Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with IBM management. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments as required.

IBM maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. We believe this structure provides reasonable assurance that transactions are executed in accordance with management authorization, and that they are appropriately recorded, in order to permit preparation of financial statements in conformity with generally accepted accounting principles and to adequately safeguard, verify and maintain accountability of assets. An important element of the control environment is an ongoing internal audit program.

To assure the effective administration of internal control, we carefully select and train our employees, develop and disseminate written policies and procedures, provide appropriate communication channels, and foster an environment conducive to the effective functioning of controls. We believe that it is essential for the company to conduct its business affairs in accordance with the highest ethical standards, as set forth in the IBM Business Conduct Guidelines. These guidelines, translated into numerous languages, are distributed to employees throughout the world, and reemphasized through internal programs to assure that they are understood and followed.

PricewaterhouseCoopers LLP, independent accountants, is retained to examine IBM's financial statements. Its accompanying report is based on an examination conducted in accordance with generally accepted auditing standards, including a review of the internal control structure and tests of accounting procedures and records.

The Audit Committee of the Board of Directors is composed solely of outside directors, and is responsible for recommending to the Board the independent accounting firm to be retained for the coming year, subject to stockholder approval. The Audit Committee meets periodically and privately with the independent accountants, with our internal auditors, as well as with IBM management, to review accounting, auditing, internal control structure and financial reporting matters.

Louis V. Gerstner, Jr.
Chairman of the Board and
Chief Executive Officer

Douglas L. Maine
Senior Vice President and
Chief Financial Officer

To the Stockholders and Board of Directors of International Business Machines Corporation:

In our opinion, the accompanying consolidated financial statements, appearing on pages 64 through 89, present fairly, in all material respects, the financial position of International Business Machines Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, NY 10019
January 21, 1999

Overview

IBM's financial results for 1998 demonstrated the value and strength of the company's portfolio of businesses. The company achieved good results despite a number of challenges throughout the year: weakness in Asia, ongoing softness in memory chip prices, continued pricing pressures across many of its product lines, product transitions in the Server segment and weakness in Latin America during the second half of the year. Despite all of these factors, the company achieved overall strong performance, especially from its Global Services segment, Software segment and hard disk drive (HDD) products of the Technology segment. The AS/400 product line, when viewed on a combined software and hardware basis, had good year-over-year performance. On a geographic basis, good results within North America and Europe were somewhat offset by weakness in Asia and Latin America.

The company's financial results showed improved revenue growth and a more balanced performance between gross profit and expense in the second half of the year versus the first half of 1998. This improved performance led to a diluted earnings per share growth of about 17 percent in the second half of the year, versus a decline of about 1 percent in the first half of the year when compared to the same periods of 1997.

The company reported revenue of $81.7 billion—a record for the fourth consecutive year; while net income of $6.3 billion yielded a record $6.57 earnings per share of common stock—assuming dilution. The company funded investments of approximately $20 billion in capital expenditures, research and development, strategic acquisitions and repurchases of common stock.

Challenges

While good progress was made in 1998, there are a number of uncertainties facing the company in 1999: the continued weak economies in Asia and Latin America, continued price pressure in the information technology industry, particularly within the fiercely competitive Personal Systems segment and the microelectronics unit of the Technology segment, and how the "Year 2000 issue" will affect customer purchases. The company's focus in 1999 will be to increase revenue with particular emphasis on addressing customers' needs to build integrated e-business solutions through the use of the company's hardware, services, software and technology. In addition, the company plans to continue to invest judiciously, reduce infrastructure and optimize the deployment of the company's employees and resources to maintain or improve its pre-tax profits.

Forward-looking and Cautionary Statements

Certain statements contained in this Annual Report 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, as discussed more fully elsewhere in this Annual Report and in the company's filings with the Securities and Exchange Commission, including the company's 1998 Form 10-K to be filed on or about March 26, 1999.

Results of Operations

(Dollars in millions except per share amounts)

	1998	1997	1996
Revenue	**$ 81,667**	$ 78,508	$ 75,947
Cost	**50,795**	47,899	45,408
Gross profit	**30,872**	30,609	30,539
Gross profit margin	**37.8%**	39.0%	40.2%
Total expense	**21,832**	21,582	21,952
Income before income taxes	**$ 9,040**	$ 9,027	$ 8,587
Net income	**$ 6,328**	$ 6,093	$ 5,429
Earnings per share of common stock—basic	**$ 6.75**	$ 6.18	$ 5.12
Earnings per share of common stock—assuming dilution	**$ 6.57**	$ 6.01	$ 5.01

Revenue in 1998 grew 4.0 percent as reported and 6.2 percent when currency impacts are removed. This increase was primarily driven by growth in the Global Services segment, HDD storage products of the Technology segment, and middleware software offerings including those from Tivoli Systems, Inc. (Tivoli) of the Software segment.

The following table provides the company's percentage of revenue by segment and illustrates the continuing shift toward a greater percentage of the company's revenue being derived from the Global Services and Software segments.

	1998	1997	1996
Hardware segments	**43.4%**	46.7%	48.2%
Global Services segment	**35.4**	32.1	29.4
Software segment	**14.5**	14.2	15.0
Global Financing segment	**3.5**	3.6	4.0
Enterprise Investments segment/Other	**3.2**	3.4	3.4
Total	**100.0%**	100.0%	100.0%

The overall gross profit margin at 37.8 percent decreased 1.2 points from 1997, following a 1.2 point decrease in 1997 versus 1996. The declines were primarily the result of the company's continued shift to global services in 1998 and 1997. The Global Services segment has a lower gross profit margin than the company's Server segment (S/390, AS/400 and RS/6000), which has been declining as a percentage of total revenue over the past three years.

The 1998 revenue from the United States was $35.3 billion, an increase of 8.1 percent from 1997. Revenue from Europe/Middle East/Africa was $26.0 billion, up 8.6 percent (up about 9 percent in constant currency). Asia Pacific revenue fell 9.4 percent (down about 1 percent in constant currency) to $13.8 billion, while revenue from Latin America was $3.3 billion, a decline of 9.2 percent (down about 7 percent in constant currency) versus 1997. Revenue from Canada was $3.3 billion, an increase of 6.8 percent (up about 14 percent in constant currency) compared to 1997.

Information about the company's operating segments can be found in note Y, "Segment Information," on pages 84 through 89. This note provides additional information, including a description of the products and services of each segment, as well as financial data pertaining to each segment.

The following discussion is based on the Consolidated Financial Statements found on pages 64 through 68, which reflect, in all material respects, the company's segment results on an external basis.

Hardware Segments

(Dollars in millions)	1998	1997	1996
Revenue	**$ 35,419**	$ 36,630	$ 36,634
Cost	**24,214**	23,473	22,888
Gross profit	**$ 11,205**	$ 13,157	$ 13,746
Gross profit margin	**31.6%**	35.9%	37.5%

Revenue from Hardware segments decreased 3.3 percent (down about 2 percent in constant currency) from 1997, after being essentially flat in 1997 versus 1996. Gross profit dollars from Hardware segments declined 14.8 percent from 1997, following a decrease of 4.3 percent in 1997 from 1996.

Technology segment revenue increased 7.3 percent in 1998 versus 1997, following an increase of 8.2 percent in 1997 compared to 1996. The increases were driven by continued strong growth in HDD storage products, which are primarily sold to Original Equipment Manufacturers (OEMs) for use in their product offerings, storage tape products, and growth in custom logic products. These increases were partially offset by lower dynamic random access memory (DRAM) revenue due to the continued industry-wide pricing pressures and lower revenue from high-end storage products. The company continues to evaluate various alternatives to mitigate the impact of memory price pressures on the results of the company. These alternatives include, among other actions, realigning alliance structures, rebalancing sources of supply and redirecting product focus.

Server segment revenue decreased 5.9 percent in 1998 from 1997, following a decrease of 7.7 percent in 1997 versus 1996. The declines were driven by lower revenue from S/390, AS/400 and RS/6000. While S/390 revenue declined, total delivery of computing power increased over 60 percent as measured in MIPS (millions of instructions per second) versus last year. AS/400 and RS/6000 were impacted by the effect of product transitions late in 1998, as well as anticipation by customers of early 1999 product announcements.

Personal Systems segment revenue declined 10.9 percent in 1998 from 1997, following an increase of 3.3 percent in 1997 versus 1996. The decline in 1998 versus 1997 was driven by lower revenue from both commercial and consumer personal computers. Although Personal Systems segment revenue declined for the full year, the second half of 1998 showed improved performance when compared to the first half of the year. The increase in revenue in 1997 over 1996 was driven by higher commercial personal computer revenue and increased general-purpose display revenue.

The decrease in the 1998 Hardware segments' gross profit dollars was driven primarily by lower margins associated with Personal Systems segment products. This was a result of severe price reductions, partially offset by cost improvements. In addition, gross profit dollars for the Technology segment were lower due to the year-to-year price reductions in DRAMs. The decrease in gross profit margin over the periods continues to be driven by the shift in the company's revenue to lower gross profit products, such as personal computers, OEM semiconductors and HDDs, as well as price pressures. The overall Hardware segments' gross profit dollars and margin continue to be adversely impacted by pricing pressures across most products.

Global Services Segment

(Dollars in millions)	1998	1997	1996
Revenue	**$ 28,916**	$ 25,166	$ 22,310
Cost	**21,125**	18,464	16,270
Gross profit	**$ 7,791**	$ 6,702	$ 6,040
Gross profit margin	**26.9%**	26.6%	27.1%

The Global Services segment revenue increased 14.9 percent in 1998 (up about 18 percent in constant currency) from 1997 and 12.8 percent in 1997 over 1996. The increases were driven by all major categories of services. Strategic outsourcing was a major contributor to the growth. Strategic outsourcing is the management of all or part of our customer's business processes, technology operations, network operations and data. The company's IT consulting and systems integration offerings also had strong growth. Systems integration services assist companies to bridge the gap between current capabilities and future business requirements by modifying their existing applications and integrating new ones.

Another category of service offerings which demonstrated significant growth in 1998 was product support services. These services identify systems-related requirements and determine more efficient solutions. The major offering categories in this area are hardware and software support, business recovery services, systems management and networking services, and site and connectivity services.

E-business spans many of the Global Services segment offerings already mentioned and played a key role in its 1998 growth. The company's e-business services offerings include: e-business strategy and planning; e-commerce services for Web selling, e-payments, e-procurement, security and privacy; e-business enablement services involving applications, information use and messaging; learning services such as distributed learning; and hosted business applications such as network-delivered applications, Web hosting and Web infrastructure outsourcing.

In 1998, the company signed services contracts worth $33 billion, increasing the backlog to $51 billion. The company continued to meet the growing demand for its services by hiring about 18,000 employees in 1998 and over 15,000 employees in each of 1997 and 1996.

Revenue and profitability increases in these services categories were partially offset by lower revenue associated with maintenance offerings. The maintenance portion of the Global Services segment continues to be affected by price reductions on maintenance offerings. The focus on stabilizing maintenance revenues led to identification of many new opportunities in this business. While maintenance gross profit dollars are declining as a result of lower revenue, the decrease was partially offset by cost efficiencies achieved in 1998. These productivity improvements have sustained the gross profit margin despite competitive pressures and overall declining revenue. The effect of lower maintenance revenues was to reduce the overall Global Services profit margins, but this impact was more than offset by increases in services profitability and the sustained margins of the maintenance business.

Software Segment

(Dollars in millions)	1998	1997	1996
Revenue	**$ 11,863**	$ 11,164	$ 11,426
Cost	**2,260**	2,785	2,946
Gross profit	**$ 9,603**	$ 8,379	$ 8,480
Gross profit margin	**80.9%**	75.1%	74.2%

Software segment revenue increased 6.3 percent in 1998 (up about 9 percent in constant currency) from 1997, following a decline of 2.3 percent from 1996. The revenue increase in 1998 was driven by growth in the company's middleware products consisting of data management, transaction processing, Tivoli systems management, and messaging and collaboration. In addition, operating systems software grew slightly year over year primarily as a result of strong AS/400 revenue. The decrease in 1997 versus 1996 of 2.3 percent was a result of lower operating system revenue associated with S/390 products. This decrease was partially offset by increased revenue for middleware products, especially systems management software from Tivoli.

Software segment gross profit dollars increased 14.6 percent in 1998 from 1997, following a decrease of 1.2 percent in 1997 from 1996. The improvement in gross profit dollars was the result of less amortization cost of previously deferred development spending. This is the result of more software spending being expensed in the period incurred, and less being capitalized in relation to historical levels. In 1997, this improvement was more than offset by the decline in revenue versus 1996.

Global Financing Segment

(Dollars in millions)	1998	1997	1996
Revenue	**$ 2,877**	$ 2,806	$ 3,054
Cost	**1,494**	1,448	1,481
Gross profit	**$ 1,383**	$ 1,358	$ 1,573
Gross profit margin	**48.1%**	48.4%	51.5%

Global Financing segment revenue increased 2.5 percent in 1998 (up about 5 percent in constant currency) from 1997, following a decrease of 8.1 percent in 1997 versus 1996. The revenue increase in 1998 over 1997 was due to improved used equipment sales and growth in software and services financing, offset by a decline in working capital financing and decreased interest income. The revenue decline in 1997 versus 1996 was attributable to lower used equipment sales and decreases in both working capital financing and interest income.

Gross profit dollars increased 1.8 percent in 1998 versus 1997, following a decrease of 13.7 percent in 1997 from 1996. The increase in 1998 versus 1997 was primarily due to increased revenue and a higher gross profit margin in the U.S. markets. The decrease in 1997 versus 1996 reflects a trend towards financing a greater volume of low-end products and faster growth in the more competitive U.S. markets. See note Y, "Segment Information," on pages 84 through 89 for more detailed information on the Global Financing segment.

Enterprise Investments Segment/Other

(Dollars in millions)	1998	1997	1996
Revenue	**$ 2,592**	$ 2,742	$ 2,523
Cost	**1,702**	1,729	1,823
Gross profit	**$ 890**	$ 1,013	$ 700
Gross profit margin	**34.3%**	36.9%	27.7%

Information, including a description of the company's Enterprise Investment segment, can be found in note Y, "Segment Information," on pages 84 through 89.

The revenue from the Enterprise Investments segment/Other decreased 5.5 percent (down about 3 percent in constant currency) from 1997, following an increase of 8.7 percent in 1997 from 1996. The decrease was primarily a result of lower software revenue, partially offset by higher revenue from point-of-sale terminals. The increase in 1997 versus 1996 was driven by higher software and point-of-sale terminal revenue. The gross profit dollars from the Enterprise Investments segment/Other decreased 12.1 percent in 1998 versus 1997, following an increase of 44.7 percent in 1997 versus 1996. The decline in 1998 gross profit dollars was primarily driven by the lower software revenue versus 1997, while the increase in 1997 versus 1996 was due to lower software costs.

Operating Expenses

(Dollars in millions)	1998	1997	1996
Selling, general and administrative	**$ 16,662**	$ 16,634	$ 16,854
Percentage of revenue	**20.4%**	21.2%	22.2%
Research, development and engineering	**$ 5,046**	$ 4,877	$ 5,089
Percentage of revenue	**6.2%**	6.2%	6.7%

Selling, general and administrative (SG&A) expense was essentially flat in 1998 versus 1997 and declined 1.3 percent in 1997 from 1996. The company continued its focus on reducing infrastructure costs with particular emphasis on expenses not related to revenue, e.g., non-customer travel and contracted services, while reallocating its resources to allow for investment in growth segments of the business. These actions yielded a 0.8 percentage point improvement in the expense-to-revenue ratio in 1998 and a 1.0 percentage point improvement in 1997.

The company continues to focus on productivity, expense controls and prioritization of spending in order to improve its expense-to-revenue level.

Research, development and engineering expense increased 3.5 percent in 1998 from 1997, following a decrease of 4.2 percent in 1997 from 1996. The increase reflects the company's continued investments in high-growth opportunities like e-business, Java, Tivoli systems management and HDD products, as well as the impact of additional expenses associated with new acquisitions. The decline in 1997 versus 1996 was a result of $435 million of purchased in-process research and development being recorded in 1996 for the Tivoli and Object Technology International, Inc. acquisitions.

The company's ongoing research and development efforts have resulted in the company being granted 2,658 patents in 1998, placing it number one in patents granted in the U.S. for the sixth consecutive year. The application of these technological advances has enabled the company to transform this research and development into new products. Examples of these efforts are numerous patents directly related to two major chip breakthroughs announced last year, silicon germanium and silicon-on-insulator. Both technologies will be crucial in the industry's development of a new class of "pervasive computing" devices, handheld and embedded products such as smart phones and internet appliances that business professionals and consumers will rely on for easy access to e-business data and services. In addition, the use of copper in place of aluminum in the making of integrated circuits was introduced into new products in 1998.

On a constant currency basis, SG&A expense increased approximately 2.1 percent in 1998 versus 1997, and Research, development and engineering expense increased approximately 3.9 percent.

See note Y, "Segment Information," on pages 84 through 89 for additional information regarding each segment's pre-tax income, as well as the methodologies employed by the company to allocate shared expenses to the segments.

Provision for Income Taxes

The provision for income taxes resulted in an effective tax rate of 30 percent for 1998, as compared to the 1997 effective tax rate of 33 percent and a 1996 effective tax rate of 37 percent. Adjusting for purchased in-process research and development which had no corresponding tax effect, the 1996 effective tax rate would have been 35 percent. The reduction in the 1998 and 1997 tax rate reflects the company's continued expansion into markets with lower effective tax rates.

The company accounts for income taxes under Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes," which provides that a valuation allowance should be recognized to reduce the deferred tax asset to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considered estimates of future taxable income, which are based primarily on recent financial performance.

Fourth Quarter

For the quarter ended December 31, 1998, the company had revenue of $25.1 billion, an increase of 5.9 percent (up about 5 percent in constant currency) over the same period of 1997. Net income in the fourth quarter was $2.3 billion ($2.47 per common share—assuming dilution), compared with net income of $2.1 billion ($2.11 per common share—assuming dilution) in the fourth quarter of 1997.

Fourth quarter revenue from the United States was $10.3 billion, an increase of 8.0 percent from the same period of 1997. Revenue from Europe/Middle East/Africa was $8.7 billion, up 12.5 percent. Revenue from Canada was $996 million, up 8.3 percent. Asia Pacific revenue fell 3.4 percent to $4.2 billion, while revenue from Latin America fell 21.7 percent to $929 million.

Excluding the effects of currency translation, Europe/Middle East/Africa grew 9 percent, Canada increased 12 percent, Asia Pacific declined 6 percent and Latin America declined 19 percent versus the fourth quarter of 1997.

The Hardware segments revenue was essentially flat with the year-ago period at $11.4 billion. Declines were driven by the Server segment, due to lower S/390, AS/400 and RS/6000 revenue in 1998 versus 1997. Shipments of S/390 computing power increased by approximately 60 percent, as measured in MIPS, though S/390 revenue declined. These decreases were offset by higher revenue from the Technology and Personal Systems segments. The Technology segment increases were driven by higher HDD revenue. The Personal Systems segment increases were due to higher commercial personal computer revenue, partially offset by lower consumer personal computer revenue.

Global Services segment revenue grew 14.1 percent versus the fourth quarter of 1997. Global Services revenue grew by more than $1 billion compared to last year's fourth quarter, and the company's services unit signed more than $9 billion in new services contracts in the quarter. Maintenance offerings revenue continued to decline when compared to the fourth quarter of 1997.

Software segment revenue increased 9.1 percent versus the fourth quarter of 1997. The increase was driven primarily by strength in database, transaction processing and Tivoli systems management products.

Global Financing segment revenue increased 2.5 percent versus the fourth quarter of 1997, and the Enterprise Investments segment/Other revenue increased 5.6 percent compared with 1997's fourth quarter.

The company's overall gross profit margin in the fourth quarter was 39.0 percent, compared to 40.1 percent in the year-earlier period.

Total fourth-quarter 1998 expenses were essentially flat year over year. The expense-to-revenue ratio in the fourth quarter of 1998 was 25.9 percent compared to 27.4 percent in the year-earlier period.

The company's tax rate was 28.9 percent in the fourth quarter, compared to 30.5 percent in the fourth quarter of 1997. The 1998 fourth quarter tax rate reflects the net effect of the company's transfer of certain intellectual property rights to several subsidiaries and the related valuation allowance impacts. See note Q, "Taxes," on pages 77 and 78 for additional information.

The company spent approximately $1.6 billion on share repurchases in the fourth quarter. The average number of shares outstanding in the fourth quarter of 1998 was 919.8 million, compared to 964.8 million in the year-earlier period. The average number of shares outstanding for purposes of calculating diluted earnings was 947.2 million in the fourth quarter of 1998 versus 990.7 million in the fourth quarter of 1997.

Financial Condition

The company continued to make significant investments during 1998 to fund future growth and increase shareholder value, expending $5.6 billion for research, development and engineering, $4.8 billion for plant and other property, including machines used in managed operations services offerings, $1.7 billion for machines on operating leases with customers, $0.7 billion for strategic acquisitions and $6.9 billion for the repurchase of the company's common shares. The company had $5.8 billion in cash, cash equivalents and marketable securities on hand at December 31, 1998.

The company has access to global funding sources. During 1998, the company issued debt in a variety of geographies to a diverse set of investors. Significant funding was issued in the United States, Japan and Europe. Funding was obtained across the range of debt maturities, from short-term commercial paper to long-term debt. More information about company debt is provided in note K, "Debt," on page 73.

In December 1993, the company entered into a $10 billion committed global credit facility to enhance the liquidity of funds. This facility was amended in February 1997, and extended to February 2002. As of December 31, 1998, $8.8 billion was unused and available.

The company had an outstanding balance at December 31, 1998 and 1997, of $0.9 billion in assets under management from the securitization of loans, leases and trade receivables. For additional information see note J, "Sale and Securitization of Receivables," on page 73.

The major rating agencies have continued their review of the company's financial condition. In February 1998, Standard and

Poor's upgraded its credit ratings for the company and its rated subsidiaries' senior long-term debt to A+ from A, and on IBM's preferred stock to A from A-. They also affirmed the commercial paper rating at A-1.

Moody's Investors Service rates the senior long-term debt of the company and its rated subsidiaries as A1, the commercial paper as Prime-1, and the company's preferred stock as "a1."

Fitch Investors Service rates the company and its rated subsidiaries' senior long-term debt as AA-, commercial paper as F-1+, and preferred stock as A+.

Duff & Phelps rates the company and its rated subsidiaries' senior long-term debt as A+, commercial paper as Duff 1, and the company's preferred stock as A.

Cash Flows

The company's cash flows from operating, investing and financing activities, as prescribed by generally accepted accounting principles and reflected in the Consolidated Statement of Cash Flows on page 68, are summarized in the following table:

(Dollars in millions)	1998	1997	1996
Net cash provided from (used in):			
Operating activities	**$ 9,273**	$ 8,865	$ 10,275
Investing activities	**(6,131)**	(6,155)	(5,723)
Financing activities	**(4,993)**	(3,090)	(3,952)
Effect of exchange rate changes on cash and cash equivalents	**120**	(201)	(172)
Net change in cash and cash equivalents	**$ (1,731)**	$ (581)	$ 428

WORKING CAPITAL

(Dollars in millions) At December 31:	1998	1997
Current assets	**$ 42,360**	$ 40,418
Current liabilities	**36,827**	33,507
Working capital	**$ 5,533**	$ 6,911
Current ratio	**1.15:1**	1.21:1

Current assets increased $1.9 billion, driven primarily by increases in accounts receivable relative to strong year-end global financing volumes and in prepaid expenses due to increases in net deferred tax assets. The company ended 1998 with inventories of $5.2 billion, near last year's levels which were the lowest since 1983, due to continued focus on inventory management process improvements, notably in the Personal Systems segment. These improvements have enabled the company's inventory turn rate to increase from 4.9 in 1997 to 5.3 in 1998.

Current liabilities increased $3.3 billion from year-end 1997 with increases of $0.7 billion in taxes payable, $0.7 billion in short-term debt and $1.9 billion in other current liabilities (increases in accounts payable ($1.0 billion), compensation and benefits ($0.5 billion), and deferred income ($0.7 billion), and a $0.3 billion decrease in other accrued expenses and liabilities). The increase in taxes payable primarily reflects improvements in the company's operating results in certain geographies. Short-term debt essentially increased to support the growth of global financing assets. The increase in other current liabilities was primarily attributable to the effect of currency rate translation ($1.0 billion) on non-U.S. balances, and by considerable year-end business activity relative to deferred income, mainly advanced billings for software.

Investments

The company's investments for plant, rental machines and other property were $6.5 billion for 1998, a decrease of $0.3 billion from 1997. The company continues to invest significantly in its rapidly growing services business, principally in the management of customers' information technology, and in manufacturing capacity for HDDs and microelectronics.

In addition to software development expenses included in Research, development and engineering, the company capitalized $0.3 billion of software costs during both 1998 and 1997. Amortization of capitalized software costs amounted to $0.5 billion for 1998, a decrease of $0.5 billion from 1997. This decrease in the level of costs amortized is a result of more software spending being expensed in the period incurred, and less being capitalized in relation to historical levels.

Investments and sundry assets were $23.5 billion at the end of 1998, an increase of $1.6 billion from 1997, primarily the result of increases in prepaid pension assets and non-current customer loan receivables. See note H, "Investments and Sundry Assets," on page 72 for additional information.

DEBT AND EQUITY

(Dollars in millions)	1998	1997
Non-global financing debt	**$ 1,659**	$ 3,102
Global financing debt	**27,754**	23,824
Total debt	**$ 29,413**	$ 26,926
Stockholders' equity	**$ 19,433**	$ 19,816
Debt /capitalization	**60.2%**	57.6%
EBITDA /interest expense	**8x**	8x
Non-global financing:		
Debt /capitalization	**9.9%**	16.1%
EBITDA /interest expense	**15x**	14x
Global financing debt /equity	**6.5:1**	6.5:1

Total debt increased $2.5 billion from year-end 1997, driven by an increase of $3.9 billion in debt to support the growth in global financing assets, offset by a $1.4 billion decrease in debt not related to the Global Financing segment.

Stockholders' equity declined $0.4 billion to $19.4 billion at December 31, 1998. The company's ongoing stock repurchasing program (see note O, "Stockholders' Equity Activity," on pages 76 and 77) basically offset the $6.3 billion of net income for the year.

Non-global financing earnings before interest and taxes plus depreciation and amortization (EBITDA) to non-global financing interest expense, adjusted for future gross minimum rental commitments, was 15x and 14x in 1998 and 1997, respectively. While the company does not calculate EBITDA on a segment basis, it is a useful indicator of the company's ability to service its debt.

Currency Rate Fluctuations

The company's results are affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. At December 31, 1998, currency changes resulted in assets and liabilities denominated in local currencies being translated into more dollars. The currency rate changes also resulted in an unfavorable impact on revenue of approximately 2 percent, 5 percent and 3 percent, respectively, in 1998, 1997 and 1996.

In high-inflation environments, translation adjustments are reflected in period income, as required by SFAS 52, "Foreign Currency Translation." Generally, the company limits currency risk in these countries by linking prices and contracts to U.S. dollars, by financing operations locally and through foreign currency hedge contracts.

The company uses a variety of financial hedging instruments to limit specific currency risks related to global financing transactions and the repatriation of dividends and royalties. Further discussion on currency and hedging appears in note M, "Financial Instruments," on pages 74 and 75.

Market Risk

In the normal course of business, the financial position of the company is routinely subjected to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-U.S. dollar denominated assets and liabilities, other examples of risk include collectibility of accounts receivable and recoverability of residual values on leased assets.

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 losses in these areas.

The company's debt in support of the global financing business and the geographic breadth of the company's operations contain an element of market risk from changes in interest and currency rates. The company manages this risk, in part, through the use of a variety of financial instruments including derivatives, as explained in note M, "Financial Instruments," on pages 74 and 75.

For purposes of specific risk analysis, the company uses sensitivity analysis to determine the impact that market risk exposures may have on the fair values of the company's debt and other financial instruments.

The financial instruments included in the sensitivity analysis consist of all of the company's cash and cash equivalents, marketable securities, long-term non-lease receivables, investments, long-term and short-term debt and all derivative financial instruments. Interest rate swaps, interest rate options, foreign currency swaps, forward contracts and foreign currency option contracts constitute the company's portfolio of derivative financial instruments.

To perform sensitivity analysis, the company assesses the risk of loss in fair values from the impact of hypothetical changes in interest rates and foreign currency exchange rates on market sensitive instruments. The market values for interest and foreign currency exchange risk are computed based on the present value of future cash flows as impacted by the changes in rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 31, 1998 and 1997. The differences in this comparison are the hypothetical gains or losses associated with each type of risk.

Information provided by the model used does not necessarily represent the actual changes in fair value that the company would incur under normal market conditions because, of necessity, all variables other than the specific market risk factor are held constant. In addition, the model is constrained by the fact that certain items are specifically excluded from the analysis while the financial instruments relating to the financing or hedging of those items are included by definition. Excluded items include leased assets, forecasted foreign currency cash flows, and the company's net investment in foreign operations. As a consequence, reported changes in the values of some financial instruments impacting the results of the sensitivity analysis are not matched with the offsetting changes in the values of the items that those instruments are designed to finance or hedge.

The results of the sensitivity analysis at December 31, 1998 and December 31, 1997, are as follows:

Interest Rate Risk: As of December 31, 1998, a 10 percent decrease in the levels of interest rates with all other variables held constant would result in a decrease in the fair value of the company's financial instruments of $396 million, as compared to $369 million as of December 31, 1997. Conversely, as of December 31, 1998, a 10 percent increase in the levels of interest rates with all other variables held constant would result in an increase in the fair value of the company's financial instruments of $354 million, as compared to $341 million as of December 31, 1997. Changes in the relative sensitivity of the fair value of the company's financial instrument portfolio for these theoretical changes in the level of interest rates are primarily driven by changes in the company's debt maturity and interest rate profile and amount. In 1998 versus 1997, the reported change in interest rate sensitivity is primarily due to an overall increase in the amount of debt outstanding.

Foreign Currency Exchange Rate Risk: As of December 31, 1998, a 10 percent movement in the levels of foreign currency exchange rates against the U.S. dollar with all other variables held constant would result in a decrease in the fair value of the company's financial instruments of $1,317 million or an increase in the fair value of the company's financial instruments of $1,535 million, as compared to a decrease of $809 million or increase of $981 million as of December 31, 1997. The change in the relative sensitivity of the fair market value of the company's financial instrument portfolio to the level of foreign currency exchange rates is primarily driven by an increase in the use of foreign currency swaps and other financial instruments designed to hedge the company's net foreign investments in accordance with the company's established risk management practices. As the impact of offsetting changes in the fair market value of the company's net foreign investments is not included in the sensitivity model, these results are not indicative of an increase in the company's actual exposure to foreign currency exchange rate risk.

Financing Risks

Global financing is an integral part of the company's total worldwide offerings. Inherent in global financing are certain risks, including credit, interest rate, currency and residual value. The company manages credit risk through comprehensive credit evaluations and pricing practices. To manage the risks associated with an uncertain interest rate environment, the company pursues a funding strategy of substantially matching the terms of its debt with the terms of its assets. Currency risks are managed by denominating liabilities in the same currency as the assets.

Residual value risk is managed by developing projections of future equipment values at lease inception, reevaluating these projections periodically, and effectively deploying remarketing capabilities to recover residual values and potentially earn a profit. Remarketing efforts have consistently generated profits. The following table depicts an approximation of the unguaranteed residual value maturities for the company's sales-type leases, as well as a projection of the remaining net book value of machines on operating leases at the end of the lease terms as of December 31, 1996, 1997 and 1998. The following table excludes approximately $52 million of estimated residual value associated with non-information technology equipment.

	Total			Run Out of 1998 Balance			
(Dollars in millions)	1996	1997	1998	1999	2000	2001	2002 and beyond
Sales-type leases	$ 471	$ 563	$ 685	$ 167	$ 261	$ 226	$ 31
Operating leases	480	701	731	291	285	139	16
Total residual value	$ 951	$ 1,264	$ 1,416	$ 458	$ 546	$ 365	$ 47

Divestitures/Acquisitions

In December 1998, the company and AT&T announced that AT&T will acquire IBM's Global Network business for $5 billion in cash. In addition, the two companies have agreed to enter into outsourcing contracts with each other. The company will outsource a significant portion of its global networking needs to AT&T. AT&T will outsource certain applications processing and data center management operations to the company. About 5,000 IBM employees will join AT&T as part of the acquisition and more than 2,000 AT&T employees will be offered positions with the company.

The company believes that this transaction, in its entirety, will not have a significant impact on the company's 1999 ongoing operational results. The company and AT&T expect the acquisition to conclude in the various geographies throughout 1999, following clearance by U.S. regulatory authorities and certain regulatory authorities outside the U.S.

The company awarded AT&T Solutions a contract valued at $5 billion over five years for a significant portion of the company's own global networking needs, making it the single largest networking outsourcing contract ever awarded. In addition, AT&T and the Global Services unit have reached an agreement for services valued at about $4 billion over the next 10 years. As part of the agreement, the company will manage AT&T's applications processing (including billing, service-order processing, scheduling of installation and maintenance) for customers of AT&T's business long-distance services. In addition, the company will assume management of AT&T data processing centers, which operate corporate information systems such as accounts payable and receivable and employee payroll and benefits.

In January 1998, the company acquired Software Artistry, Inc., a leading provider of both consolidated service desk and customer relationship management solutions for distributed enterprise environments. In March 1998, the company acquired CommQuest Technologies, Inc., a company that designs and markets advanced semiconductors for wireless communications applications, such as cellular phones and satellite communications.

On April 16, 1997, the company purchased a majority interest in NetObjects, a leading provider of website development tools for designers and intranet developers. In September 1997, the company acquired the 30 percent equity interest held by Sears in Advantis, the U.S. network services arm of the IBM Global Network. Advantis is now 100 percent owned by the company. In December 1997, the company acquired Eastman Kodak's share of Technology Service Solutions (TSS), which was formed in 1994 by the company and Eastman Kodak. TSS is now a wholly owned subsidiary of the company, offering comprehensive services solutions to its customers. In December 1997, the company acquired Unison Software, Inc., a leading developer of workload management software.

On March 1, 1996, the company acquired all outstanding shares of Tivoli for approximately $800 million ($716 million in net cash). The company engaged a nationally recognized, independent appraisal firm to express an opinion on the fair market value of the assets of the acquisition to serve as a basis for allocation of the purchase price to the various classes of assets. The company recorded $280 million of goodwill, $103 million of other assets and expensed $417 million of purchased in-process research and development as a result of the appraisal.

In 1996, the acquisition of Object Technology International, Inc. for approximately $50 million resulted in a valuation of purchased in-process research and development amounting to $18 million, bringing the total amount of purchased in-process research and development in 1996, included in Research, development and engineering expense in the Consolidated Statement of Earnings, to $435 million.

Employees

				Percentage Changes	
	1998	1997	1996	1998-97	1997-96
IBM/wholly owned subsidiaries	**291,067**	269,465	240,615	8.0	12.0
Less than wholly owned subsidiaries	**21,704**	20,751	28,033	4.6	(26.0)
Complementary	**36,900**	43,000	37,000	(14.2)	16.2

As of December 31, 1998, employees of the company and its wholly owned subsidiaries increased 21,602 over 1997, of which approximately 18,000 were in the Global Services segment. Increases were also significant in the Tivoli organization, as well as in the storage business, due to the addition of new manufacturing capacity in the company's emerging markets.

The increase in employees in the less than wholly owned subsidiaries over last year reflects continued growth in the company's Global Services segment, notably Australia and India. Entities in emerging geographic markets such as China increased as well. Partially offsetting the increase was a number of less than wholly owned subsidiaries that were divested during the year or converted to a wholly owned status.

The company's complementary workforce is an approximation of equivalent full-time employees hired under temporary, part-time and limited-term employment arrangements to meet specific business needs in a flexible and cost-effective manner.

Year 2000

The "Year 2000 issue" arises because many computer hardware and software systems use only two digits to represent the year. As a result, these systems and programs may not process dates beyond 1999, which may cause errors in information or systems failures. Assessments of the potential effects of the Year 2000 issues vary markedly among different companies, governments, consultants, economists and commentators, and it is not possible to predict what the actual impact may be. Given this uncertainty, the company recognizes the need to remain vigilant and is continuing its analysis, assessment, conversion and contingency planning for the various Year 2000 issues, across its business.

With respect to its internal systems, the potential Year 2000 impacts extend beyond the company's information technology systems to its manufacturing and development systems and physical facilities. The company has been addressing these issues using the same five-part methodology it recommends to its customers: (1) assessment and strategy; (2) detailed analysis and planning; (3) implementation; (4) maintaining readiness of converted systems; and (5) project office management. The company has completed most conversion and testing efforts, with extended system integration testing and contingency planning projects scheduled throughout 1999. The company estimates that at the conclusion of its various Year 2000 efforts, including conversion, testing and contingency planning, it will have spent a total of approximately $575 million over a multi-year period. Although the company believes its efforts will be successful, any failure or delay could result in the disruption of business and in the company incurring substantial expense. To minimize any such potential impact, the company has initiated a global contingency planning effort designed to support critical business operations.

As part of its ordinary course product development efforts, the company's current product and service offerings have been designed by it to be Year 2000 ready. The Year 2000 readiness of the company's customers varies, and the company continues actively to encourage its customers to prepare their own systems, making available a broad array of product, service and educational offerings to assist them (see the IBM Year 2000 Home Page at http://www.ibm.com/IBM/year2000/). Efforts by customers to address Year 2000 issues may absorb a substantial part of their information technology budgets in the near term, and customers may either delay or accelerate the deployment and implementation of new applications and systems. While this behavior may increase demand for certain of the company's products and services, including its Year 2000 offerings, it could also soften demand for other offerings or change customer buying practices from past trends. These events could affect the company's revenues or change its revenue patterns.

The company is also continuing its assessment of the Year 2000 readiness of its key suppliers in an effort to establish that the company has adequate resources for required supplies and components. With respect to third-party products the company may remarket or provide with the company's offerings (such as third-party software pre-loaded on the company's personal computers), the company relies on its business partners and other third parties to be responsible for the Year 2000 readiness of their offerings. A failure of the company's suppliers, business partners and other third parties to address adequately their Year 2000 readiness could affect the company's business. As part of its contingency planning efforts, the company is identifying alternate sources or strategies where necessary if significant exposures are identified.

Further, some commentators believe that a significant amount of litigation will arise from Year 2000 issues. The company continues to believe that it has good defenses to any such claims brought against it.

Finally, the Year 2000 presents a number of other risks and uncertainties that could affect the company, including utilities and telecommunications failures, competition for personnel skilled in the resolution of Year 2000 issues, and the nature of government responses to Year 2000 issues, among others. While the company continues to believe that the Year 2000 matters discussed above will not have a material impact on its business, financial condition or results of operations, it remains uncertain whether or to what extent the company may be affected.

The Year 2000 statements set forth above are designated as "Year 2000 Readiness Disclosures" pursuant to the Year 2000 Information and Readiness Disclosure Act (P.L. 105-271).

(Dollars in millions except per share amounts)

For the year ended December 31:	Notes	1998	1997*	1996*
Revenue:				
Hardware segments		**$ 35,419**	$ 36,630	$ 36,634
Global Services segment		**28,916**	25,166	22,310
Software segment		**11,863**	11,164	11,426
Global Financing segment		**2,877**	2,806	3,054
Enterprise Investments segment /Other		**2,592**	2,742	2,523
Total revenue		**81,667**	78,508	75,947
Cost:				
Hardware segments		**24,214**	23,473	22,888
Global Services segment		**21,125**	18,464	16,270
Software segment		**2,260**	2,785	2,946
Global Financing segment		**1,494**	1,448	1,481
Enterprise Investments segment /Other		**1,702**	1,729	1,823
Total cost		**50,795**	47,899	45,408
Gross profit		**30,872**	30,609	30,539
Operating expenses:				
Selling, general and administrative	R	**16,662**	16,634	16,854
Research, development and engineering	S	**5,046**	4,877	5,089
Total operating expenses		**21,708**	21,511	21,943
Operating income		**9,164**	9,098	8,596
Other income, principally interest		**589**	657	707
Interest expense	L	**713**	728	716
Income before income taxes		**9,040**	9,027	8,587
Provision for income taxes	Q	**2,712**	2,934	3,158
Net income		**6,328**	6,093	5,429
Preferred stock dividends		**20**	20	20
Net income applicable to common shareholders		**$ 6,308**	$ 6,073	$ 5,409
Earnings per share of common stock—basic	T	**$ 6.75**	$ 6.18	$ 5.12
Earnings per share of common stock—assuming dilution	T	**$ 6.57**	$ 6.01	$ 5.01

Average number of common shares outstanding:
Basic: 1998–934,502,785; 1997–983,286,361; 1996–1,056,704,188
Assuming dilution: 1998–960,065,235; 1997–1,010,934,942; 1996–1,079,708,904

* Reclassified to conform to 1998 presentation.
The notes on pages 69 through 89 of the 1998 IBM Annual Report are an integral part of this statement.

(Dollars in millions)

At December 31:	Notes	1998	1997*
Assets			
Current assets:			
Cash and cash equivalents		$ 5,375	$ 7,106
Marketable securities	M	393	447
Notes and accounts receivable — trade, net of allowances		18,958	16,850
Sales-type leases receivable		6,510	5,720
Other accounts receivable		1,313	1,256
Inventories	F	5,200	5,139
Prepaid expenses and other current assets		4,611	3,900
Total current assets		42,360	40,418
Plant, rental machines and other property	G	44,870	42,133
Less: Accumulated depreciation		25,239	23,786
Plant, rental machines and other property — net		19,631	18,347
Software, less accumulated amortization (1998–$12,516; 1997–$12,610)		599	819
Investments and sundry assets	H	23,510	21,915
Total assets		$ 86,100	$ 81,499
Liabilities and Stockholders' Equity			
Current liabilities:			
Taxes	Q	$ 3,125	$ 2,381
Short-term debt	K & M	13,905	13,230
Accounts payable		6,252	5,215
Compensation and benefits		3,530	3,043
Deferred income		4,115	3,445
Other accrued expenses and liabilities		5,900	6,193
Total current liabilities		36,827	33,507
Long-term debt	K & M	15,508	13,696
Other liabilities	N	12,818	12,993
Deferred income taxes	Q	1,514	1,487
Total liabilities		66,667	61,683
Contingencies	P		
Stockholders' equity:	O		
Preferred stock, par value $.01 per share		247	252
Shares authorized: 150,000,000			
Shares issued (1998–2,546,011; 1997–2,597,261)			
Common stock, par value $.50 per share		10,121	8,601
Shares authorized: 1,875,000,000			
Shares issued (1998–926,869,052; 1997–969,015,351)			
Retained earnings		10,141	11,010
Treasury stock, at cost (shares: 1998–962,146; 1997–923,955)		(133)	(86)
Employee benefits trust (shares: 1998–10,000,000; 1997–10,000,000)		(1,854)	(860)
Accumulated gains and losses not affecting retained earnings		911	899
Total stockholders' equity		19,433	19,816
Total liabilities and stockholders' equity		$ 86,100	$ 81,499

* Reclassified to conform to 1998 presentation.
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(Dollars in millions)	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Employee Benefits Trust	Accumulated Gains and Losses Not Affecting Retained Earnings	Total
1996*							
Stockholders' equity, January 1, 1996	$ 253	$ 7,488	$ 11,630	$ (41)	$ —	$ 3,093	$ 22,423
Net income plus gains and losses not affecting retained earnings:							
Net income			5,429				$ 5,429
Gains and losses not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax expense of $19)						(635)	(635)
Net unrealized gains on marketable securities (net of tax expense of $71)						111	111
Total gains and losses not affecting retained earnings							(524)
Subtotal: Net income plus gains and losses not affecting retained earnings							$ 4,905
Cash dividends declared—common stock			(686)				(686)
Cash dividends declared—preferred stock			(20)				(20)
Common stock purchased and retired (97,951,400 shares)		(710)	(5,046)				(5,756)
Common stock issued under employee plans (19,694,458 shares)		811	(13)				798
Purchases (8,914,332 shares) and sales (7,584,432 shares) of treasury stock under employee plans—net			(105)	(94)			(199)
Tax effect—stock transactions		163					163
Stockholders' equity, December 31, 1996	253	7,752	11,189	(135)	—	2,569	21,628
1997*							
Net income plus gains and losses not affecting retained earnings:							
Net income			6,093				$ 6,093
Gains and losses not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax expense of $24)						(1,610)	(1,610)
Net unrealized losses on marketable securities (net of tax benefit of $37)						(60)	(60)
Total gains and losses not affecting retained earnings							(1,670)
Subtotal: Net income plus gains and losses not affecting retained earnings							$ 4,423
Cash dividends declared—common stock			(763)				(763)
Cash dividends declared—preferred stock			(20)				(20)
Common stock purchased and retired (68,777,336 shares)		(565)	(5,455)				(6,020)
Preferred stock purchased and retired (13,450 shares)	(1)						(1)
Common stock issued under employee plans (19,651,603 shares)		985	(2)				983
Purchases (3,850,643 shares) and sales (5,105,754 shares) of treasury stock under employee plans—net			(32)	49			17
Employee benefits trust (10,000,000 shares)					(860)		(860)
Tax effect—stock transactions		429					429
Stockholders' equity, December 31, 1997	$ 252	$ 8,601	$ 11,010	$ (86)	$ (860)	$ 899	$ 19,816

(Dollars in millions)	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Employee Benefits Trust	Accumulated Gains and Losses Not Affecting Retained Earnings	Total
1998							
Stockholders' equity, December 31, 1997	$ 252	$ 8,601	$ 11,010	$ (86)	$ (860)	$ 899	$ 19,816
Net income plus gains and losses not affecting retained earnings:							
Net income			6,328				$ 6,328
Gains and losses not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax benefit of $45)						69	69
Net unrealized losses on marketable securities (net of tax benefit of $36)						(57)	(57)
Total gains and losses not affecting retained earnings							12
Subtotal: Net income plus gains and losses not affecting retained earnings							$ 6,340
Cash dividends declared—common stock			(814)				(814)
Cash dividends declared—preferred stock			(20)				(20)
Common stock purchased and retired (56,996,818 shares)		(556)	(6,291)				(6,847)
Preferred stock purchased and retired (51,250 shares)	(5)						(5)
Common stock issued under employee plans (14,850,519 shares)		709	(1)				708
Purchases (4,163,057 shares) and sales (4,124,866 shares) of treasury stock under employee plans—net			(71)	(47)			(118)
Fair value adjustment of employee benefits trust		1,002			(994)		8
Tax effect—stock transactions		365					365
Stockholders' equity, December 31, 1998	$ 247	$ 10,121	$ 10,141	$ (133)	$ (1,854)	$ 911	$ 19,433

* Reclassified to conform to 1998 presentation.
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(Dollars in millions)

For the year ended December 31:	1998	1997	1996*
Cash flow from operating activities:			
Net income	**$ 6,328**	$ 6,093	$ 5,429
Adjustments to reconcile net income to cash provided from operating activities:			
Depreciation	**4,475**	4,018	3,676
Amortization of software	**517**	983	1,336
Effect of restructuring charges	**(355)**	(445)	(1,491)
Deferred income taxes	**(606)**	358	11
Gain on disposition of fixed and other assets	**(261)**	(273)	(300)
Other changes that (used) provided cash:			
Receivables	**(2,736)**	(3,727)	(650)
Inventories	**73**	432	196
Other assets	**880**	(1,087)	(545)
Accounts payable	**362**	699	319
Other liabilities	**596**	1,814	2,294
Net cash provided from operating activities	**9,273**	8,865	10,275
Cash flow from investing activities:			
Payments for plant, rental machines and other property	**(6,520)**	(6,793)	(5,883)
Proceeds from disposition of plant, rental machines and other property	**905**	1,130	1,314
Acquisition of Tivoli Systems, Inc.	**—**	—	(716)
Investment in software	**(250)**	(314)	(295)
Purchases of marketable securities and other investments	**(4,211)**	(1,617)	(1,613)
Proceeds from marketable securities and other investments	**3,945**	1,439	1,470
Net cash used in investing activities	**(6,131)**	(6,155)	(5,723)
Cash flow from financing activities:			
Proceeds from new debt	**7,567**	9,142	7,670
Short-term borrowings less than 90 days—net	**499**	(668)	(919)
Payments to settle debt	**(5,942)**	(4,530)	(4,992)
Preferred stock transactions—net	**(5)**	(1)	—
Common stock transactions—net	**(6,278)**	(6,250)	(5,005)
Cash dividends paid	**(834)**	(783)	(706)
Net cash used in financing activities	**(4,993)**	(3,090)	(3,952)
Effect of exchange rate changes on cash and cash equivalents	**120**	(201)	(172)
Net change in cash and cash equivalents	**(1,731)**	(581)	428
Cash and cash equivalents at January 1	**7,106**	7,687	7,259
Cash and cash equivalents at December 31	**$ 5,375**	$ 7,106	$ 7,687
Supplemental data:			
Cash paid during the year for:			
Income taxes	**$ 1,929**	$ 2,472	$ 2,229
Interest	**$ 1,605**	$ 1,475	$ 1,563

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