

IBM Adopts New Reporting Format

March 12, 2007

In the fourth quarter 2006 earnings presentation, IBM stated its intent to focus its discussions of financial performance on the IBM segment view, as this is how the business is managed and is the best reflection of the company's strategy.

Beginning with the release of first quarter 2007 earnings in April, IBM will change the presentation of revenue and gross margin in its earnings press release to reflect this segment focus. As a result of this change, IBM will now provide external segment gross profit dollars and gross profit margins for all its segments, including the two services segments individually. In the schedules below, IBM is providing historical revenue and gross margin information for the segments.

Prior to the fourth quarter of 2006, the segment view for software and services was consistent with the same categories in the Consolidated Statement of Earnings. As the company continues to move its strategic direction towards delivering solutions which bring integrated software and services capabilities to our clients, the alignment between segment and categories will diverge over time. To avoid confusion between the segment view and the Consolidated Statement of Earnings, IBM intends to change its presentation of revenue and cost in its Consolidated Statement of Earnings in future 10-K and 10-Q filings to the categories of Sales, Services, and Financing beginning with the first quarter 2007 10-Q.

These changes only impact the formats for the primary reporting of IBM's revenue and gross profit details, and do not reflect any changes in the company's reportable segment results or in the company's organization.

SUMMARY OF CHANGES AND NEW DISCLOSURES

1. **EARNINGS PRESS RELEASE FORMAT:** IBM is providing an example of the new press release format, which will now include external segment revenue and gross profit in the Comparative Financial Results Exhibit (Schedule 1). There is no change to the existing Consolidated Statement of Financial Position and Segment exhibits.
2. **HISTORICAL SEGMENT GROSS PROFIT:** IBM is providing 2004, 2005, and 2006 by quarter for external segment revenue, gross profit, and gross profit margin (Schedule 2). The only information provided in this view which has not been previously disclosed is the external gross profit dollars and gross profit margins for the individual Global Technology Services and Global Business Services segments as well as "Other."
3. **CONSOLIDATED STATEMENT OF EARNINGS:** IBM is providing an example of the Consolidated Statement of Earnings that will reflect the revenue and cost categories of Services, Sales, and Financing. In this construct, Hardware and Software have been categorized as Sales, and "Other", which represented a

very small component of revenue and cost, has been reclassified to the category consistent with the activity (Schedule 3). This change does not impact previously reported total revenue, cost, earnings, or cash flow.

See the following schedules for these changes:

Schedule 1: Comparative Financial Results Exhibit – Press Release format

Schedule 2: External Segment Revenue and Gross Profit History

Schedule 3: Consolidated Statement of Earnings in 10-Q and 10-K filings

Amounts in schedules may not total due to rounding

Schedule 1: Comparative Financial Results Exhibit – Press Release format

INTERNATIONAL BUSINESS MACHINES CORPORATION COMPARATIVE FINANCIAL RESULTS

(Dollars in Millions)	Three Months Ended December 31,		Percent Change
	2006	2005	
REVENUE			
Global Technology Services	\$8,590	\$8,020	7.1%
Gross margin	29.9%	30.9%	
Global Business Services	4,223	3,980	6.1%
Gross margin	24.7%	20.4%	
Systems and Technology	7,070	6,849	3.2%
Gross margin	41.8%	41.6%	
Software	5,607	4,901	14.4%
Gross margin	86.5%	86.3%	
Global Financing	620	603	2.9%
Gross margin	48.6%	57.4%	
Other	147	74	97.2%
Gross margin	-6.9%	66.2%	
TOTAL REVENUE	26,257	24,427	7.5%
GROSS PROFIT	11,701	10,765	8.7%
Gross margin	44.6%	44.1%	
EXPENSE AND OTHER INCOME			
S,G&A	5,620	5,252	7.0%
% of revenue	21.4%	21.5%	
R,D&E	1,587	1,459	8.8%
% of revenue	6.0%	6.0%	
Intellectual property and custom development income	(241)	(228)	5.8%
Other (income) and expense	(150)	(334)	-55.0%
Interest expense	71	48	48.0%
TOTAL EXPENSE AND OTHER INCOME	6,887	6,197	11.1%
% of revenue	26.2%	25.4%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
Pretax margin	4,814	4,568	5.4%
Effective tax rate	18.3%	18.7%	
Provision for income taxes	1,350	1,348	0.2%
Effective tax rate	28.0%	29.5%	
INCOME FROM CONTINUING OPERATIONS			
Net margin	3,464	3,220	7.6%
Net margin	13.2%	13.2%	

Schedule 2: External Segment Revenue and Gross Profit History

(Dollars in Millions)	<u>1Q 06</u>	<u>2Q 06</u>	<u>3Q 06</u>	<u>4Q 06</u>	<u>FY 06</u>
<u>External Segment Revenue</u>					
Global Technology Services	7,719	7,955	8,058	8,590	32,322
Global Business Services	3,848	3,939	3,959	4,223	15,969
Systems and Technology Group	4,419	5,014	5,466	7,070	21,970
Software	3,907	4,241	4,406	5,607	18,161
Global Financing	<u>582</u>	<u>576</u>	<u>587</u>	<u>620</u>	<u>2,365</u>
Total Segments	<u>20,475</u>	<u>21,725</u>	<u>22,476</u>	<u>26,111</u>	<u>90,787</u>
Other	<u>184</u>	<u>165</u>	<u>141</u>	<u>147</u>	<u>637</u>
Total IBM	20,659	21,890	22,617	26,257	91,424
<u>External Segment Gross Profit \$</u>					
Global Technology Services	2,253	2,368	2,437	2,565	9,623
Global Business Services	823	923	904	1,044	3,694
Systems and Technology Group	1,413	1,831	2,087	2,952	8,284
Software	3,290	3,573	3,760	4,848	15,471
Global Financing	<u>307</u>	<u>294</u>	<u>285</u>	<u>302</u>	<u>1,188</u>
Total Segments	<u>8,086</u>	<u>8,989</u>	<u>9,472</u>	<u>11,711</u>	<u>38,259</u>
Other	<u>2</u>	<u>25</u>	<u>19</u>	<u>(10)</u>	<u>36</u>
Total IBM	8,088	9,014	9,492	11,701	38,295
<u>External Segment Gross Profit Margin</u>					
Global Technology Services	29.2%	29.8%	30.2%	29.9%	29.8%
Global Business Services	21.4%	23.4%	22.8%	24.7%	23.1%
Systems and Technology Group	32.0%	36.5%	38.2%	41.8%	37.7%
Software	84.2%	84.2%	85.3%	86.5%	85.2%
Global Financing	<u>52.8%</u>	<u>51.1%</u>	<u>48.6%</u>	<u>48.6%</u>	<u>50.3%</u>
Total Segments	39.5%	41.4%	42.1%	44.9%	42.1%
Other	<u>1.2%</u>	<u>14.9%</u>	<u>13.6%</u>	<u>-6.9%</u>	<u>5.7%</u>
Total IBM	39.1%	41.2%	42.0%	44.6%	41.9%

Schedule 2: continued

(Dollars in Millions)	<u>1Q 05</u>	<u>2Q 05</u>	<u>3Q 05</u>	<u>4Q 05</u>	<u>FY 05</u>
<u>External Segment Revenue</u>					
Global Technology Services	7,822	7,872	7,787	8,020	31,501
Global Business Services	3,887	4,129	3,910	3,980	15,906
Systems and Technology Group	4,289	4,855	4,988	6,849	20,981
Personal Computing Division	2,319	557			2,876
Software	3,814	4,056	4,059	4,901	16,830
Global Financing	<u>579</u>	<u>620</u>	<u>599</u>	<u>603</u>	<u>2,401</u>
Total Segments	22,710	22,089	21,343	24,353	90,495
Other	<u>198</u>	<u>182</u>	<u>186</u>	<u>74</u>	<u>639</u>
Total IBM	22,908	22,270	21,529	24,427	91,134
<u>External Segment Gross Profit \$</u>					
Global Technology Services	2,186	2,254	2,310	2,476	9,226
Global Business Services	657	879	740	813	3,088
Systems and Technology Group	1,666	2,007	1,949	2,851	8,473
Personal Computing Division	295	(50)			245
Software	3,197	3,422	3,448	4,229	14,296
Global Financing	<u>314</u>	<u>326</u>	<u>326</u>	<u>346</u>	<u>1,312</u>
Total Segments	8,314	8,838	8,774	10,715	36,640
Other	<u>(60)</u>	<u>(62)</u>	<u>(36)</u>	<u>49</u>	<u>(108)</u>
Total IBM	8,254	8,775	8,738	10,765	36,532
<u>External Segment Gross Profit Margin</u>					
Global Technology Services	27.9%	28.6%	29.7%	30.9%	29.3%
Global Business Services	16.9%	21.3%	18.9%	20.4%	19.4%
Systems and Technology Group	38.8%	41.3%	39.1%	41.6%	40.4%
Personal Computing Division	12.7%	-9.0%			8.5%
Software	83.8%	84.4%	84.9%	86.3%	84.9%
Global Financing	<u>54.2%</u>	<u>52.6%</u>	<u>54.4%</u>	<u>57.4%</u>	<u>54.6%</u>
Total Segments	36.6%	40.0%	41.1%	44.0%	40.5%
Other	<u>-30.6%</u>	<u>-34.3%</u>	<u>-19.1%</u>	<u>66.2%</u>	<u>-16.9%</u>
Total IBM	36.0%	39.4%	40.6%	44.1%	40.1%

Schedule 2: continued

(Dollars in Millions)	<u>1Q 04</u>	<u>2Q 04</u>	<u>3Q 04</u>	<u>4Q 04</u>	<u>FY 04</u>
<u>External Segment Revenue</u>					
Global Technology Services	7,087	7,353	7,464	8,178	30,082
Global Business Services	3,954	3,938	3,864	4,446	16,201
Systems and Technology Group	4,225	4,640	4,665	6,443	19,973
Personal Computing Division	2,377	2,679	2,713	2,968	10,737
Software	3,706	3,695	3,846	4,895	16,141
Global Financing	<u>665</u>	<u>652</u>	<u>634</u>	<u>656</u>	<u>2,607</u>
Total Segments	<u>22,014</u>	<u>22,957</u>	<u>23,187</u>	<u>27,585</u>	<u>95,741</u>
Other	<u>161</u>	<u>141</u>	<u>162</u>	<u>87</u>	<u>552</u>
Total IBM	22,175	23,098	23,349	27,671	96,293
<u>External Segment Gross Profit \$</u>					
Global Technology Services	1,916	1,981	2,082	2,123	8,102
Global Business Services	707	777	675	944	3,104
Systems and Technology Group	1,644	1,924	1,869	2,875	8,311
Personal Computing Division	249	293	278	375	1,194
Software	3,088	3,096	3,259	4,210	13,652
Global Financing	<u>403</u>	<u>387</u>	<u>381</u>	<u>391</u>	<u>1,562</u>
Total Segments	<u>8,007</u>	<u>8,458</u>	<u>8,544</u>	<u>10,917</u>	<u>35,926</u>
Other	<u>(115)</u>	<u>(52)</u>	<u>(9)</u>	<u>(179)</u>	<u>(356)</u>
Total IBM	7,892	8,406	8,533	10,738	35,569
<u>External Segment Gross Profit Margin</u>					
Global Technology Services	27.0%	26.9%	27.9%	26.0%	26.9%
Global Business Services	17.9%	19.7%	17.5%	21.2%	19.2%
Systems and Technology Group	38.9%	41.5%	40.1%	44.6%	41.6%
Personal Computing Division	10.5%	10.9%	10.2%	12.6%	11.1%
Software	83.3%	83.8%	84.7%	86.0%	84.6%
Global Financing	<u>60.6%</u>	<u>59.4%</u>	<u>60.0%</u>	<u>59.6%</u>	<u>59.9%</u>
Total Segments	36.4%	36.8%	36.8%	39.6%	37.5%
Other	<u>-71.7%</u>	<u>-36.7%</u>	<u>-5.8%</u>	<u>-206.0%</u>	<u>-64.6%</u>
Total IBM	35.6%	36.4%	36.5%	38.8%	36.9%

Schedule 3: Consolidated Statement of Earnings in 10-Q and 10-K filings

**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)**

(Dollars in Millions)	Three Months Ended December 31,	
	<u>2006</u>	<u>2005</u>
Revenue:		
Services	\$ 12,788	\$ 12,019
Sales	12,845	11,804
Financing	625	605
Total revenue	26,257	24,427
Cost:		
Services	9,230	8,728
Sales	5,006	4,677
Financing	320	257
Total cost	14,556	13,662
Gross profit	11,701	10,765
Expense and other income:		
Selling, general and administrative	5,620	5,252
Research, development and engineering	1,587	1,459
Intellectual property and custom development income	(241)	(228)
Other (income) and expense	(150)	(334)
Interest expense	71	48
Total expense and other income	6,887	6,197
Income from continuing operations before income taxes	4,814	4,568
Provision for income taxes	1,350	1,348
Income from continuing operations	3,464	3,220