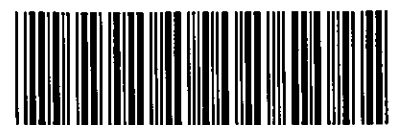


Company Registration Number 06373780

South West One Limited
Report and Financial Statements
31 December 2008

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South West One Limited
Report and Financial Statements

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South West One Limited

Company Information

For the Financial Period Ended 31 December 2008

Company Registration Number	06373780
The Board of Directors	Sir J Tidmarsh, Chairman R Little S Coles C Port G Butterworth J Granger S Humberstone
Company Secretary	E Wright (resigned 28 November 2008) I Ferguson (appointed 28 November 2008)
Registered Office	PO Box 41 North Harbour Portsmouth Hants PO6 3AU
Independent Auditor	PricewaterhouseCoopers LLP Savannah House 3 Ocean Way Ocean Village Southampton Hampshire SO14 3TJ
Bankers	National Westminster Bank Plc 69 High Street Cosham PO6 3DA
Solicitors	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA

South West One Limited

Chairman's Statement

For the Financial Period Ended 31 December 2008

I am pleased to present the financial statements of South West One Limited for its first trading period ended 31 December 2008.

South West One Limited, which was incorporated in September 2007, is a joint venture company between IBM and three public sector partners: Somerset County Council; Taunton Deane Borough Council; and Avon and Somerset Police. The purpose of the company is to provide the delivery of business processes through a shared services structure, and the transformation of existing processes and systems with the aim of transforming the face of public services in the South West of England through the delivery of better value for money for council taxpayers and improved access to services for local residents.

The company's reported revenues for the period is £57.6 million, with pre-tax losses of £2.5 million, which are in line with directors' expectations.

Throughout this period the company has been focused on the creation of the shared services infrastructure to support the contracts with our joint venture partners, Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police. This work has included the successful integration of 1,400 employees of our joint venture partners into the new shared services based organisation structure.

I would like to thank our staff and business partners for the work that they have done and for their commitment to South West One.



Sir J Tidmarsh
Chairman

16 November 2009

South West One Limited

Directors' Report

For the Financial Period Ended 31 December 2008

The directors present their annual report and the audited financial statements of the company for the 15 month period ended 31 December 2008. The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and throughout this report, the reference to the 'period ended' relates to the 15 month period ended 31 December 2008.

Principal activity

The principal activity of the company during the period has been the provision of business processes such as financial services, human resources, information technology, estates management and facilities management and procurement to its public sector joint venture partners: Somerset County Council; Taunton Deane Borough Council; and Avon and Somerset Police.

Business review

The company's financial results for the period ended 31 December 2008 are:

	£000
Revenue	57,581
Operating loss	(2,811)
Cash at bank	3,079
Net liabilities	(1,810)

The directors have not paid nor proposed any dividends for the period.

South West One Limited's principal operational activity since incorporation and commencement of trade in September 2007 has been focused on preparing and developing the organisation for a full shared services structure to support its joint venture partners in the delivery of business processes such as financial services, human resources, information technology, estates managements and facilities management and procurement. These services have been developed in line with a performance framework agreement that encompasses the three public sector partners. A separate Assistance Services Agreement has been developed between the company and IBM United Kingdom Limited which covers the provision of IBM services to the company.

Throughout this first trading period the company has delivered services to our founding partners - Somerset County Council and Taunton Deane Borough Council. Service delivery was extended to Avon and Somerset Police from June 2008 following the signing of this section of the contract. The contract with the three partners is worth £585 million over 10 years.

The framework agreement provides for the staff of the authorities undertaking functions in support of the services provided by the company to remain employed by the respective authority, and for them to be seconded across to South West One Limited. This means that they remain public employees and retain their existing terms and conditions as well as their local government pension scheme entitlement. At December 2008 the number of staff from the public sector partners now providing services through the company was circa 1,400.

The administrative expenses cover all costs in support of the company's administrative and management activities. This includes the day to day operational management and on-going support from various functions such as finance and accounting. Also included are some initial human resources and legal advice costs which were incurred during the company's set up. There has also been expenditure to develop an appropriate level of compliance and internal audit function within the company. The administrative expenses also include lease and facilities costs for the company's premises in Taunton, Somerset.

South West One Limited

Directors' Report *(continued)*

For the Financial Period Ended 31 December 2008

Business review *(continued)*

The company uses an extensive range of key performance (KPI) and service delivery indicators to measure and manage the business. The board of directors and key management regularly monitor progress of the overall service delivery strategy as well as the individual strategic elements of the contract by reference to these KPIs and service delivery indicators. In addition, the company's commercial relationship with IBM is measured via a set of partner performance indicators which generate financial penalties payable by IBM to the company if aspects of its contracted operational and transformation activities are not achieved. A summary of the performance against the key operational indicators at 31 December 2008 is shown below:

Delivery and project management

There are a number of operational KPIs which address the service delivery and project management under the contract. These cover areas including customer satisfaction, human resources, purchasing, design and print, estates management, and finance and administration. A detailed scorecard, assessing service delivery across these key operational areas is reviewed by the board on a quarterly basis. For areas where the performance does not meet or exceed the target, action plans have been implemented to address the underlying issue to achieve an above target performance. The overall results at 31 December 2008 of these KPIs are best measured with reference to our customer satisfaction and overall delivery and project management targets and were both considered to be satisfactory and in line with our expectations.

Finance and internal controls

Financial performance is monitored through monthly management accounts which include revenue, profitability, and cash collection reviews.

- Revenues for the period of £57.6 million were broadly in line with the company budgets and directors' expectations.
- Operating loss for the period of £2.8 million was larger than originally budgeted. This was driven by additional costs required to establish an appropriate internal controls function within the company to address the complexities associated with combining the processes and systems of four clients simultaneously.
- Cash collection is averaging 12 days. Debt collection is actively managed, and this result is in line with directors' expectations.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. Risks are formally reviewed by the key management and appropriate processes put in place to monitor and mitigate these where possible.

Competition

The company operates in a highly competitive market but through its unique partnership with IBM it has an ability to innovate and integrate, which sets it apart from its competition.

Customer base

The customer base is currently restricted to public sector activity in the South West of England. Future development would focus on expanding the customer base to other public sector organisations throughout the United Kingdom.

South West One Limited

Directors' Report (continued)

For the Financial Period Ended 31 December 2008

Principal risks and uncertainties (continued)

Political and economic risk

The company has been set-up with the sole purpose to provide services to its partners and other public sector agencies. Future performance could be impacted by changes in political leadership or direction within government, and through any budgetary restrictions which are imposed during down-turns in the economic cycle.

System transformation

A cross functional SAP system is being introduced during 2009/2010. The existing stand alone finance, procurement, human resources and payroll systems will be replaced by the fully integrated SAP system with an objective of implementing a joined up efficient support function. The success of the project could be impacted if the expected benefits gained through improved efficiencies and savings are not fully realised. The performance of the project is monitored closely through key performance indicators to ensure that any issues will be identified to allow remedial action plans to be put in place.

Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in market price, credit risk, liquidity risk, interest rate risk and currency risk. The company has a strong risk management programme in place aligned to the worldwide programme of the company's ultimate parent company, International Business Machines Corporation.

Price risk

The financial risk posed by external vendors is managed and controlled by IBM's central procurement function. Procurement is the only business unit in South West One which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for the company and the partners in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide IBM guidelines.

Foreign exchange risk

The activities of the company are local to the South West and foreign exchange is not considered to be a risk. The company does not use derivatives.

Credit risk

The company has in place policies that require appropriate credit checks on potential customers before sales are made and regular reviews of credit limits on existing customers are carried out.

Liquidity risk

The company maintains its finance facilities with IBM Treasury Centre in Ireland to ensure the company has sufficient available funds for operations and planned expansions. There is a letter of support in place from IBM United Kingdom Holdings Limited confirming that the company can take funding from the Treasury Centre to enable it to meet any liquidity shortfall as the Treasury Centre is ultimately funded by International Business Machines Corporation. Any borrowing is treated as short term debt finance. The company does not have any long term debt finance.

Interest rate risk

Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

South West One Limited

Directors' Report *(continued)*

For the Financial Period Ended 31 December 2008

Future developments

Existing clients

The company is committed to helping its founder partners realise their vision and their aspirations to achieve real social and economic benefits for local communities, through a series of further major transformation projects. The potential second wave of projects to deliver this is currently under discussion with the authorities.

Business growth

The company is currently in discussion with a number of authorities around the possible extension of services.

Directors

The directors who served during the period ended 31 December 2008 and up to the date of the signing of these financial statements were as follows:

<i>Name</i>	<i>Organisation</i>	
Sir J Tidmarsh (Chairman)	South West One Limited	Appointed 18 September 2008
D Greene	Somerset County Council	Appointed 29 September 2007 and resigned 22 September 2009
R Little	Somerset County Council	Appointed 22 September 2009
S Coles	Taunton Deane Borough Council	Appointed 17 January 2008
C Port	Avon and Somerset Police	Appointed 20 March 2008
G Butterworth	IBM United Kingdom Limited	Appointed 20 March 2008
J Granger	IBM United Kingdom Limited	Appointed 29 September 2007
S Humberstone	IBM United Kingdom Limited	Appointed 28 September 2007

In accordance with the company's Articles of Association, the directors are entitled to appoint alternate directors. Alternate directors have the same powers to attend, speak, and vote at meetings as the principal director. The alternate directors who served during the period ended 31 December 2008 were:

<i>Name</i>	<i>Organisation</i>	
Dr M Hamlin	Avon and Somerset Police Authority	Appointed 20 March 2008
F Smith	Taunton Deane Borough Council	Appointed 20 March 2008 to 1 April 2008

None of the directors had any interest in the contracts between South West One Limited and the joint venture partners.

Going concern

The company in its first period of accounts has made a loss of £1.8 million and has net liabilities of £1.8 million. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and that funds will be available to settle its liabilities when required. The company's immediate parent undertaking, IBM United Kingdom Holdings Limited, has confirmed its intention to support the company to enable it to meet its commitments as they fall due. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

South West One Limited

Directors' Report *(continued)*

For the Financial Period Ended 31 December 2008

Statement as to disclosure of information to auditors

In so far as the directors are aware:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

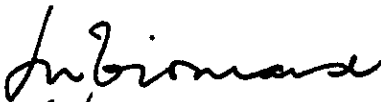
General meetings

The company has elected in pursuance of s252 of the Companies Act 1985, not to lay accounts before the members in general meeting. Members, however, may by notice in writing to the company at its registered office require that the accounts are laid before the company in general meeting.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board:



Sir J Tidmarsh
Chairman

16 November 2009

South West One Limited

Statement of Directors' Responsibilities

For the Financial Period Ended 31 December 2008

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing 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 that the financial statements comply with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 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 are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

South West One Limited

Independent Auditor's Report to the Members of South West One Limited

For the Financial Period Ended 31 December 2008

We have audited the financial statements of South West One Limited for the period ending 31 December 2008 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 consider 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.

South West One Limited

Independent Auditor's Report to the Members of South West One Limited *(continued)*

For the Financial Period Ended 31 December 2008

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss and cash flows for the period ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southampton

16 November 2009

South West One Limited

Income Statement

For the Financial Period Ended 31 December 2008

	Notes	Period ended 31 December 2008 £000
Revenue	3	57,581
Cost of sales	4	<u>(57,618)</u>
Gross loss		(37)
Administrative expenses	4	<u>(2,774)</u>
Operating loss		(2,811)
Finance costs	7	(52)
Finance income	8	<u>350</u>
Loss before tax		(2,513)
Taxation	9	<u>693</u>
Loss for the period		<u>(1,820)</u>

All operations are classified as continuing.

The notes on pages 15 to 32 form part of these financial statements.

South West One Limited

Statement of Changes in Equity

For the Financial Period Ended 31 December 2008

	Issued capital £000	Retained earnings £000	Total equity £000
Loss for the period	-	(1,820)	(1,820)
Issue of share capital	10	-	10
Balance at 31 December 2008	<u>10</u>	<u>(1,820)</u>	<u>(1,810)</u>

The notes on pages 15 to 32 form part of these financial statements.

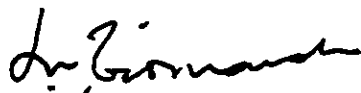
South West One Limited

Balance Sheet

As at 31 December 2008

	Notes	2008 £000
Non-current assets		
Property, plant and equipment	10	68
Deferred transition costs	11	13,052
Deferred tax assets	12	77
		<u>13,197</u>
Current assets		
Deferred transition costs	11	4,446
Inventories	13	306
Trade and other receivables	14	5,783
Cash and cash equivalents	15	3,079
		<u>13,614</u>
Total assets		26,811
Current liabilities		
Deferred income	16	(14,460)
Trade and other payables	17	(13,319)
		<u>(27,779)</u>
Non-current liabilities		
Deferred income	16	<u>(842)</u>
Total liabilities		(28,621)
Net liabilities		<u>(1,810)</u>
Equity and reserves		
Share capital	19	10
Retained earnings		(1,820)
Total equity		<u>(1,810)</u>

Approved by the Board of Directors on 16 November 2009 and signed on its behalf by:



Sir J Tidmarsh
Chairman

The notes on pages 15 to 32 form part of these financial statements.

South West One Limited

Cash Flow Statement

For the Financial Period Ended 31 December 2008

	Notes	Period ended 31 December 2008 £000
Net cash from operating activities	22	2,843
Cash flows from investing activities		
Payments to acquire property, plant and equipment		(72)
Net cash used in investing activities		(72)
Cash flows from financing activities		
Proceeds from issue of equity share capital		10
Interest received		350
Interest paid		(52)
Net cash from financing activities		<u>308</u>
Net increase in cash and cash equivalents		3,079
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents as at 31 December 2008		<u><u>3,079</u></u>

The notes on pages 15 to 32 form part of these financial statements.

South West One Limited

Notes to the Financial Statements

For the Financial Period Ended 31 December 2008

1. Basis of preparation and accounting policies

South West One Limited (or the 'company') is incorporated in Great Britain and registered in England & Wales under the Companies Act 1985. These Financial Statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. As permitted by the Companies Act 1985, the Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective and have not been applied in these financial statements;

IFRS 1	First time adoption of IFRS (amended)
IFRS 7	Reclassification of financial assets (amended)
IFRS 8	Operating Segments
IAS 1	Presentation of financial statements (amended)
IAS 23	Borrowing costs (amended)
IAS 32	Financial instruments: Presentation (amended)
IFRIC 10	Interim financial reporting and impairment
IFRIC 12	Service concession arrangements
IFRIC 18	Transfers to assets from customers

The adoption of these Standards and Interpretations in future periods is not expected to have any material impact on the company's financial statements in the period of initial application.

The financial statements have been prepared on a going concern basis. The functional currency of the financial statements is British Pounds Sterling (£).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the company may undertake in the future, actual results may differ from the estimates.

Management is also required to exercise judgement in the process of determining and applying the company's accounting policies and available elections under IFRS.

The areas under which there is substantial complexity or judgement required, or areas where estimates and assumptions are significant to the results of the company, relate primarily to revenue recognition. These are discussed in the relevant accounting policies and disclosure notes set out below.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The principal accounting policies, which have been applied consistently throughout the period, are set out below.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

1. Basis of preparation and accounting policies (continued)

Revenue recognition

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

The company generally recognises revenue when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and the collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client, risk of loss has transferred to the client and the client acceptance has been obtained, client acceptance provisions have lapsed or the company has objective evidence that the criteria specified in the client acceptance provisions have been satisfied.

The company enters into multiple-element revenue arrangements which may include any combination of services, software and hardware. A multiple-element arrangement is separated into more than one unit of accounting if the commercial substance is that the individual components operate independently of each other and a reliable fair value can be attributed to each component. If the components are not deemed to operate independently of each other then the arrangement is accounted for as a whole to reflect the company's right to consideration in exchange for the performance of its obligations.

Revenue from sales of third-party vendor products or services is recorded net of costs when the company is acting as an agent between the client and vendor and gross when the company is a principal to the transaction. Several factors are considered to determine whether the company is an agent or principal, most notably where the company is the primary obligor to the client, or has inventory risk. Consideration is also given to whether the company adds meaningful value to the vendor's product or service, was involved in the selection of the vendor's product or service, has latitude in establishing the sales price or has credit risk.

Services revenue is recognised on a time and materials basis, a percentage of completion method, or a straight line basis over the term of the contract, or on an output basis that reflects the services provided during the period. The methodology used is dependant on the nature of the contract.

The company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates, such as revenue, costs of sales, profits, require updating. If, at any time, these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

Long term contracts

Work in progress on long term contracts is valued at the lower of cost and net realisable value. Profits are recognised on each contract using the percentage of completion method, on a straight line basis over the term of the contract or as costs are incurred. The methodology used is dependent upon the nature of the contract. Amounts receivable under long term contracts are included in debtors values according to the work done at contract prices less payments received on account. Full provision for future anticipated losses and any excess of payments received over amount recoverable is included in creditors.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

1. Basis of preparation and accounting policies *(continued)*

Royalties

A royalty agreement exists between the company and the ultimate parent, International Business Machines Corporation. The company as licensee pays a 3% net charge in connection with any services that it provides during the term of the agreement to the United Kingdom local government customers. Payment of this royalty fee is made within 60 days of the end of the preceding calendar quarter.

Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense when the employees have rendered services entitling them to the contributions.

Interest income

Interest income is recognised on an accruals basis.

Finance costs

Borrowing costs are recognised in the income statement in the period to which they relate. Borrowing costs include interest on bank overdrafts and short term and long term borrowings.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

Taxation

Income tax represents the current tax calculated on taxable profits of losses for the period and the deferred tax charge or credit for the period. The current tax is based on taxable losses for the period, and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

1. Basis of preparation and accounting policies (continued)

Property, plant and equipment

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Its value as stated in the balance sheet is its cost less any accumulated depreciation and accumulated impairment losses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying value of assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in value is charged to the income statement.

Depreciation is calculated on a straight line basis, so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Property, Plant and Equipment - 3 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Inventories

Goods held for resale are stated at the lower of cost and net realisable value.

Costs comprise direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective stocks.

Operating lease commitments

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

1. Basis of preparation and accounting policies *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade and other receivables

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

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

The company reviews all trade and other receivables on a regular basis. The review consists primarily of an analysis based upon current information available about clients, such as financial statements, news reports and published credit ratings, as well as the current economic environment, collateral net of repossession cost and prior history. Additionally, analysis is performed on its different collectively assessed portfolios, based upon credit ratings, probability of default, term, asset characteristics and loss history.

If there is objective evidence that accounts receivable are impaired, the company calculates an impairment loss by comparing the asset's carrying amount and the present value of the expected future cash flows. Any resulting impairment loss is recognised in the income statement. The carrying amount of the impaired receivable is reduced through the use of a specific allowance accounts.

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

Trade and other payables

Trade payables and other accounts payables are stated at their nominal value and are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Amounts are unsecured and usually settled on standard commercial trade terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

2. Significant accounting estimates and assumptions

The application of accounting standards and policies requires the company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the company considers to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the company's financial condition or operating performance.

Revenue recognition

Application of the various accounting principles related to the measurement and recognition of revenue requires the company to make judgements and estimates. Specifically, complex arrangements with non-standard terms and conditions and multiple-element arrangements may require significant contract interpretation to determine the appropriate accounting treatment.

Cost to complete service contracts

The company enters into service contracts which include multiple complex work streams and technologically demanding requirements. During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract, especially contracts where the company uses the percentage-of-completion method of accounting. If at any time, these estimates indicate that contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

The company performs ongoing profitability analyses of its services contracts in order to determine whether the latest estimates require updating. Key factors reviewed by the company to estimate the future costs to complete each contract are future labour costs and productivity efficiencies.

Net realisable value and client demand

The company reviews the net realisable value of its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realisable value and that obsolete inventory is written off.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

3. Revenue

	Period ended 31 December 2008 £000
<i>Analysis by customer:</i>	
Somerset County Council	66,183
Taunton Deane Borough Council	7,655
Avon and Somerset Police	14,508
Sales to third parties	<u>2,613</u>
Gross revenue	90,959
Less: Pass through revenues	<u>(33,378)</u>
Net revenues as recognised	<u>57,581</u>
 <i>Analysis by segment:</i>	
Operational	38,022
Transformation	50,324
Other services	<u>2,613</u>
Gross revenue	90,959
Less: Pass through revenues	<u>(33,378)</u>
Net revenues as recognised	<u>57,581</u>

Revenue related to operational services is earned through the provision of day to day processes and services to the joint venture partners. Revenues related to transformation activity related to the re-engineering and streamlining of the existing processes to allow the company to deliver cost savings and efficiencies to the joint venture partners.

Pass through revenues

Pass through revenues relate to the amounts which have been charged to the joint venture partners in respect of the costs related to the employees which have been seconded to the company, and the costs related to other third party products and services, which had initially been charged to the company by the joint venture partners. These amounts have been recorded on a net basis as the company is acting as an agent in these transactions, and is not principal to these transactions.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

4. Nature of expense

Operating loss is stated after charging/(crediting) the following:

	Period ended	
	31 December 2008	
	£000	£000
Provision of goods and services from IBM		31,235
Provision of goods and services from:		
Somerset County Council	32,609	
Taunton Deane Borough Council	5,263	
Avon and Somerset Police	8,527	
Other third parties	13,362	
	<u>59,761</u>	
Less: Costs related to pass through revenues	(33,378)	
		<u>26,383</u>
Cost of sales as recognised		<u>57,618</u>

Costs related to pass through revenues

Costs related to pass through revenues relate to the amounts which have been charged to the joint venture partners in respect of the costs related to the employees which have been seconded to the company, and the costs related to other third party products and services, which had initially been charged to the company by the joint venture partners. These amounts have been recorded on a net basis as the company is acting as an agent in these transactions, and is not principal to these transactions.

	Period ended	
	31 December 2008	
	£000	
Included in cost of sales above:		
Royalties paid		427
Employee expense		70
Operating leases: Present value of minimum property lease payments		<u>82</u>
Included in administration expenses:		
Auditor's remuneration - audit services		<u>120</u>

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

5. Employee benefits

	Period ended 31 December 2008 £000
Wages and salaries	58
Social security	6
Pensions	6
	<u>70</u>

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

	No.
Administrative	1
Technical	<u>2</u>

One director has an employment contract with South West One Limited and is therefore included in the above data.

The operational and financial activities of the company are carried out by secondees who remain employees of the joint venture partners. The amount recharged to the company in respect of these activities is netted within cost of sales. As a consequence South West One Limited does not operate a pension plan and does not include any pension disclosure in accordance with International Accounting Standard No 19.

6. Directors' emoluments

Other than the Chairman, none of the directors have contracts of employment with South West One Limited. Duties performed in respect of South West One Limited are conducted as part of the directors' employment contracts with their principal employers. Consequently, South West One Limited has not paid any fees to these directors for their services to the company. The emoluments of the other directors are paid by their principal employers, and not South West One Limited. An assessment of the aggregate fees earned by the directors based on board attendance in respect of services to South West One Limited is £56,889.

The directors' aggregate emoluments which have been paid by South West One Limited in respect of qualifying services were:

	Period ended 31 December 2008 £000
Aggregate emoluments	<u>6</u>

The director does not receive any pension entitlement or share based payments from the company.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

7. Finance costs

	Period ended 31 December 2008 £000
Interest expense due to fellow subsidiary undertakings	48
Interest expense and bank charges	4
	52

Finance costs are recognised in the income statement in the period to which they relate. Finance costs include interest on bank overdrafts and short term borrowings.

8. Finance income

	Period ended 31 December 2008 £000
Interest income due from fellow subsidiary undertakings	350

Finance income is recognised in the income statement in the period to which it relates. Finance income includes interest on bank balances.

9. Taxation

	Period ended 31 December 2008 £000
Current income tax income	
UK corporation tax on loss in the period	616
Deferred tax	
Credit to profit and loss account	77
Income tax	693

Corporation tax is calculated at 28.83% of the estimated assessable loss for the year. The credit for the period can be reconciled to the income statements as follows:

Loss before tax	2,513
Tax at the UK corporation tax rate of 28.83%	724
Short term timing differences	(2)
Expenses not deductible for tax purposes	(29)
Income tax income	693

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's losses for this accounting period are taxed at an effective rate of 28.83% and will be taxed at 28% in the future.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

10. Property, plant and equipment

	Property, Plant and Equipment £000
Additions	72
Depreciation	(4)
At 31 December 2008	<u>68</u>
At 18 September 2007	
Net carrying amount	<u>-</u>
At 31 December 2008	
Cost	72
Accumulated depreciation	(4)
Net carrying amount	<u>68</u>

11. Deferred transition costs

	2008 £000
Deferred transition costs – long term	13,052
Deferred transition costs – short term	4,446
Balance at 31 December 2008	<u>17,498</u>

During the first period of operation the company has been working on contracts that are accounted for under the percentage of completion method, as disclosed in the accounting policies note. The short term deferred transition cost balance above relates to these contracts and is planned for release during 2009. The long term deferred transition cost balance above is planned for release starting in 2010.

12. Deferred tax assets

The following is the deferred tax asset, arising on the excess of depreciation over capital allowances, recognised by the company and movements thereon during the current reporting period.

	2008 £000
Balance at 18 September 2007	-
Credit to income	77
Balance at 31 December 2008	<u>77</u>

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

13. Inventories	2008
	£000
Goods held for resale	<u>306</u>

The replacement cost of inventories does not differ materially from the amount stated above.

14. Trade and other receivables	2008
	£000
Receivable from trade customers	1,857
Amounts recoverable on contracts	1,949
Prepayments	1,361
Tax receivables	<u>616</u>
	<u>5,783</u>

Amounts receivable from trade customers are non-interest bearing and are generally on 30 - 90 day terms.

15. Cash and cash equivalents	2008
	£000
Cash at bank	<u>3,079</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 31 December 2008.

	2008
	£000
Cash at bank	<u>3,079</u>

16. Deferred income	2008
	£000
Deferred income – short term	14,460
Deferred income – long term	<u>842</u>
	<u>15,302</u>

During the first period of operation the company has been working on contracts that are accounted for under the percentage of completion method, as disclosed in the accounting policies note. The short term deferred revenue balance above relates to these contracts and is planned for release during 2009. The long term deferred revenue balance above is planned for release starting in 2010.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

17. Trade and other payables

	2008
	£000
Payable to trade suppliers	876
Other payables	2,116
Payable to related parties	<u>10,327</u>
	<u>13,319</u>

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payable or receivable.

18. Financial instruments

	<i>Carrying amount</i>	<i>Fair value</i>
	2008	2008
	£000	£000
Financial assets		
Cash and cash equivalents	3,079	3,079
Trade and other receivables	<u>5,167</u>	<u>5,167</u>
 Financial liabilities		
Trade and other payables	<u>(13,319)</u>	<u>(13,319)</u>

Financial risk management

In the normal course of business, the company is routinely subject to a variety of risks. In addition to the market risk associated with interest rates on interest bearing assets and liabilities and financial assets and liabilities denominated in foreign currencies, other examples of risk include credit risk and liquidity risk. The company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the company does not anticipate any material gains or losses, not otherwise reflected in the financial statements, to arise from these risks.

Further details of the financial instruments and associated risk management policies of the company are outlined below.

Market risk

The company's operations do not expose it to any significant market risks as the company does not have any financial derivatives. However, there is an exposure to changes in interest rates, further details of this are included in the following note.

Derivatives

The company does not have any derivative instruments.

Interest rate risk

The company has some exposure to interest rate risk as interest bearing assets and interest bearing liabilities are entered into at a floating interest rate.

Interest rate on non Treasury Centre activity attracts an interest rate of base rate less 1% while Treasury Centre balances attract a rate of LIBOR +/- 01.15 base points.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

18. Financial instruments (continued)

Foreign currency risk

The functional currency of the company is sterling. The company's operations do not expose it to any changes in foreign exchange rates.

Credit risk

The company is exposed to potential loss if any party fails to pay amounts due to the company under contractual terms ('credit risk'). The company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing credit limits for credit exposure, and continually assessing the credit-worthiness of counterparties.

The company has in place policies to minimise credit risk, including requiring appropriate credit checks on potential customers before sales are made. The company has no significant concentration of credit risk because the counter parties are local authorities with high credit ratings.

As a result of the satisfactory mechanism of debt management the company does not consider the need for any kind of impairment to the trade debtors. Debt collection is managed on a timely basis and is controlled to keep any risk of impairment to an absolute minimum.

The table below summarises the maturity of the company's trade receivable as at 31 December 2008:

	< 90 days £000	91 – 180 days £000	180 – 365 days £000	> 1 year £000
2008	<u>1,809</u>	<u>38</u>	<u>10</u>	<u>-</u>

Liquidity risk management

The company maintains a healthy cash balance to ensure that debts can be paid as they fall due. The company also maintains adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the IBM Ireland Treasury centre in Dublin.

Capital management

Capital represents equity attributable to the equity shareholders.

The primary objective of the company's capital management is to ensure that it maintains a healthy cash position. Funding is obtained principally from other group undertakings.

No changes were made in the objectives, policies or processes during the period ended 31 December 2008.

South West One Limited

Notes to the Financial Statements (continued)

For the Financial Period Ended 31 December 2008

19. Share capital

Authorised share capital:

The authorised share capital of the company is £10,000 divided into:

		2008
		£
A1 ordinary shares with a par value of £1		1,175
A2 ordinary shares with a par value of £1		500
A3 ordinary shares with a par value of £1		825
B ordinary shares with a par value of £1		7,500
		10,000

Allotted, called-up and fully paid share capital

		2008
	No.	£
Ordinary share capital issued during the period for cash:		
A1 ordinary shares issued to Somerset County Council	1,175	1,175
A2 ordinary shares issued to Taunton Deane Borough Council	500	500
A3 ordinary shares issued to Avon and Somerset Police	825	825
B ordinary shares issued to IBM United Kingdom Holdings Ltd	7,500	7,500
	10,000	10,000
Ordinary share capital as at 31 December 2008		

All shares which the directors propose to issue shall be comprised of 25% A shares and 75% B shares. Any newly issued shares will be offered first to the same class of shareholder, unless agreed otherwise by special resolution. The rights of each of the three classes of A shares are the same in principle.

Any A class shareholder may transfer its entire shareholding to a local authority (a) taking over the relevant services contract, or (b) following a reorganisation, assuming all responsibilities for the same functions as the shareholder. The B shareholder may transfer its entire shareholding to any intermediate holding company of all its associated companies registered in England & Wales and with "IBM" in its title.

The B shareholder may require an A shareholder to sell all its A shares to the B shareholder or another IBM associated company designated by the B shareholder (the call option). An A shareholder may require the B shareholder to purchase all its A shares (the put option). These options are triggered when the relevant A shareholder's agreement with the company for the provision of services is terminated, or when an A shareholder no longer receives substantially all of its services from the company as originally agreed. These options are triggered on service of a written notice given by the shareholder exercising the option. The option price will be the par value of the A shares over which the option is being exercised.

Dividends only accrue in respect of the B shares and are to be paid only with the consent of all shareholders.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

19. Share capital *(continued)*

If the company is wound up the liquidator may, with the requisite majority of the shareholders (being consent of the holders of not less than 88% of the shares in issue) and in accordance with any other sanction required by the Companies Acts, divide among the shareholders the whole or any part of the assets of the company, value the assets for that purpose and determine how this division shall be made. The liquidator may vest the whole or any part of the assets in trust for the benefit of the shareholders (although no shareholder is compelled to accept any assets upon which there is a liability).

Meetings

The B shareholder is entitled to appoint three directors and to remove such directors. Each of the A shareholders is entitled to appoint one director respectively and to remove such director. The consent of the B shareholder is required for the appointment to the board of a director of an A shareholder if the proposed director is not an employee, officer or elected member of the A shareholder.

The quorum required for a board meeting is four directors; always with at least one B director present and (provided they are in office) at least one A1, one A2 and one A3 director present.

If a board resolution or board matter is determined on the basis of a majority of votes and the B directors' votes are less than the number of votes of the other directors, then the B directors are entitled to cast such additional votes to pass the resolution as if the B directors had held a majority of the votes of the directors.

The quorum for a general meeting is two members present provided that members holding at least 70% of the total issued share capital must be present in person or by proxy.

20. Operating lease commitments

As lessee

Less than one year

2008
£000
22

At the balance sheet date, the company has outstanding commitments under non-cancellable operating leases as detailed.

The company had a short term lease on its principal place of business which ended on 30 June 2009. Staff and secondees now occupy space at the strategic partner sites to optimise costs.

21. Other commitments or contingencies

No contingent liabilities or commitments existed as at 31 December 2008.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

22. Notes to the cash flow statement

Reconciliation of loss for the period to net cash inflow from operating activities

	Period ended 31 December 2008 £000
Loss for the period	(1,820)
Adjustments for:	
Interest expense	52
Interest income	(350)
Taxation	(693)
Depreciation of property, plant and equipment	4
Changes in operating assets and liabilities:	
Increase in inventories	(306)
Increase in trade and other receivables	(5,167)
Increase in deferred transition costs	(17,498)
Increase in trade and other payables	13,319
Increase in deferred income	15,302
Net cash from operating activities	<u>2,843</u>

23. Related party transactions

The company has outstanding balances with related parties. These balances are disclosed in "trade and other payables" (see note 17). Transactions between the company and its related parties are disclosed below:

	Parent company	Local authority partners ¹	IBM fellow subsidiaries ²
	2008	2008	2008
	£000	£000	£000
Funding received in cash	8	2	-
Royalty paid	-	-	(427)
Sale of goods and services to	-	54,968	-
Purchase of goods and services from	-	(13,021)	(48,733)
Interest receivable	-	-	350
Interest payable	-	-	(48)
	<u> </u>	<u> </u>	<u> </u>

Notes:

1. Local authority partners include Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Police.
2. IBM fellow subsidiaries include International Business Machines Corporation, IBM United Kingdom Limited and IBM Treasury Centre.

The transactions above are shown on a gross basis however it is group policy to settle balances on a net cash basis.

South West One Limited

Notes to the Financial Statements *(continued)*

For the Financial Period Ended 31 December 2008

23. Related party transactions *(continued)*

A royalty agreement exists between the company and the ultimate parent, International Business Machines Corporation. The company, as licensee, pays a 3% net charge in connection with any services that it provides during the term of the agreement to the United Kingdom local government customers. Payment of this royalty fee is made within 60 days of the end of the preceding calendar quarter.

Key management compensation

Members of the key management are remunerated by their principal employer, and are not remunerated by South West One Limited. The total remuneration of members of key management paid by their principal employer in the period ended 31 December 2008 in respect of services to South West One Limited was as follows:

	Period ended 31 December 2008
	£000
Short term benefits	1,122
Post employment benefits	<u>90</u>

24. Ultimate controlling party

The company's majority shareholder is IBM United Kingdom Holdings Limited, which owns 75% of the company's shares. The remaining 25% of the shares are held by Somerset County Council (11.75%), Taunton Deane Borough Council (5%) and Avon and Somerset Police Authority (8.25%). All entities are registered in England and Wales.

Control is governed by a Joint Venture Agreement between these parties but IBM United Kingdom Holdings Limited is the controlling party subject to the terms of this agreement.

The company's ultimate parent undertaking is International Business Machines Corporation which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of the undertaking may be obtained from Corporate Headquarters, Armonk, New York 10504.