

IN THE MATTER OF THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO,
QUEBEC, NOVA SCOTIA AND NEWFOUNDLAND

AND

IN THE MATTER OF
TILE MUTUAL RELIANCE REVIEW SYSTEM FOR
EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
IBM CANADA LIMITED

AND

IN THE MATTER OF
INTERNATIONAL BUSINESS MACHINES CORPORATION

AND

IN THE MATTER OF
LGS GROUP INC.

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and Newfoundland (collectively, the "Jurisdictions") has received an application from IBM Canada Limited ("IBM Canada") and International Business Machines Corporation ("IBM") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that, in connection with the proposed offers (the "Offers") by IBM Acquisition Inc. ("AcquisitionCo") and IBM Acquisition II L.L.C. ("US BuyCo" and, collectively with AcquisitionCo, the "Offeror") to purchase all of the issued and outstanding Class A Subordinate Voting Shares (the "Class A Shares") and Class B Multiple Voting Shares (the "Class B Shares" and, collectively with the Class A Shares, the "LGS Shares") of LGS Group Inc. ("LGS") in exchange for consideration consisting of \$ 19.00 per LGS Share (the "Purchase Price"):

(1) the Offeror shall be exempt from the requirement in the Legislation to offer all holders of the same class of securities identical consideration (the "Identical Consideration Requirement"), insofar as holders of LGS Shares who are normally resident in Canada (collectively, the "Canadian Shareholders") who accept an Offer will be entitled to elect between receiving the Purchase Price in the form of cash (the "Cash Option") or in the form of exchangeable shares (the "Exchangeable Shares") of AcquisitionCo (the "Exchangeable Share Option"), while all other holders of LGS Shares (collectively, the "Non-Canadian Shareholders" and, together with the Canadian Shareholders, the "Shareholders") who accept an Offer will be entitled to elect

between the Cash Option and receiving the Purchase Price in the form of Common Shares (the "IBM Common Shares") of IBM (the "US Share Option");

(2) despite the provision in the Legislation that prohibits an offeror who makes or intends to make a take-over bid or issuer bid and any person acting jointly or in concert with the offeror from entering into any collateral agreement, commitment or understanding with any holder or beneficial owner of securities of the offeree issuer that has the effect of providing to the holder or owner a consideration of greater value than that offered to other holders of the same class of securities (the "Prohibition on Collateral Agreements"), certain agreements (collectively, the "Retention Agreements") to be entered into with certain employees of LGS who also hold LGS Shares (collectively, the "Key Executives") are made for reasons other than to increase the value of the consideration paid to such Key Executives for the LGS Shares they hold and may be entered into;

(3) the Offeror shall be exempted from the requirements in the Legislation (collectively, the "Prospectus Disclosure Requirements") that require an offeror making a take-over bid and offering as consideration securities of its own issue or those of another issuer to include in its take-over bid circular:

(a) the information prescribed by the form of prospectus appropriate for the offeror or other issuer, including the financial statements of the offeror or other issuer; and

(c) where the form of prospectus so requires, a *pro forma* balance sheet and income statement of the offeror giving effect to the exchange of the securities contemplated by the take-over bid as at the date of the most recent balance sheet of the offeror that is included in the circular and based upon the most recent audited financial statements of the offeree issuer (the "*Pro Forma* Financial Statements"), a description of the basis of preparation of the *Pro Forma* Financial Statements and the basic and fully diluted earnings per share based upon the *Pro Forma* Financial Statements; and

(4) the Offeror shall be exempted from the requirement in the Legislation (the "GAAP Reconciliation Requirement") that requires the financial statements of an issuer incorporated or organized other than in Canada or a province or territory thereof and included in a take-over bid circular pursuant to the Prospectus Disclosure Requirements to include notes that explain and quantify any significant differences between the generally accepted accounting principles prescribed in the incorporating jurisdiction and applied in respect of such financial statements and generally accepted accounting principles determined with reference to the Handbook of the Canadian Institute of Chartered Accountants;

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS IBM Canada and the Parent have represented to the Decision Makers as follows:

1. IBM Canada is a corporation governed by the *Canada Business Corporations Act* (the "CBCA"). IBM Canada is an indirect, wholly-owned subsidiary of IBM. IBM Canada is not, and presently does not intend to become, a reporting issuer or the equivalent in any of the provinces or territories of Canada.
2. IBM is a corporation governed by the laws of the State of New York. Its authorized capital consists of 150,000,000 shares of preferred stock (the "IBM Preferred Shares") and 4,687,500,000 IBM Common Shares. As of March 1, 2000, IBM had issued and outstanding 2,546,011 IBM Preferred Shares and 1,793,760,770 IBM Common Shares.
3. The IBM Common shares are listed for trading on the New York Stock Exchange (the "NYSE"), the Chicago Stock Exchange and the Pacific Stock Exchange. The IBM Preferred Shares are listed on the NYSE.
4. On March 14, 2000, the closing price of the IBM Common Shares on the NYSE was U.S. \$109 per IBM Common Share. Based upon such closing price, IBM had a market capitalization in excess of U.S. \$195 billion on such date.
5. IBM is a registrant under the Securities Act of 1933 (United States) (the "1933 Act") and is subject to the continuous disclosure requirements of the Securities Exchange Act of 1934 (United States) (the "Exchange Act"). IBM is not, and presently does not intend to become, a reporting issuer or the equivalent in any province or territory in Canada.
6. AcquisitionCo was incorporated under the CBCA on March 10, 2000 for the purposes of making the Offers. AcquisitionCo is a wholly-owned indirect subsidiary of IBM.
7. 3040696 Nova Scotia Company ("ParentCo") is an unlimited liability company incorporated under the *Companies Act* (Nova Scotia). ParentCo is a wholly-owned indirect subsidiary of IBM and the direct parent of AcquisitionCo.
8. US BuyCo was formed under the laws of Delaware on March 14, 2000 as a limited liability company for the purposes of making the Offers. US BuyCo is a wholly-owned subsidiary of IBM.
9. LGS is a corporation governed by the CBCA and is a reporting issuer or the equivalent in each of the Jurisdictions. It is engaged primarily in the business of information technology consulting services.
10. LGS' authorized capital consists of an unlimited number of first preferred shares, an unlimited number of second preferred shares, an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of Class C Multiple Voting Shares. According to information provided by LGS to IBM Canada, as at March 10, 2000, there were 10,043,573 Class A Shares and 2,852,800 Class B Shares outstanding. The Class A Shares

are listed and posted for trading on The Toronto Stock Exchange (the "TSE") and the Nasdaq National Market.

11. On March 14, 2000, the Closing Price of Class A Shares on the TSE was Cdn. \$18.40. Based upon such closing price, the Class A Shares had an aggregate market value of Cdn. \$243,741,450 on such date.

12. To the knowledge of IBM Canada after reasonable inquiry, registered holders of Class A Shares or Class B Shares resident in the United States (collectively, the "U.S. Registered Holders") hold, in the aggregate, 4,195,411 Class A Shares (representing approximately 42% of the class). After investigation as to the residency of the beneficial owners of the Class A Shares held by U.S. Registered Holders, IBM Canada and IBM believe that, of the 4,195,411 Class A Shares held by U.S. Registered Holders, approximately 1,114,163 Class A Shares representing approximately 11% of the class are beneficially owned by holders resident in the United States.

13. Raymond Lafontaine ("Lafontaine") is a co-founder of LGS and is its President and Chairman of its board of directors (the "LGS Board"). Lafontaine owns, directly or indirectly, 144,712 Class A Shares and 1,426,400 Class B Shares.

14. Andr   Gauthier ("Gauthier" and, collectively with Lafontaine, the "Principals") is a cofounder of LGS, is its Senior Executive Vice-President and is a member of the LGS Board. Gauthier owns, directly or indirectly, 161,140 Class A Shares and 1,426,400 Class B Shares.

15. On February 15, 2000, IBM Canada entered into a support agreement (the "Lock-up Agreement") with Lafontaine, Gauthier and their related personal holding companies (collectively, the "Locked-up Shareholders") pursuant to which:

- (a) IBM Canada agreed to cause the Offers to be made no later than March 15, 2000;
- (b) the Locked-up Shareholders irrevocably agreed to deposit their LGS Shares under the Offers;
- (c) the Locked-up Shareholders agreed not to take any steps that would inhibit the success of the Offers; and
- (d) the Principals agreed that, if the Offeror takes up and pays for LGS Shares deposited under the Offers, the Principals would enter into Retention Agreements.

16. Pursuant to the Offers, the Offeror has offered to acquire all of the issued and outstanding LGS Shares (including LGS Shares that may become outstanding as a result of the exercise of options, warrants and other rights) in exchange for payment of the Purchase Price.

17. The Offeror has extended the Offers to Shareholders in Canada and any jurisdiction outside of Canada in which the making and acceptance of the Offers would not be illegal.

18. The Offers are contained in a securities exchange take-over bid circular (the "Circular") that has been sent to, among others, all Canadian Shareholders whose last address as shown on LGS' books is in any of the Jurisdictions. The Offers are being made in accordance with, and the Circular contains the disclosure prescribed by, the Legislation of the Jurisdictions, except to the extent exemptive relief is granted hereby.

19. Canadian Shareholders who accept an Offer may elect the Cash Option or the Exchangeable Share Option.

20. The Offers provide that Canadian Shareholders who tender any LGS Shares to an Offer but fail to elect either the Cash Option or the Exchangeable Share Option will be deemed to have elected the Cash Option.

21. A Canadian Shareholder who accepts an Offer and elects the Exchangeable Share Option will receive that number of Exchangeable Shares equal to (i) the product of the aggregate number of LGS Shares tendered by such Canadian Shareholder and accepted for purchase under an Offer and the U.S. dollar equivalent of the Purchase Price, divided by (ii) the average closing price in U.S. dollars of an IBM Common Share on the NYSE for the ten trading days ending immediately prior to the date the Offeror first takes up and pays for any LGS Shares under either of the Offers (the "Initial Take-up Date"), except that such Canadian Shareholder will receive cash in lieu of any fractional Exchangeable Share he, she or it otherwise would be entitled to receive. The U.S. dollar equivalent (the "US Dollar Equivalent") of the Purchase Price will be determined by reference to the noon spot rate established by the Bank of Canada for the conversion of Canadian dollars into U.S. dollars on the business day preceding the Initial Take-up Date.

22. If all of the Canadian Shareholders accepted an Offer, elected the Exchangeable Share Option and then exchanged the Exchangeable Shares they received pursuant to an Offer for IBM Common Shares, such Canadian Shareholders would hold, in the aggregate, less than 0.09% of the outstanding IBM Common Shares.

23. The Exchangeable Shares are intended to provide an opportunity for taxable Canadian Shareholders who elect the Exchangeable Share Option to achieve, in certain circumstances, a deferral of Canadian taxes.

24. The Exchangeable Shares will provide a holder thereof with a security of a Canadian issuer having economic and ownership rights that are, as nearly as practicable, equivalent to those of a IBM Common Share, except that the Exchangeable Shares will be non-voting other than as required by applicable law. Pursuant to a support agreement (the "Support Agreement") to be entered into among AcquisitionCo, ParentCo and IBM, IBM will agree to support AcquisitionCo's obligations in respect of the Exchangeable Shares and take all such actions and do such things as are required to cause AcquisitionCo to comply with such obligations.

25. The Exchangeable Shares are not, and will not be, listed for trading on any stock exchange or quotation system. As a consequence of making the Offers, AcquisitionCo will become a reporting issuer in each of the Jurisdictions except Ontario and Alberta.

26. The Offers have been extended to Shareholders who are "U.S. Persons", as that term is defined in Regulation S under the 1933 Act, or resident in the United States or any territory or possession thereof ("U.S. Residents" and, collectively with U.S. Persons, "U.S. Shareholders") in reliance upon the Multi-Jurisdictional Disclosure System enacted under United States federal securities laws ("MJDS"). Accordingly, the Circular has been filed with the Securities and Exchange Commission (the "SEC") on Form 14(d)(i)(f). In connection with the Offers, IBM has filed with the SEC a Registration Statement on Form S-4 to qualify IBM Common Shares that may be issued to Non-Canadian Shareholders who elect the US Share Option and a Registration Statement on Form S-3 to qualify the IBM Common Shares that may be issued upon the exercise of the Exchangeable Shares.

27. The following documents (collectively, the "IBM Disclosure Record") have been incorporated by reference into the Circular and attached to it as an annex:

- (a) IBM's Form 10-K dated March 13, 2000;
- (b) IBM's Annual Report, which includes comparative audited financial statements of IBM for the years ending December 31, 1999, 1998 and 1997 and "management's discussion and analysis of financial condition and results of operations" for the year ending December 31, 1999;
- (c) IBM's proxy statement dated March 13, 2000 in respect of its annual meeting to be held on April 25, 2000; and
- (d) IBM's Certificate of Incorporation and By-laws.

28. In addition, the following documents (collectively, the "Supplementary Disclosure Record") have been incorporated by reference into the Circular:

- (a) IBM's Form S-3s filed May 24, 1993, February 22, 1990 and October 24, 1989;
- (b) IBM's Form S-8s filed February 15, 2000, July 15, 1997 and May 24, 1994;
- (c) IBM's Form 10-Ks for the years ended December 31, 1997, 1996, 1995 and 1994;
- (d) IBM's Form 8-Ks and/or 8-K/As filed January 29, 1999, January 8, 1998, August 1, 1997, December 6, 1996 and October 30, 1995; and
- (e) IBM's Proxy Statement dated March 14, 1995.

29. Pending completion of the Offers, the Offeror will have no material assets or liabilities, and all information material to the business of IBM and relevant to persons considering an investment in Exchangeable Shares or IBM Common Shares will be contained in or incorporated by reference into the Circular.

30. The Exchangeable Shares will not be qualified for distribution in any jurisdiction outside Canada and the delivery of Exchangeable Shares to Non-Canadian Shareholders may constitute a violation of the laws of such jurisdictions.

31. Non-Canadian Shareholders who accept either of the Offers may elect the Cash Option or the US Share Option.

32. The Offers provide that Non-Canadian Shareholders who tender any LGS Shares to an Offer but fail to elect either the Cash Option or the US Share Option will be deemed to have elected the Cash Option.

33. A Non-Canadian Shareholder who accepts an Offer and elects the US Share Option will receive that number of IBM Common Shares equal to (i) the product of the aggregate number of LGS Shares tendered by such Non-Canadian Shareholder and accepted for purchase under an Offer and the U.S. Dollar Equivalent of the Purchase Price, divided by (ii) the average closing price in U.S. dollars of an IBM Common Share on the NYSE for the ten trading days ending immediately prior to the Initial Take-up Date, except that such Non-Canadian Shareholder will receive cash in lieu of any fractional IBM Common Share he, she or it otherwise would be entitled to receive.

34. The existing, unwritten employment arrangements between LGS and the Principals provide:

(a) for payment to each Principal of \$253,500 as an annual salary and \$191,200 as a bonus; and

(b) for each Principal's participation in a non-contributory defined benefit pension plan sponsored by LGS (the "Plan").

35. IBM Canada (or an affiliate of IBM Canada) intends to enter into the Retention Agreements with the Key Executives.

36. The Retention Agreements to be entered into between IBM Canada and each of the Key Executives will have the following material features:

(a) Each Retention Agreement will include a covenant of the Key Executive:

(i) prohibiting the Key Executive from engaging in any line of business conducted by LGS at the date of the Retention Agreement either in North America or Europe for a period (the "Non-Compete Period") of one year commencing on the date the Key Executive ceases to be employed by LGS or any successor thereto or affiliate thereof (collectively, the "IBM Group"), provided that if the Key Executive ceases to be employed by the IBM Group within one year after the date of the Retention Agreement the Non-Compete Period will be eighteen months;

(ii) prohibiting the Key Executive from soliciting any employees or customers of the IBM Group for a period of one year commencing on the date the Key Executive ceases to be an employee of the IBM Group; and

(iii) requiring the Key Executive to devote substantially all of his or her time to employment with the IBM Group and work exclusively for such entity and with a view to its best interests, except for reasonable social, political or charitable activities or existing undertakings.

(b) The Retention Agreements will provide that a Key Executive will be entitled to receive, in addition to his or her annual salary and any annual bonus, a retention bonus (the "Retention Bonus"), payable in semi-annual instalments over a two-year period (the "Retention Period"), equal to a specified multiple of the aggregate annual salary and bonus such Key Executive received in 1999, provided that such Key Executive remains employed by the IBM Group and achieves certain objectives (the "Objectives") agreed to by IBM Canada and such Key Executive. The specified multiple in respect of each of the Key Executives will not exceed 2.

(c) The Retention Agreements will provide that, if a Key Executive's employment with the IBM Group is terminated for any reason prior to expiry of the Retention Period, such Key Executive will have received in any event cash payments equal to the greater of:

(i) 10% of his or her Retention Bonus, and

(ii) the aggregate amount he or she has become entitled to as a consequence of remaining employed by the IBM Group for a specified period of time and achieving some or all of the Objectives, provided that, in calculating such entitlement no amount will be included for payments to which such Key Executive would have been entitled had his or her employment not been terminated prior to the date such entitlement would have become due.

(d) The Retention Agreements will provide that Key Executives will be entitled to receive benefits and perquisites comparable to those provided to IBM Canada's employees in similar circumstances and with similar levels of responsibility.

(e) Pursuant to the Retention Agreements, each Principal will be granted options to purchase 20,000 IBM Common Shares (collectively, the "Options"). Each Option will be issued with an exercise price equal to the average of the high and low sale price of the IBM Common Shares on the NYSE on the date of grant. Options will vest as to 50% on the second anniversary of the date of grant, as to

25% on the third anniversary of the date of grant and as to 25% on the fourth anniversary of the date of grant. The Options will be non-transferable. If the Principal's employment with the IBM Group is terminated for any reason, vested Options will terminate 90 days thereafter and unvested Options will terminate automatically.

(f) In addition, the Offeror will maintain the Plan for the Principals. On March 31, 1999, the Plan had an unfunded actuarial liability of \$2,591,000 and the pension expense for the year ended March 31, 1999 was \$634,000.

37. Since LGS is engaged principally in the provision of information technology consulting services, LGS' personnel represent its principal asset IBM Canada proposes to enter into the Retention Agreements in order to ensure the continued employment of the Key Executives during the period in which LGS' operations will be integrated with those of IBM Canada. In particular, IBM Canada believes that the continued support and management of LGS' operations by the Key Executives and, in particular, the Principals, is necessary in order to retain LGS' senior management team. Accordingly, IBM Canada has relied upon the Principals' covenant to enter into Retention Agreements in agreeing to pay the Purchase Price.

38. The terms of the Retention Agreements have been negotiated with the Principals on an arm's-length basis and will be negotiated on an arm's-length basis with the other Key Executives. The compensation arrangements contemplated by the Retention Agreements are consistent with IBM's documented internal guidelines for retention programs associated with IBM's acquisition of businesses and are reasonable in light of the services to be provided to IBM by each of the Key Executives. The Retention Agreements are being made for business purposes unrelated to the Key Executives' ownership of LGS Shares and not for the purpose of providing the Key Executives with greater consideration for their LGS Shares than the consideration to be received by Shareholders other than the Key Executives.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers in the Jurisdictions pursuant to the Legislation is that, in connection with the Offers:

(1) the Offeror is exempt from the Identical Consideration Requirement, insofar as Canadian Shareholders who accept an Offer will be entitled to elect between the Cash Option and the Exchangeable Share Option, while Non-Canadian Shareholders who accept an Offer will be entitled to elect between the Cash Option and the US Share Option;

(2) the Retention Agreements are being entered into for reasons other than to increase the value of the consideration paid to the Key Executives in respect of their LGS Shares and may be entered into notwithstanding the Prohibition on Collateral Agreements; and

(3) the Offeror is exempt from the Prospectus Disclosure Requirements and the Canadian GAAP Reconciliation Requirement that otherwise would apply because the consideration under the Offers includes Exchangeable Shares and IBM Common Shares.

Dated this "4th" day of "April", 2000.