

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 18, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report: January 18, 2007
(Date of earliest event reported)

**INTERNATIONAL BUSINESS MACHINES
CORPORATION**

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900
(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated January 18, 2007 regarding its financial results for the periods ended December 31, 2006, including consolidated financial statements for the periods ended December 31, 2006, is Attachment I of this Form 8-K. Attachment II are the charts for IBM's Chief Financial Officer Mark Loughridge's fourth quarter earnings presentation on January 18, 2007, as well as certain reconciliation and other information (Non-GAAP Supplementary Materials) for information in Attachment I (press release), Attachment II (charts) and in Mr. Loughridge's presentation.

Attachment I (Press Release):

The following statement on Page 1:

Income from continuing operations for the fourth quarter grew 2 percent compared with the fourth-quarter 2005 income from continuing operations of \$3.4 billion, excluding the one-time charge.

The following statements on Page 2:

Total revenues of \$91.4 billion, up 4 percent excluding the divested PC business;

or up 9 percent excluding 2005 non-recurring items;

The following statements on Page 3:

Excluding the non-recurring items and tax charge for 2005, the growth for income from continuing operations was 9 percent year over year.

Excluding the divested PC business, revenues increased 4 percent (3 percent, adjusting for currency) compared with the 2005 period.

(4 percent, adjusting for currency and PCs)

(up 2 percent, adjusting for currency and PCs)

(up 2 percent, adjusting for currency and PCs)

Attachment II (Charts):

In the chart on Page 3 (4Q06 Financial Summary), the data in the column entitled B/(W) Yr/Yr w/o 4Q05 Non-recur* for the rows identified as E/R%, Pre-Tax Income, PTI Yr/Yr w/o Real Estate Gains, PTI%, and Tax Rate% .

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In the chart on Page 4 (2006 Financial Summary):

- the data in the column entitled B/(W) Yr/Yr w/o 2005 Non-recur* for the rows identified as E/R%, Pre-Tax Income, PTI%, and Tax Rate%
- the data in the column entitled B/(W) Yr/Yr w/o Non-recur* & PC Results for the rows identified as Revenue, @CC, GP%, E/R%, Pre-Tax Income, PTI%, and Tax Rate% .

In the chart on Page 5 (2006 Financial Summary):

- the data in the column entitled B/(W) Yr/Yr w/o 2005 Non-recur* for the rows identified as Pre-Tax Income and PTI% .
- the data in the column entitled B/(W) Yr/Yr w/o Non-recur* & PC Results for the rows identified as Revenue, @CC, Pre-Tax Income and PTI%.

In the chart on Page 8 (Expense Summary), the data in the column entitled B/(W) Yr/Yr w/o Non-recur* for the rows identified as SG&A and Total Expense and Other Income .

On Page 16, the statement 34% Return on Invested Capital for core business.

In the chart on Page S3 (Revenue - Key Industry Sales Units), all the data in the column entitled @CC w/o PCs .

In the chart on Page S4 (Segment Revenue), all the data in the row identified as w/o PC segment.

In the chart on Page S5 (Revenue), all the data in the two rows identified as w/o PC.

In the chart on Page S7 (Gross Profit Margin), all the data in the column entitled B/(W) Yr/Yr Pts for the two rows identified as w/o PC.

In the chart on Page S8 (Expense Summary):

- all the data in the column entitled B/(W) Yr/Yr w/o Charge* for the rows identified as SG&A, Total Expense and Other Income and E/R% .
- all the data in the column entitled B/(W) Yr/Yr w/o Charges** for the rows identified as SG&A, Other Income and Expense, the two rows identified as w/o PCs and the row identified as E/R% .

In the chart on Page S9, the amounts referenced for 2004 and 2005.

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All of the information in Attachments I and II is hereby filed except for the information set forth below, which is furnished but not filed.

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: January 18, 2007

By:

/s/ Timothy S. Shaughnessy
Timothy S. Shaughnessy
Vice President and Controller

IBM REPORTS 2006 FOURTH-QUARTER RESULTS

- Total revenues of \$26.3 billion, up 7 percent as reported;
- Diluted earnings of \$2.26 per share from continuing operations, up 12 percent as reported, or 7 percent compared with the fourth-quarter 2005, excluding pension curtailment charge;
- Services signings of \$17.8 billion, up 55 percent.

ARMONK, N.Y., January 18, 2007 . . . IBM today announced fourth-quarter 2006 diluted earnings of \$2.26 per share from continuing operations, an increase of 12 percent as reported, compared with diluted earnings of \$2.01 per share in the fourth quarter of 2005; the fourth-quarter 2005 diluted earnings include \$0.10 per share for a one-time pretax curtailment charge of \$267 million related to pension changes. Diluted earnings per share for the fourth-quarter 2006 grew 7 percent compared with the year-ago quarter of \$2.11 per diluted share, without the one-time per share charge. Fourth-quarter 2006 diluted earnings per share include a \$0.06 benefit as a result of a lower tax rate.

Fourth-quarter income from continuing operations was \$3.5 billion compared with \$3.2 billion in the fourth quarter of 2005, an increase of 8 percent. Income from continuing operations for the fourth quarter grew 2 percent compared with the fourth-quarter 2005 income from continuing operations of \$3.4 billion, excluding the one-time charge. Total revenues for the fourth quarter of 2006 of \$26.3 billion increased 7 percent (4 percent, adjusting for currency) from the fourth quarter of 2005.

Samuel J. Palmisano, IBM chairman, president and chief executive officer, said: "IBM had a terrific quarter and a good year with record cash performance, profit and EPS, as well as record payouts to shareholders. We are well-positioned in the growth areas of a changing IT industry, focused on our evolving business model, and poised for long-term success for our clients and shareholders."

From a geographic perspective, the Americas fourth-quarter revenues were \$11.1 billion, an increase of 6 percent as reported (5 percent, adjusting for currency) from the 2005 period. Revenues from Europe/Middle East/Africa were \$9.3 billion, up 11 percent (3 percent, adjusting for currency). Asia-Pacific revenues increased 7 percent (5 percent, adjusting for currency) to \$4.8 billion. OEM revenues were \$1.0 billion, down 3 percent compared with the 2005 fourth quarter.

Revenues from the Software segment were \$5.6 billion, an increase of 14 percent (11 percent, adjusting for currency) compared with the fourth quarter of 2005. Revenues from IBM's middleware brands, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$4.4 billion, up 18 percent versus the fourth quarter of 2005. Operating systems revenues decreased 2 percent to \$642 million compared with the prior-year quarter. Revenues from other software and services increased, which includes the Product Lifecycle Management portfolio of products.

For the WebSphere family of software products, which facilitate customers' ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, revenues increased 22 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 28 percent. Revenues from Tivoli software, infrastructure software that enables customers to centrally manage networks including security and storage capability, increased 25 percent, and revenues for Lotus software, which allows collaborating and messaging by customers in real-time communication and knowledge anagement, increased 30 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 12 percent compared with the year-ago quarter.

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For the Global Services business, segment revenues from Global Technology Services increased 7 percent (4 percent, adjusting for currency) to \$8.6 billion, and segment revenues from Global Business Services increased 6 percent (3 percent, adjusting for currency) to \$4.2 billion. IBM signed services contracts totaling \$17.8 billion, up 55 percent year over year, and ended the full year with an estimated services backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Global Business Services, Integrated Technology Services and Maintenance, of \$116 billion, an increase of \$5 billion from the prior-year period.

Revenues from the Systems and Technology Group (S&TG) segment totaled \$7.1 billion for the quarter, up 3 percent (flat, adjusting for currency). S&TG revenues from System z server products increased 5 percent compared with the year-ago period. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), increased 6 percent. Revenues from the System p UNIX server products increased 4 percent compared with the 2005 period. Revenues from the System x servers increased 7 percent, and revenues from the System i servers decreased 10 percent. Revenues from Microelectronics decreased 6 percent and revenues from System Storage increased 9 percent.

Global Financing segment revenues increased 3 percent (flat, adjusting for currency) in the fourth quarter to \$620 million.

The company's total gross profit margin was 44.6 percent in the 2006 fourth quarter compared with 44.1 percent in the 2005 period.

Total expense and other income increased 11 percent to \$6.9 billion compared with the prior-year period. SG&A expense increased 7 percent to \$5.6 billion. RD&E expense increased 9 percent compared with the year-ago period. Intellectual property and custom development income increased to \$241 million compared with \$228 million a year ago. Other (income) and expense contributed income of \$150 million in the fourth quarter of 2006 versus income of \$334 million in the fourth quarter of 2005. In the fourth quarter of last year, gains on real estate transactions were unusually high due to several large transactions compared with real estate activity in the fourth quarter of this year, resulting in a decrease of \$140 million year to year.

IBM's effective tax rate in the fourth-quarter 2006 was 28.0 percent compared with 29.5 percent in the fourth quarter of 2005. The decrease in the tax rate was caused by the favorable effect of several items in the quarter, including the retroactive reinstatement of the U.S. research tax credit and changes in the mix of income in various tax jurisdictions.

For total operations, net income for the fourth-quarter 2006 was \$3.5 billion, or \$2.31 per diluted share, which included a gain from discontinued operations related to country tax settlements of \$76 million, compared with the fourth quarter of 2005 net income of \$3.2 billion, or \$1.99 per diluted share, which included a gain from discontinued operations of \$3 million and a charge for the cumulative effect of the FASB Interpretation No. 47 accounting change of \$36 million.

Share repurchases totaled approximately \$1.4 billion in the fourth quarter. The weighted-average number of diluted common shares outstanding in the fourth-quarter 2006 was 1.53 billion compared with 1.60 billion shares in the same period of 2005.

Full-Year 2006 Results

- Total revenue of \$91.4 billion, up 4 percent excluding the divested PC business;
- Income from continuing operations of \$9.4 billion, up 18 percent as reported, or up 9 percent excluding 2005 non-recurring items;
- Diluted earnings of \$6.06 per share from continuing operations, up 23 percent as reported, or up 14 percent excluding 2005 non-

recurring items;

- Net cash from operations of \$15.3 billion, up \$2.2 billion, excluding Global Financing receivables.

Diluted earnings per share from continuing operations were \$6.06 compared with \$4.91 per diluted share for the 2005 period, including \$0.40 per diluted share for the one-time items, an increase of 23 percent. Without the one-time items in 2005, diluted earnings in 2006 increased \$0.74 per share, or 14 percent versus the comparable period last year.

Income from continuing operations for the year ended December 31, 2006 was \$9.4 billion, compared with \$8.0 billion in the year-ago period, or up 18 percent, which includes a charge of \$525 million for taxes in connection with the 2005 repatriation of foreign earnings, and non-recurring pretax items for a curtailment charge of \$267 million relating to the pension change and incremental restructuring charges of \$1.7 billion, offset by the \$1.1 billion gain on the sale of the Personal Computing (PC) business, and the \$775 million legal settlement received from Microsoft. Excluding the non-recurring items and tax charge for 2005, the growth for income from continuing operations was 9 percent year over year.

Revenues from continuing operations for 2006 totaled \$91.4 billion, essentially flat as reported and adjusting for currency compared with \$91.1 billion for 2005, which includes PC revenues of \$2.9 billion for the first four months of 2005 only. Excluding the divested PC business, revenues increased 4 percent (3 percent, adjusting for currency) compared with the 2005 period.

From a geographic perspective, the Americas full-year revenues were \$39.5 billion, an increase of 2 percent as reported (4 percent, adjusting for currency and PCs) from the 2005 period. Revenues from Europe/Middle East/Africa were \$30.5 billion, essentially flat (up 2 percent, adjusting for currency and PCs). Asia-Pacific revenues decreased 6 percent (up 2 percent, adjusting for currency and PCs) to \$17.6 billion. OEM revenues were \$3.9 billion, up 18 percent compared with 2005.

Software segment revenues in 2006 totaled \$18.2 billion, an increase of 8 percent (7 percent, adjusting for currency). Revenues from the Global Technology Services segment totaled \$32.3 billion, an increase of 3 percent (2 percent, adjusting for currency) compared with 2005. Revenues from the Global Business Services segment were \$16.0 billion, flat (up 1 percent, adjusting for currency). S&TG segment revenues were \$22.0 billion, an increase of 5 percent (4 percent, adjusting for currency). Global Financing revenues totaled \$2.4 billion, a decrease of 2 percent (2 percent, adjusting for currency).

For total operations, net income for 2006 was \$9.5 billion, or \$6.11 per diluted share, which included a gain from discontinued operations related to country tax settlements of \$76 million, compared with the 2005 net income of \$7.9 billion, or \$4.87 per diluted share, which included a loss from discontinued operations of \$24 million and a charge for the cumulative effect of the FASB Interpretation No. 47 accounting change of \$36 million.

IBM ended 2006 with \$10.7 billion of cash on hand and net cash provided from operations, excluding the year-to-year change in Global Financing receivables, was \$15.3 billion - an increase of \$2.2 billion from last year. The balance sheet remains strong, and the company is well positioned to take advantage of opportunities.

In December, the company adopted Statement of Financial Accounting Standards No. 158 (SFAS 158), new accounting guidance related to pension and other postretirement plans released by the Financial Accounting Standards Board in September 2006. This accounting standard requires companies to recognize the funded status of their postretirement plans in the statement of financial position (or balance sheet). The funded status is measured as the difference

between the value of pension plan assets and the company's benefit obligations to its current and retired employees. The adoption of SFAS 158 at December 31, 2006 reduced the company's assets by \$9.2 billion, increased its liabilities by \$0.3 billion and reduced stockholders' equity by \$9.5 billion. These changes to the company's financial statements were non-cash and will have no impact on the company's existing debt covenants, credit ratings or financial flexibility.

Share repurchases totaled approximately \$8.0 billion in 2006. The weighted-average number of diluted common shares outstanding in 2006 was 1.55 billion compared with 1.63 billion shares in 2005. As of December 31, 2006, there were 1.51 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$22.7 billion, compared with \$22.6 billion at year-end 2005. From a management segment view, the non-global financing debt-to-capitalization ratio was 1.5 percent at the end of 2006, and Global Financing debt increased \$1.8 billion from year-end 2005 to a total of \$22.3 billion, resulting in a debt-to-equity ratio of 6.9 to 1.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the company's failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; quarterly fluctuations in revenues and volatility of stock prices; the company's ability to attract and retain key personnel; adverse affects from tax matters; currency fluctuations and customer financing risks; customer credit risk on trade receivables; the company's failure to maintain the adequacy of its internal controls; the company's use of certain estimates and assumptions; dependence on certain suppliers; changes in the financial or business condition of the company's distributors or resellers; the company's ability to successfully manage acquisitions and alliances; failure to have sufficient insurance; legal, political, health and economic conditions; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM Results:

- without non-recurring and unique items;
- without divested PC business;
- adjusting for currency (i.e., at constant current);
- net cash from operations excluding Global Financing receivables.

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the fourth-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being

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included in Attachment II ("Non-GAAP Supplementary Materials") to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EST, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/4q06. Presentation charts will be available on the Web site prior to the Webcast.

Financial Results Attached (amounts may not total due to rounding)

INTERNATIONAL BUSINESS MACHINES CORPORATION
COMPARATIVE FINANCIAL RESULTS
(Dollars in millions except per share amounts)

	Three Months Ended December 31,		Percent Change	Twelve Months Ended December 31,		Percent Change
	2006	2005*		2006	2005*	
REVENUE						
Global Services	\$ 12,769	\$ 12,000	6.4	% \$ 48,247	\$ 47,407	1.8
Gross margin	27.9	% 27.4	%	27.5	% 26.0	%
Hardware	7,193	6,897	4.3	% 22,499	24,343	-7.6
Gross margin	41.0	% 42.0	%	37.0	% 35.1	%
Software	5,651	4,901	15.3	% 18,204	16,830	8.2
Gross margin	86.5	% 86.3	%	85.2	% 84.9	%
Global Financing	625	605	3.3	% 2,379	2,407	-1.1
Gross margin	48.7	% 57.4	%	50.3	% 54.7	%
Other	19	24	-18.6	% 94	147	-36.4
Gross margin	-28.6	% 12.6	%	-13.2	% 45.2	%
TOTAL REVENUE	26,257	24,427	7.5	% 91,424	91,134	0.3
GROSS PROFIT	11,701	10,765	8.7	% 38,295	36,532	4.8
Gross margin	44.6	% 44.1	%	41.9	% 40.1	%
EXPENSE AND OTHER INCOME						
S,G&A	5,620	5,252	7.0	% 20,259	21,314	-4.9
% of revenue	21.4	% 21.5	%	22.2	% 23.4	%
R,D&E	1,587	1,459	8.8	% 6,107	5,842	4.5
% of revenue	6.0	% 6.0	%	6.7	% 6.4	%
Intellectual property and custom development income	(241)	(228)	5.8	% (900)	(948)	-5.0
Other (income) and expense	(150)	(334)	-55.0	% (766)	(2,122)	-63.9

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Interest expense	71	48	48.0	% 278	220	26.6	%
TOTAL EXPENSE AND OTHER INCOME	6,887	6,197	11.1	% 24,978	24,306	2.8	%
% of revenue	26.2	% 25.4	%	27.3	% 26.7	%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES							
	4,814	4,568	5.4	% 13,317	12,226	8.9	%
Pretax margin	18.3	% 18.7	%	14.6	% 13.4	%	
Provision for income taxes							
	1,350	1,348	0.2	% 3,901	4,232	-7.8	%
Effective tax rate	28.0	% 29.5	%	29.3	% 34.6	%	
INCOME FROM CONTINUING OPERATIONS							
	3,464	3,220	7.6	% 9,416	7,994	17.8	%
Net margin	13.2	% 13.2	%	10.3	% 8.8	%	
DISCONTINUED OPERATIONS							
Income/(loss) from discontinued operations	76	3		76	(24)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**		(36)		(36)	
NET INCOME	\$ 3,541	\$ 3,187	11.1	% \$ 9,492	\$ 7,934	19.6	%
EARNINGS/(LOSS) PER SHARE OF COMMON STOCK:							
ASSUMING DILUTION							
CONTINUING OPERATIONS	\$ 2.26	\$ 2.01	12.4	% \$ 6.06	\$ 4.91	23.4	%
DISCONTINUED OPERATIONS	0.05	0.00		0.05	(0.01)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		(0.02)		(0.02)	
TOTAL	\$ 2.31	\$ 1.99	16.1	% \$ 6.11	\$ 4.87	25.5	%
BASIC							
CONTINUING OPERATIONS	\$ 2.30	\$ 2.04	12.7	% \$ 6.15	\$ 4.99	23.2	%
DISCONTINUED OPERATIONS	0.05	0.00		0.05	(0.02)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		(0.02)		(0.02)	
TOTAL	\$ 2.35	\$ 2.02	16.4	% \$ 6.20	\$ 4.96	25.0	%
WEIGHTED-AVERAGE NUMBER COMMON SHARES OUTSTANDING (M's)							
ASSUMING DILUTION	1,532.5	1,604.8		1,553.5	1,627.6		
BASIC	1,507.3	1,578.5		1,530.8	1,600.6		

* The company filed a Form 8-K with the U.S. SEC on June 13, 2006 to reclassify its historical financial statements and related footnotes to reflect changes to its management system in the first quarter of 2006.

** Change in accounting principle related to the adoption of FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143."

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Dollars in millions)	At December 31, 2006*	At December 31, 2005	Percent Change	
ASSETS				
Cash, cash equivalents, and marketable securities	\$ 10,657	\$ 13,686	-22.1	%
Receivables net, inventories, prepaid expenses	34,003	31,975	6.3	%
Plant, rental machines, and other property net	14,440	13,756	5.0	%
Investments and other assets	44,134	46,331	-4.7	%
TOTAL ASSETS	\$ 103,234	\$ 105,748	-2.4	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-term debt	\$ 8,902	\$ 7,216	23.4	%
Long-term debt	13,780	15,425	-10.7	%
Total debt	22,682	22,641	0.2	%
Accounts payable, taxes, and accruals	31,189	27,936	11.6	%
Other liabilities	20,857	22,073	-5.5	%
TOTAL LIABILITIES	74,728	72,650	2.9	%
STOCKHOLDERS' EQUITY	28,506	33,098	-13.9	%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 103,234	\$ 105,748	-2.4	%

* In December, the company adopted FASB Statement of Financial Accounting Standards No. 158, a new accounting guidance related to pension and other postretirement plans, resulting in the reduction of assets by \$9,240 million, increased liabilities by \$257 million and reduced stockholders' equity by \$9,498 million.

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA

FOURTH QUARTER 2006

(Dollars in millions)	Revenue External	Internal	Total	Pretax Income (Loss) From Continuing Operations	Pretax Margin	
SEGMENTS						
Global Technology Services*	\$ 8,590	\$ 435	\$ 9,025	\$ 843	9.3	%
% change	7.1	% -6.6	% 6.3	% -23.7	%	
Global Business Services	4,223	349	4,572	538	11.8	%
% change	6.1	% 13.6	% 6.6	% 32.2	%	
Systems and Technology Group	7,070	362	7,432	1,158	15.6	%
% change	3.2	% 2.1	% 3.2	% -4.2	%	
Software**	5,607	632	6,239	2,015	32.3	%
% change	14.4	% 13.6	% 14.3	% 4.1	%	
Global Financing	620	488	1,108	387	34.9	%
% change	2.9	% -1.0	% 1.1	% -21.0	%	
Personal Computing Division	0	0	0	0	0.0	%
TOTAL REPORTABLE SEGMENTS	26,111	2,266	28,377	4,940	17.4	%
% change	7.2	% 4.1	% 7.0	% -4.0	%	
Eliminations / Other	147	(2,266)	(2,120)	(126)		
TOTAL IBM CONSOLIDATED	\$ 26,257	\$ 0	\$ 26,257	\$ 4,814	18.3	%
% change	7.5	%	7.5	% 5.4	%	

FOURTH QUARTER 2005****

(Dollars in millions)	Revenue External	Internal	Total	Pretax Income (Loss) From Continuing Operations	Pretax Margin	
SEGMENTS						
Global Technology Services	\$ 8,020	\$ 467	\$ 8,487	\$ 1,104	13.0	%
Global Business Services	3,980	307	4,287	406	9.5	%

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Systems and Technology Group	6,849	355	7,204	1,209	16.8	%
Software	4,901	556	5,457	1,935	35.5	%
Global Financing	603	493	1,096	491	44.8	%
Personal Computing Division	0	0	0	0	0.0	%
TOTAL REPORTABLE SEGMENTS	24,353	2,178	26,531	5,145	19.4	%
Eliminations / Other	74	(2,178)	(2,103)	(578)		
TOTAL IBM CONSOLIDATED	\$ 24,427	\$ 0	\$ 24,427	\$ 4,568	18.7	%

* Includes revenue for acquisitions managed by the Global Technology Services segment but reported as Software revenue in the comparative financial results exhibit.

** Excludes revenue from acquisitions reported as Software revenue in the comparative financial results exhibit but managed by the Global Technology Services segment.

*** The company filed a Form 8-K with the U.S. SEC on June 13, 2006 to reclassify its financial statements and related footnotes to reflect changes to its management system effective as of the first quarter of 2006, including the separation of the Global Services segment into two new reportable segments: Global Technology Services and Global Business Services, as well as the reclassification of Enterprise Investments to other reportable segments.

**INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA**

(Dollars in millions)	TWELVE MONTHS 2006			Pretax Income (Loss) From Continuing Operations	Pretax Margin	
	Revenue External	Internal	Total			
SEGMENTS						
Global Technology Services*	\$ 32,322	\$ 1,763	\$ 34,086	\$ 3,288	9.6	%
% change	2.6	% -16.1	% 1.4	% 25.6	%	
Global Business Services	15,969	1,373	17,341	1,706	9.8	%
% change	0.4	% 2.5	% 0.6	% 116.9	%	
Systems and Technology Group	21,970	1,168	23,138	1,739	7.5	%
% change	4.7	% 4.5	% 4.7	% -7.6	%	
Software**	18,161	2,249	20,409	5,493	26.9	%
% change	7.9	% 13.6	% 8.5	% 14.9	%	
Global Financing	2,365	1,527	3,892	1,455	37.4	%
% change	-1.5	% 1.4	% -0.4	% -8.1	%	
Personal Computing Division	0	0	0	0	nm	
% change	nm	nm	nm	nm		
TOTAL REPORTABLE SEGMENTS	90,787	8,080	98,867	13,682	13.8	%
% change	0.3	% 0.0	% 0.3	% 19.1	%	
Eliminations / Other	637	(8,080)	(7,443)	(365)		
TOTAL IBM CONSOLIDATED	\$ 91,424	\$ 0	\$ 91,424	\$ 13,317	14.6	%
% change	0.3	%	0.3	% 8.9	%	

nm not meaningful

TWELVE MONTHS 2005***

(Dollars in millions)	Revenue			Pretax Income (Loss) From Continuing Operations	Pretax Margin	
	External	Internal	Total			
SEGMENTS						
Global Technology Services	\$ 31,501	\$ 2,102	\$ 33,603	\$ 2,619	7.8	%
Global Business Services	15,906	1,339	17,245	786	4.6	%
Systems and Technology Group	20,981	1,118	22,099	1,883	8.5	%
Software	16,830	1,979	18,809	4,779	25.4	%
Global Financing	2,401	1,506	3,907	1,583	40.5	%
Personal Computing Division	2,876	33	2,909	(165)	nm	
TOTAL REPORTABLE SEGMENTS	90,495	8,077	98,572	11,485	11.7	%
Eliminations / Other	639	(8,077)	(7,438)	741		
TOTAL IBM CONSOLIDATED	\$ 91,134	\$ 0	\$ 91,134	\$ 12,226	13.4	%

nm not meaningful

* Includes revenue for acquisitions managed by the Global Technology Services segment but reported as Software revenue in the comparative financial results exhibit.

** Excludes revenue from acquisitions reported as Software revenue in the comparative financial results exhibit but managed by the Global Technology Services segment.

*** The company filed a Form 8-K with the U.S. SEC on June 13, 2006 to reclassify its financial statements and related footnotes to reflect changes to its management system effective as of the first quarter of 2006, including the separation of the Global Services segment into two new reportable segments: Global Technology Services and Global Business Services, as well as the reclassification of Enterprise Investments to other reportable segments.

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