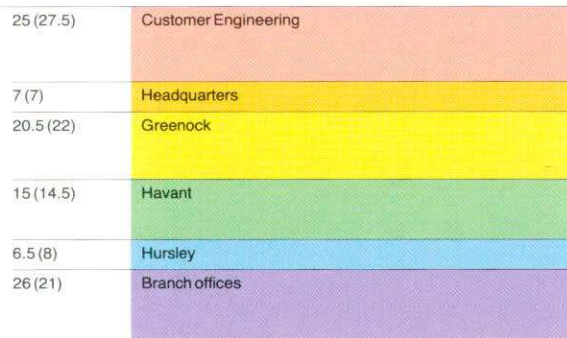
The Computing Teaching Centre at Oxford.

Pupils at Priestnall Girls' School, Stockport, use an IBM Personal Computer in class projects. The PC is linked to an IBM 4300 computer at Stockport Town Hall, and its computing power is used for a wide variety of projects spanning the school curriculum. Priestnall is one of 40 schools participating in IBM's PC for schools programme.

Current secondments %

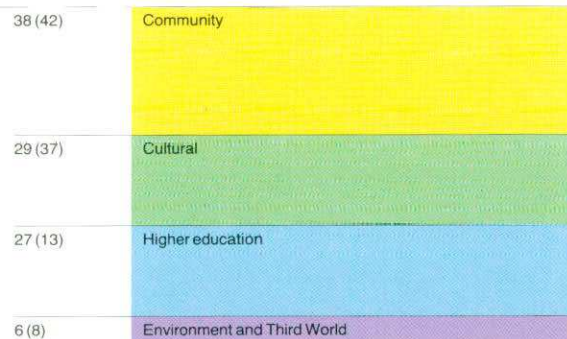
Number of organisations helped: 32 (30)

Total number of secondees: 39 (37)

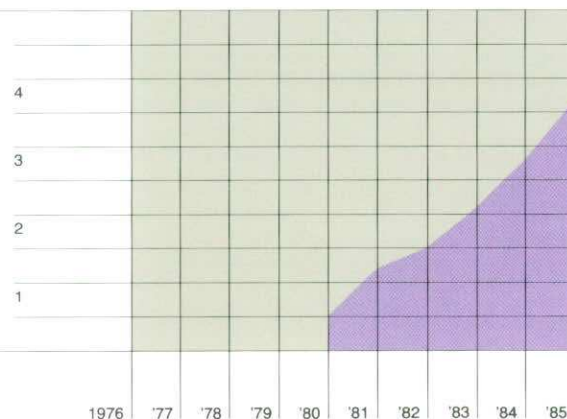
Youth Training Scheme trainees during 1985 %

We continue with similar numbers to 1984, but it is encouraging to note that over 90 per cent of the trainees obtain a job, either before they leave us, or within 2 months of completing this scheme.

Total number of YTS employees: 229 (205)

Cash contributions by type %

Cash contributions include donations by the IBM United Kingdom Trust.

Total corporate contributions £ million

These amounts include the value of the secondment programme, Scientific Centre projects, and donations for education, cultural and social welfare activities (including contributions by the IBM United Kingdom Trust).

Organisation

In November IBM announced a major change in its Marketing and Services organisation, effective from 1 January 1986. The operation was divided into geographic regions. Three regional general managers now report to the Director of Marketing and Services, and each region has its own sales representatives, systems engineers, customer engineers, administrators and staff functions.

With the support of the resident directors, regional general managers control most aspects of IBM's relationship with its customers, and the community, within their regions. This means that IBM has a clear focal point in each of the geographic regions, which will operate as autonomously as possible.

At the same time, IBM UK's decision-making is streamlined. A new Management Committee oversees business operations and provides strategic direction. Much of the decision-making authority on day-to-day business for Marketing and Services is delegated to an Operations Committee.

The three regions in the UK: Central and Northern; Southern; London and the South East.



Development

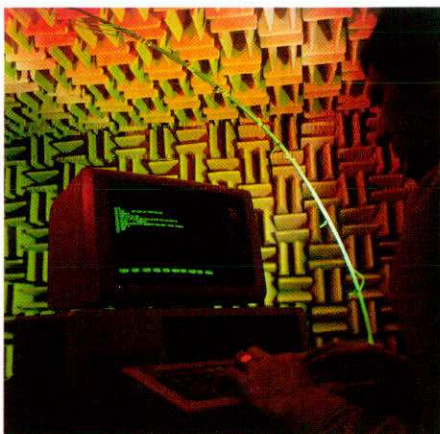
The IBM United Kingdom Laboratory is responsible for communications programming products, low cost disk storage, graphics products – displays and software, and advanced display technology.

1985 was a highly successful year. Hursley saw the announcement and shipment of a number of new products, plus continuing success for some longer-established products.

The 62PC disk storage device, first shipped to customers in 1979, reached its 300,000th shipment in March 1985.

In June came the announcement of the Hursley-developed Customer Information Control System (CICS) Release 1.7. The release, which gives improved system availability to users of large systems, helps support a growing range of applications and bigger terminal networks. The follow-up announcement, also in June, of the CICS/Conversational Monitor System, led to improved testing facilities for CICS applications programs.

The anechoic chamber at Hursley where IBM products are tested for sound levels.

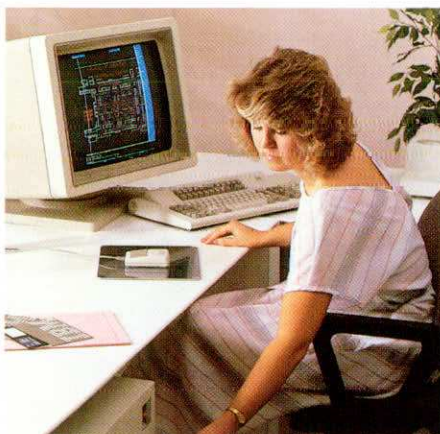


Workstations

Two new products developed in Hursley in 1985, the 3270 PC AT/G and the 3270 PC AT/GX, provided significantly advanced technical facilities to customers, particularly in the area of business graphics. When these products are combined with the Hursley-developed Graphical Data Display Manager (GDDM), graphics facilities previously available only to large host computers are extended to individual workstations. Users can now create and manipulate complex text, image and graphics displays using such programming packages as the 3270 PC Colour Graphics Charting Licensed Program (CGXC), which was announced worldwide in November.

In December, IBM announced worldwide the 3270 Personal Computer AT/GX 3277GA Emulator, expanding even further the range of applications available to AT and GX users.

The IBM 3270 PC AT/GX is one of the new workstations developed by the Hursley Laboratory.



Cranfield Institute

Education and research in Computer Integrated Manufacturing is the objective of the new CIM Institute, which IBM is sponsoring at the Cranfield Institute of Technology. From its educational and research projects, the Institute is expected to earn income which will enable it to make a permanent, continuing contribution to manufacturing industry in the UK.

Facilities

In December Hursley's 'F' Block was officially opened. Constructed of glass-reinforced plastic chosen for its transparency to radio waves, the block contains radio frequency interference testing facilities and an anechoic chamber with sound-absorbing walls.

Robotic Assembly

IBM started a new project in partnership with Cambridge University Engineering Department. The joint project studies the application of artificial intelligence and expert systems to robotic assembly.

Scientific Centre

The IBM UK Scientific Centre in Winchester continued to expand its links with scientific researchers in industry and the academic community, through joint research aimed at making computer systems easier to work with. The Centre's work focuses on three key areas: graphics, image processing and speech synthesis.

Work continued on a project under the Alvey programme, a Government initiative to examine and research the future needs of the IT industry. IBM is collaborating in the programme with GEC and the universities of Edinburgh and Sheffield. The project, which concerns image recognition, successfully passed its first annual review in October.

The Centre sponsored a two-day conference in December on behalf of the Institute of Acoustics, bringing together over 50 experts in speech.

A press conference in June and other external activities throughout the year resulted in a number of articles in the national and popular scientific press.

Manufacturing

Havant

IBM's Plant at Havant manufactures medium-sized processors for the IBM 4300 and 8100 range of computers, disk files, communications controllers, finance industry systems, and cash-issuing and teller-assist terminals for the banking industry. The Plant ships most of its output worldwide.

Havant Plant began producing hard disk units in mid-1985. The new 'clean room' was installed for the purpose, and more than 70 new employees were hired to work on the disk units. Worldwide supply of disk files also began in 1985. Another installation in 1985 was a thermal chamber, which tests finished products in extremes of temperature.

Open Day

Employees and their families, more than 9,000 people in total, attended an Open Day at Havant Plant in October.

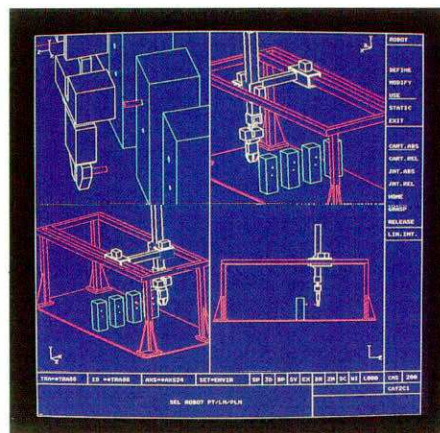
Japan

A team from IBM Japan visited IBM in Havant to find out why the British Plant can manufacture goods at a lower cost than Japan. The Fujisawa Plant now buys parts from Havant Plant.

In October, the Duke of Gloucester toured the Hursley Laboratory, accompanied by Sir Edwin Nixon and Laboratory Director Jack Hockley.

Four views of an IBM 7565 Robotic System displayed on an IBM 5080 Display Terminal, generated by a CATIA program. This is part of the robotic assembly project at Cambridge.

The new thermal chamber installed at Havant Plant is used to test products under extremes of temperature.



European Quality Award

Havant Plant won the first-ever IBM European Quality Achievement Award for manufacturing, for its 'outstanding' quality programme, and for winning the 1984 British Quality Award.

China

For the first time in several years, products built in Havant were shipped to China.

Quality Awards

Both Havant and Greenock Plant Directors give quarterly awards for plant employees. The Havant award is given to departments demonstrating outstanding team effort. Greenock's is awarded to quality circles for outstanding achievements during each quarter.

Greenock

The Manufacturing Plant at Greenock makes keyboards, for which production reached the million mark during the year and information display systems. Probably its best-known product is the IBM Personal Computer, which is exported to 40 countries. Two new models of the PC, developed at Hursley, went into production at Greenock last year.

Visitors

Greenock welcomed over 6,000 visitors during 1985.

Space

Manufacturing space of 300,000 square feet was added at Greenock. One module of 60,000 square feet is already in production, and the remaining four will become operational during 1986.

Fit for Work Award

In 1985 the Plant received the Manpower Services Commission's 'Fit for Work Award' for the second time. The award recognises companies' achievements in employing disabled people and in the support and facilities offered to them. Along with IBM's own registered disabled employees, the Greenock Plant supplies work for 80 disabled people in sheltered workshops throughout Scotland.

Suggestion Award

IBM's suggestion award scheme encourages employees to make suggestions which will reduce costs and improve quality. The award record was broken in 1985 by Willie Dinning, whose suggestion, involving cutting out duplication in labelling IBM PCs, netted him £18,000.

Marketing

Announcements

In 1985, announcements of IBM's new products or modifications to existing products totalled almost 1,000. To keep its customers and its own marketing people up-to-date, IBM introduced a fortnightly publication summarising the announcements. Its distribution already exceeds 22,000.

Early in the year, IBM strengthened its powerful 308X computers with a number of enhancements, and added two top-of-the-line processors, the 3090 Model 200 and the Model 400.

The 'Desktop 36' brought the power of the established IBM System/36 computer to small businesses, by allowing connection of several workstations, including PCs, to a small desktop computer.

COPICS Master Production Schedule Planning (MPSP), was announced, an on-line computer program designed to help production controllers establish and maintain realistic and efficient master schedules.

Topview, a new PC software package announced in May 1985, provides

Representatives of the four winning departments in 1985 of the Plant Director's Award at Havant: (left to right) Gordon Wilson, Ray Fudge, Larry Phipps and Paul Balkwill.

Stringent quality control is a feature of the production of the IBM Personal Computer at Greenock. Details of any faults in commodities are fed back to the supplier concerned, leading to higher quality in commodities.

The Greenock Plant produced its millionth keyboard last year.



'multi-tasking', the ability to run several programs concurrently, and 'windowing', allowing screen segments which display the status of different program functions.

July saw the announcement of the IBM System/88 fault-tolerant computer system, for high-availability applications such as point-of-sale or continuous flow manufacturing.

Actionwriter, a low-cost, compact, electronic, transportable typewriter, was announced by IBM in September. The typewriter has an optional Personal Computer link.

The IBM 3090 Vector Facility, announced in the Autumn, enables complex mathematical calculations to run between 1.5 and 3 times as fast as before. The product is seen as a major breakthrough benefiting many engineering and scientific applications. Later in the year, the IBM Token-Ring Network was announced: a high-speed and efficient communications network for sharing information locally.

Telecommunications

A joint project took place in 1985 between IBM Telecommunications Strategy and Plans department, and British Telecom Research Laboratories, to assess and improve the forthcoming standards for the Integrated Services Digital Network (ISDN). Its culmination was a series of demonstrations at IBM's South Bank location, when directors of BT and IBM, together with senior officials from user groups and the Department of Trade and Industry, saw the simultaneous digital transmission of both voice and data between IBM equipment in South Bank and a special BT digital exchange in Ipswich.

The results of the exercise were fed to the European committees involved in establishing ISDN. They will contribute towards acceptance of a single, international standard, which will improve international networking and lead to lower product costs for users.

VANS

In 1985 IBM became involved in pilot services for two Value-Added Network Systems (VANS) projects. The first links eight leading building societies, enabling them to share cash-dispenser systems. The second project is UNIDEX, which provides direct links between insurance brokers and insurance companies.

Another initiative is a nationwide cashless shopping facility known as Electronic Fund Transfer at Point of Sale (EFT-POS). The Committee of London and Scottish Clearing Bankers announced early in 1986 that a national scheme would be going ahead, with co-operation from IBM and British Telecom.

Shops

In January 1986, as a result of the expansion of its Authorised Dealer network, together with improvements in branch office coverage, IBM closed all but one of its shops and absorbed its retail facilities into branch operations.

ROLM

Late in 1984 the ROLM Corporation became a subsidiary of the IBM Corporation and in 1985 IBM UK announced its intention to market and support the ROLM 8000 Automatic Call Distribution system in the UK. The first system was installed in a leading finance house in October.

Industrial conference

The IBM Industrial Conference took place in Bournemouth in July 1985. Its objective was 'to plot a path from the computer-aided systems of today to the fully computer-integrated systems now emerging'. 190 executives from industry attended the conference, which was organised by the IBM Engineering Scientific and Industrial Centre.

Warbrook

In January, IBM opened a new residential sales training centre at Warbrook, near Reading.

Components are supplied to the Greenock Manufacturing Plant either in tape reels or in stick feeders. The MPS 500 placement machine assembles printed circuit boards by placing components such as resistors and capacitors onto the boards. Each machine can place 3,800 components in position in an hour from the reels and feeders.



The announcements summary is published every fortnight.



Quality

1985 has seen a significant increase in involvement in quality improvement activities. At the end of the year there were 350 active quality circles and 1,500 active quality improvement projects operating in IBM UK. IBM's emphasis on quality meant that by the end of 1985, over 1,200 managers and professionals had attended a two-day course on statistical quality control techniques.

IBM's internal business processes have also been the subject of considerable attention. A major new initiative has been launched to rationalise and improve these processes. The initiative is headed by a new senior appointment, and is an integral part of IBM's quality thrust. In essence, this new concept, known as business process management, establishes ownership of all the key business processes, many of which cross the traditional organisational boundaries within the company's management structure. Through the exercise of

process ownership, we expect to identify and implement those improvements which will simplify and rationalise the way in which we administer our business. The main operational processes within Marketing and Services have been the priority objective in 1985. 1986 will see the remaining processes defined, together with a sharpening of focus on improvement opportunities in all process areas.

Honours

Sir Edwin Nixon was named as 1985 Hambro Businessman of the Year. He was described as 'a man of sustained vision and determination whose leadership has placed his company at the forefront of the British information technology industry.'

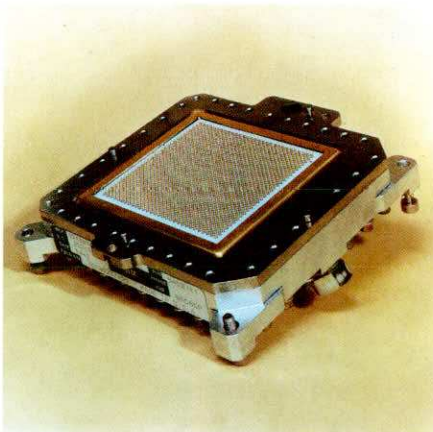
IBM UK was named as a company that had created jobs in the UK and increased its exports from the manufacturing plants. The award said the company had become 'an integral and significant part of the nation, a tangible reflection of which is the growing involvement of IBM executives in British government bodies working for the future of Britain's vital IT industry.'

The Institution of Production Engineers also honoured Sir Edwin who received its annual award for an outstanding contribution to the advancement of production engineering or manufacturing management.

The thermal conduction module, the heart of the IBM 3090 processor. Development of smaller components in modular form has led to faster, more reliable processing.

Topview, a new PC software package.

Sir Edwin Nixon receiving the 1985 Hambro Businessman of the Year Award from Sir James Cleminson, Chairman, Reckitt & Colman plc.



IBM in Europe

Worldwide, IBM splits its operations into three: USA; AFE (Americas and Far East); and EMEA (Europe, Middle East and Africa), which includes the United Kingdom.

EMEA has almost 113,000 employees, mainly nationals of the country in which they are employed. IBM's practice of full employment means that there have been no redundancies in over 60 years in Europe, and new jobs are continually being created – in 1985 we employed over 7,000 new people.

Wherever possible IBM's policy in procurement is to purchase goods and services locally. In 1985 our procurement bill for Europe came to \$3.5 billion, involving 40,000 suppliers.

Corporate income taxes in 1985 came to \$1.7 billion for the EMEA countries.

Seven European countries have between them manufacturing plants employing almost 32,000 people.

IBM has nine Research and Development establishments, spread across seven countries in Europe. Altogether, these employ 5,000 people. New product development comes high on the list of activities, together with manufacturing processes and computer applications for IBM's worldwide product line.

There are ten Scientific Centres in Europe, including a new one in Bergen, Norway. The centres concentrate on advanced computer applications in areas of specific national need, such as agriculture. IBM has international education centres, catering for both internal and external audiences.

The total Corporate responsibility contribution for EMEA in 1985 was around \$30 million.

International Centres

IBM United Kingdom has many links with Europe, and 11 of its 35 International Centres are located in the UK.

These Centres cover marketing support in a range of business, scientific and academic applications.

The International Airlines Support Centre is located near Heathrow Airport, and acts in partnership with IBM account teams in all five continents. The installation of IBM systems and software enables national airlines to keep pace with traffic growth, and the Centre maintains close contacts with IATA, the airlines trade association. The achievements of the Centre in developing high-performance software monitors, in widely-used IBM systems environments such as the Airline Control System/MVS/XA announced in 1985, should eventually benefit other industry groups, notably banking and financial institutions, in their increasing need for high availability and high-performance systems to reach their end-users.

The Nordic Marketing Centre in London offers facilities to IBM marketing divisions in Norway, Sweden, Denmark, Finland and Iceland. It is primarily concerned with marketing strategies, programmes, events, and announcements, providing direct support to account teams, and also working directly with the UK on certain joint projects. The Centre is staffed by IBM employees from the UK and the Nordic countries.

Greenford, Middlesex, is home to one recently established International Centre, with responsibility for 'high-availability' systems that run continuously, such as automatic cash dispensers, hospital patient monitoring and telephone subscriber services. In addition to support to the marketing groups, EMEA Complex Systems Support runs events which in 1985 included a major seminar. It also provides demonstration and briefing facilities.

Other International Centres include the Finance Marketing Support Centre, whose aim is to meet the needs of a rapidly changing financial services industry.

ISL

IBM Information Services Limited (ISL), a wholly-owned subsidiary of IBM UK, is the largest of the international centres. Its services include a networking service, computing services and international software, to support users world-wide.

Over the past five years ISL has developed the European Materials Logistics System (EMLS), one of the largest manufacturing parts generation systems in the world. The system went into live operation in August 1985, at which time IBM's European plants transferred their entire parts planning business to EMLS, which is expected to achieve large savings by reducing inventory and increasing productivity.

The drive for improved levels of productivity, innovation and quality continues unabated. One of ISL's central data bases, the Remote Technical Assistance and Information Network (RETAIN), achieved a record of 237 days of uninterrupted service in 1985 for IBM's engineers, who use the service all over the world.

Customer Engineering Reference and Education System (CERES) was launched in January 1985 and achieved 115 days of 100 per cent service.

The following information is extracted from the 1985 Annual Report of IBM Corporation:

EMEA

Revenue: \$14,062 million
Profit before tax: \$3,759 million
Profit after tax: \$2,104 million.

Corporate

Revenue: \$50,056 million
Profit before tax: \$11,619 million
Profit after tax: \$6,555 million.

IBM in the UK

During 1985, IBM UK announced further expansion in the office, computer and manufacturing space which represents a 20 per cent growth in its existing building area.

In April, the education centre at St John's Wood was re-opened after a complete refit. Three new leases at Basingstoke doubled the space occupied and in total 2,000 employees will be accommodated in the town. At Warwick, a 175,000 square feet expansion, to include computer rooms and offices, is underway for occupation in 1986. The first of five additional manufacturing modules at Greenock is complete, whilst at Hursley a further 107,000 square feet of space was handed over to the Laboratories in October.

In planning for future growth, perhaps the most significant decision taken in 1985 was to approach the South West Thames Regional Health Authority with proposals for the Brookwood Hospital site. If these proposals go forward, the site will be developed for a new marketing support centre.

IBM presently occupies over 60 locations, including offices, manufacturing, distribution and storage sites, in over 30 towns and cities in the United Kingdom.



Directors

36

IBM United Kingdom Holdings Limited

Sir Edwin Nixon CBE, *Chairman**
 A B Cleaver, *Chief Executive*
 A F Green, *Secretary*
 Professor Sir James Ball, *Chairman, Legal & General plc**
 Sir Adrian Cadbury, *Chairman, Cadbury Schweppes plc**
 K V Cassani, *President, IBM Europe SA**
 The Rt Hon the Lord Chalfont PC OBE MC, *Consultant**
 J W Fairclough, *Director of Manufacturing and Development*
 J Foster, *Director of Corporate Services*
 The Rt Hon the Lord Hunt of Tanworth GCB, *Chairman, Banque Nationale de Paris**
 N Jonas, *Director of Quality and Resident Manager Programme*
 Sir John Kingman FRS, *Vice Chancellor, University of Bristol**
 J B Morgans, *Director of Finance and Planning*
 T H Osborne, *Director of Marketing and Services*
 Evelyn de Rothschild, *Chairman, N M Rothschild & Sons Limited**

* non-executive directors

Other directors within the IBM United Kingdom Holdings Group

| | |
|---|------------------------------------|
| P C Austin | P W Ll Morgan |
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| E T Burden | D Morriss |
| D M Child, | D Moxon |
| <i>Director and Deputy Group Chief Executive,</i> | J Nicoll |
| <i>National Westminster Bank plc*</i> | L H Peach |
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| J N Griffiths | I T Reynolds |
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| J Hockley | <i>Treasurer, IBM Corporation*</i> |
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| J Miller OBE | |
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Members of the Management Committee: (left to right) J B Morgans, T H Osborne, A B Cleaver, J W Fairclough, N Jonas, J Foster and A F Green.

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