O TAXES

(dollars in millions)

FOR THE YEAR ENDED DECEMBER 31:	2000	1999	1998
Income before income taxes:			
U.S. operations	$ 5,871	$ 5,892	$ 2,960
Non-U.S. operations	5,663	5,865	6,080
	$ 11,534	$ 11,757	$ 9,040
The provision for income taxes by geographic operations is as follows:			
U.S. operations	$ 1,692	$ 2,005	$ 991
Non-U.S. operations	1,749	2,040	1,721
Total provision for income taxes	$ 3,441	$ 4,045	$ 2,712

The components of the provision for income taxes by taxing jurisdiction are as follows:

(dollars in millions)

FOR THE YEAR ENDED DECEMBER 31:	2000	1999	1998
U.S. federal:			
Current	$ 613	$ 1,759	$ 1,117
Deferred	286	(427)	(475)
	899	1,332	642
U.S. state and local:			
Current	192	272	139
Deferred	47	7	(260)
	239	279	(121)
Non-U.S.:			
Current	2,607	2,727	2,062
Deferred	(304)	(293)	129
	2,303	2,434	2,191
Total provision for income taxes	3,441	4,045	2,712
Provision for social security, real estate, personal property and other taxes	2,766	2,831	2,859
Total provision for taxes	$ 6,207	$ 6,876	$ 5,571

The effect of tax law changes on deferred tax assets and liabilities did not have a significant effect on the company's effective tax rate.

The significant components of activities that gave rise to deferred tax assets and liabilities that are recorded on the balance sheet were as follows:

DEFERRED TAX ASSETS

(dollars in millions)

AT DECEMBER 31:	2000	1999
Employee benefits	$ 3,673	$ 3,737
Alternative minimum tax credits	1,424	1,244
Bad debt, inventory and warranty reserves	953	1,093
Capitalized research and development	848	880
Deferred income	837	870
General business credits	655	605
Infrastructure reduction charges	617	918
Foreign tax loss carryforwards	489	406
Equity alliances	437	377
Depreciation	376	326
State and local tax loss carryforwards	246	227
Intracompany sales and services	149	153
Other	2,809	2,763
Gross deferred tax assets	13,513	13,599
Less: Valuation allowance	572	647
Net deferred tax assets	$ 12,941	$ 12,952

DEFERRED TAX LIABILITIES

(dollars in millions)

AT DECEMBER 31:	2000	1999
Retirement benefits	$ 3,447	$ 3,092
Sales-type leases	2,450	2,914
Depreciation	1,179	1,237
Software costs deferred	306	250
Other	1,836	2,058
Gross deferred tax liabilities	$ 9,218	$ 9,551

The valuation allowance at December 31, 2000, principally applies to certain state and local, and foreign tax loss carryforwards that, in the opinion of management, are more likely than not to expire before the company can use them.

A reconciliation of the company's effective tax rate to the statutory U.S. federal tax rate is as follows:

FOR THE YEAR ENDED DECEMBER 31:	2000	1999	1998
Statutory rate	35%	35%	35%
Foreign tax differential	(6)	(2)	(6)
State and local	1	1	1
Valuation allowance related items	(1)	—	(1)
Other	1	—	1
Effective rate	30%	34%	30%

For tax return purposes, the company has available tax credit carryforwards of approximately $2,079 million, of which $1,424 million have an indefinite carryforward period and the remainder begin to expire in 2004. The company also has state and local, and foreign tax loss carryforwards, the tax effect of which is $735 million. Most of these carryforwards are available for more than 5 years or have an indefinite carryforward period.

Undistributed earnings of non-U.S. subsidiaries included in consolidated retained earnings were $15,472 million at December 31, 2000, $14,900 million at December 31, 1999, and $13,165 million at December 31, 1998. These earnings, which reflect full provision for non-U.S. income taxes, are indefinitely reinvested in non-U.S. operations or will be remitted substantially free of additional tax.

P ADVERTISING

Advertising expense, which includes media, agency and promotional expenses, was $1,746 million, $1,758 million and $1,681 million in 2000, 1999 and 1998, respectively, and is recorded in Selling, general and administrative expense.

Q 1999 ACTIONS

Technology Group Actions

During 1999, the company implemented actions that were designed to better align the operations and cost structure of IBM's Technology Group with that group's strategic direction in view of the competitive environment, overcapacity in the industry and resulting pricing pressures. The actions affected the Microelectronics Division (MD), the Storage Technology Division (STD)—previously known as the Storage Systems Division—and the Networking Hardware Division (NHD) of the company's Technology Group. The company completed these actions during the first half of 2000.

In total, the Technology Group actions resulted in a charge of $1,690 million ($1,366 million after tax, or $.73 per diluted common share) as described below and in the table on page 82.

The actions within MD addressed a prolonged, industry-wide downturn in memory chip prices that affected the results of the company's semiconductor business. They were intended to enable the company to (1) reconfigure the assets and capabilities of the division to allow more focus on the faster-growth, higher-margin custom logic portion of the MD business and (2) enhance its ability to more cost-effectively manage a partnership agreement that was formed to produce complementary metal oxide semiconductor (CMOS) based logic components.

The company reduced its internal dynamic random access memory (DRAM) capacity by converting its manufacturing facility in Essonnes, France, from DRAM to custom logic. The company effected that conversion through a joint venture with Infineon Technologies, a subsidiary of Siemens AG. Also related to DRAM, the company executed contracts with various banks and other financing institutions to sell and lease back test equipment.

The company also participated in a 50/50 joint venture (Dominion Semiconductor Company) with Toshiba Corporation to produce DRAM memory components. The company entered into an agreement whereby Toshiba assumed the company's interest in Dominion effective December 1, 2000. The company participated in the capacity output of Dominion at a significantly reduced rate in the interim period.

The company held a majority interest in a joint venture (MiCRUS) with Cirrus Logic Inc. (the partner) to produce CMOS-based logic components for IBM and its partner based on contractual capacity agreements. The partner indicated that it would not require the output capacity that was provided for in the partnership agreement. The company determined that the most cost-effective manner in which to address the partner's desire to exit the partnership agreement was to acquire the minority interest held by that partner and to cut back production. In the second quarter of 1999, the company accrued related costs associated with the MiCRUS operations. The liability created was primarily for lease termination charges for equipment under the MiCRUS operation. Since June 1999, related activities were under way and were completed in June 2000. The liabilities accrued in the second quarter of 1999 were utilized during the second quarter of 2000. In June 2000, the company sold its MiCRUS semiconductor operations to Philips Semiconductors, an affiliate of Royal Philips Electronics.

The company also announced aggressive steps intended to improve its competitive position in the markets that STD serves by merging server hard disk drive (HDD) product lines and realigning operations. The company integrated all server HDDs into a single low-cost design platform that uses common development and manufacturing processes. The company transferred manufacturing assembly and test operations to Hungary and Mexico and completed these actions by mid 2000.

The actions within NHD relate to a global alliance with Cisco Systems, Inc. As a result of the announcement of the alliance, demand for the router and switch products by both existing and new customers deteriorated.

The following table identifies the significant components of the pre-tax charge related to the 1999 actions and the liability as of December 31, 2000 and 1999:

(dollars in millions)	*Total Pre-Tax Charges**	*Investments and Other Asset Write-Downs*	*Liability Created in 1999*	*Payments*	*Other Adjustments***	*Liability as of December 31, 1999*	*Payments*	*Other Adjustments***	*Liability as of December 31, 2000*
Technology Group									
MD Actions:									
DRAM									
Equipment (1)	$ 662	$ 662	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Employee terminations: (2)(8)									
Current	30	—	30	15	18	33	44	26	15
Non-current	137	—	137	—	(21)	116	—	(30)	86
Dominion investment (3)	171	171	—	—	—	—	—	—	—
MiCRUS investment (4)(8)	152	—	152	—	—	152	152	—	—
STD Actions:									
Equipment (5)	337	337	—	—	—	—	—	—	—
Employee terminations (6)(8)	23	—	23	16	—	7	7	—	—
NHD Action:									
Inventory write-downs and contract cancellations (7)	178	178	—	—	—	—	—	—	—
Total 1999 actions	$ 1,690	$ 1,348	$ 342	$ 31	$ (3)	$ 308	$ 203	$ (4)	$ 101

* *With the exception of NHD inventory write-downs, all charges were recorded in Selling, general and administrative expense. NHD inventory write-downs were recorded in Hardware cost.*

** *Principally represents reclassification of non-current to current and translation adjustments.*

(1) *Represents (a) the difference between net book value and fair value of assets that were contributed to a joint venture, (b) the book value of assets that were removed from service as a result of the MD actions and were scrapped during the second quarter of 1999 and (c) the difference between the net book value and the appraised fair value of test equipment that is subject to sale-leaseback agreements and that is being used and appropriately expensed.*

(2) *Workforce reductions that affected approximately 790 employees (455 direct manufacturing and 335 indirect manufacturing) in France. The workforce reductions were completed by the end of the first quarter of 2000.*

(3) *Write-off of investment in joint venture at the signing of the agreement with Toshiba Corporation.*

(4) *Acquisition of minority interest in MiCRUS and charges for equipment leasehold cancellation liabilities and lease rental payments for idle equipment. The MiCRUS semiconductor operation was sold to Philips Semiconductors during June 2000.*

(5) *Represents (a) the book value of assets that were removed from service as a result of the STD actions and were scrapped during the second and third quarters of 1999, (b) write-downs to fair value of equipment under contract for sale and delivery by December 1, 1999 ($29 million), and March 31, 2000 ($5 million), and (c) the difference between the net book value and the appraised fair value of equipment that is subject to sale-leaseback agreements and that is being used and appropriately expensed.*

(6) *Workforce reductions that affected approximately 900 employees (780 direct manufacturing and 120 indirect manufacturing) in the United States. The workforce reductions were completed by the end of the first quarter of 2000.*

(7) *Write-down to net realizable value of inventory of router and switch products ($144 million) and contract cancellation fees ($34 million) related to deterioration in demand for router and switch products.*

(8) *The 1999 year-end and 2000 amounts are also disclosed in note L, "Other Liabilities," on page 78.*

Change in Estimate

As a result of a change in the estimated useful life of personal computers from five years to three years, the company recognized a charge in the second quarter of 1999 of $404 million ($241 million after tax, $.13 per diluted common share). In the second quarter of 1999, the company wrote off the net book value of personal computers that were three years old or older and, therefore, had no remaining useful life. The remaining book value of the assets will be depreciated over the remaining new useful life. The net effect on future operations is expected to be minimal as the increased depreciation due to the shorter life will be offset by the lower depreciable base attributable to the write-off of personal computers older than three years.

R RESEARCH, DEVELOPMENT AND ENGINEERING

Research, development and engineering expense was $5,151 million in 2000, $5,273 million in 1999 and $5,046 million in 1998.

The company had expenses of $4,345 million in 2000, $4,575 million in 1999 and $4,466 million in 1998 for basic scientific research and the application of scientific advances to the development of new and improved products and their uses. Of these amounts, software-related expenses were $1,948 million, $2,036 million and $2,086 million in 2000, 1999 and 1998, respectively. Included in the expense for 2000, 1999 and 1998 are charges for acquired in-process research and development of $9 million, $111 million and $111 million, respectively. See note D, "Acquisitions/Divestitures" on pages 72 through 74 for further information about that expense.

Expenses for product-related engineering were $806 million, $698 million and $580 million in 2000, 1999 and 1998, respectively.

S EARNINGS PER SHARE OF COMMON STOCK

The following table sets forth the computation of basic and diluted earnings per share of common stock.

FOR THE YEAR ENDED DECEMBER 31:	*2000*	*1999*	*1998*
Weighted-average number of shares on which earnings per share calculations are based:			
Basic	1,763,037,049	1,808,538,346	1,869,005,570
Add—incremental shares under stock compensation plans	46,750,030	59,344,849	51,124,900
Add—incremental shares associated with contingently issuable shares	2,331,343	3,190,717	—
Assuming dilution	1,812,118,422	1,871,073,912	1,920,130,470
Net income applicable to common stockholders (millions)	$ 8,073	$ 7,692	$ 6,308
Less—net income applicable to contingently issuable shares (millions)	21	(11)	—
Net income on which diluted earnings per share is calculated (millions)	$ 8,052	$ 7,703	$ 6,308
Earnings per share of common stock:			
Assuming dilution	$ 4.44	$ 4.12	$ 3.29
Basic	$ 4.58	$ 4.25	$ 3.38

Stock options to purchase 34,633,343 common shares in 2000, 27,355,056 common shares in 1999 and 4,124,730 common shares in 1998 were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares and, therefore, the effect would have been antidilutive. In addition, 5,131,038 restricted stock units in 1998 relating to the company's Long-Term Performance Plan were not included in the computation of diluted earnings per share as their effect would have been antidilutive. Net income applicable to common stockholders excludes preferred stock dividends of $20 million for 2000, 1999 and 1998.

T RENTAL EXPENSE AND LEASE COMMITMENTS

Rental expense, including amounts charged to inventories and fixed assets and excluding amounts previously reserved, was $1,366 million in 2000, $1,397 million in 1999 and $1,431 million in 1998. The table below depicts gross minimum rental commitments under noncancelable leases, amounts related to vacant space associated with infrastructure reduction and restructuring actions taken through 1993 (previously reserved), and sublease income commitments. These amounts generally reflect activities related to office space and manufacturing equipment.

(dollars in millions)	*2001*	*2002*	*2003*	*2004*	*2005*	*Beyond 2005*
Gross rental commitments	$ 1,363	$ 1,210	$ 962	$ 650	$ 491	$ 1,586
Vacant space	166	119	71	39	33	83
Sublease income commitments	100	75	53	40	36	19

U STOCK-BASED COMPENSATION PLANS

The company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its stock-based compensation plans. A description of the terms of the company's stock-based compensation plans follows:

Long-Term Performance Plan

Incentive awards are provided to officers and other key employees under the terms of the IBM 1999 Long-Term Performance Plan, which was approved by stockholders in April 1999, and its predecessor plan, the IBM 1997 Long-Term Performance Plan ("the Plans"). The Plans are administered by the Executive Compensation and Management Resources Committee of the Board of Directors. The committee determines the type and terms of the awards to be granted, including vesting provisions.

Awards may include stock options, stock appreciation rights, restricted stock, cash or stock awards, or any combination thereof. The number of shares that may be issued under the IBM 1999 Long-Term Performance Plan is 118.7 million. There were 121.9 million and 118.7 million unused shares available to be granted under the IBM 1999 Long-Term Performance Plan as of December 31, 2000 and 1999, respectively. The increase in unused shares available resulted from the rollover of remaining 1997 Plan shares to the 1999 Plan. There were no unused shares available and 33.7 million unused shares available to be granted under the IBM 1997 Long-Term Performance Plan as of December 31, 2000 and 1999, respectively.

With the exception of stock options, these awards (which are expressed in terms of shares) are adjusted to fair value at the end of each period, and the change in value is included in net income. Awards under the Plans resulted in compensation expense of $134.0 million, $267.3 million and $322.4 million in 2000, 1999 and 1998, respectively.

STOCK OPTION GRANTS

Stock options are granted to employees at an exercise price equal to the fair market value of the company's stock at the date of grant. Generally, options vest 25 percent per year, are fully vested four years from the grant date and have a term of ten years. The following tables summarize option activity under the Plans during 2000, 1999 and 1998:

	2000		*1999*		*1998*	
	Wtd. Avg. Exercise Price	*No. of Shares Under Option*	*Wtd. Avg. Exercise Price*	*No. of Shares Under Option*	*Wtd. Avg. Exercise Price*	*No. of Shares Under Option*
Balance at January 1	$ 60	146,136,523	$ 36	131,443,850	$ 27	123,456,722
Options granted	102	42,601,014	115	42,786,845	53	41,175,350
Options exercised	35	(18,243,347)	28	(23,160,228)	22	(29,633,476)
Options canceled/expired	87	(9,937,187)	61	(4,933,944)	36	(3,554,746)
Balance at December 31	$ 73	160,557,003	$ 60	146,136,523	$ 36	131,443,850
Exercisable at December 31	$ 45	66,599,878	$ 29	51,599,735	$ 22	46,191,636

The shares under option at December 31, 2000, were in the following exercise price ranges:

	Options Outstanding			*Options Currently Exercisable*	
Exercise Price Range	*No. of Options*	*Wtd. Avg. Exercise Price*	*Wtd. Avg. Remaining Contractual Life (in years)*	*No. of Options*	*Wtd. Avg. Exercise Price*
$ 10 – 40	50,046,086	$ 28	5	42,552,911	$ 27
$ 41 – 70	30,932,902	52	7	13,935,446	52
$ 71 – 100	16,777,572	88	8	3,911,821	85
$ 101 and over	62,800,443	116	9	6,199,700	129
	160,557,003	$ 73	7	66,599,878	$ 45

IBM Employees Stock Purchase Plan

The IBM Employees Stock Purchase Plan (ESPP) enables substantially all regular employees to purchase full or fractional shares of IBM common stock through payroll deductions of up to 10 percent of eligible compensation. Effective July 1, 2000, ESPP was amended whereby the share price paid by an employee changed from 85 percent of the average market price on the last business day of each pay period, to the lesser of 85 percent of the average market price on the first business day of each offering period or 85 percent of the average market price on the last business day of each pay period. The current plan provides semi-annual offerings over the five-year period commencing July 1, 2000. ESPP participants are restricted from purchasing more than $25,000 of common stock in one calendar year or 1,000 shares in an offering period. This change is not expected to have a significant effect on the company's financial condition. The stockholders approved the current plan in 2000. Approximately 26.3 million, 57.3 million and 63.0 million reserved unissued shares were available for purchase under ESPP at December 31, 2000, 1999 and 1998, respectively. Shares for ESPP may be sourced from authorized but unissued shares, treasury shares or shares repurchased from time to time.

Pursuant to the provisions of the ESPP, during 2000, 1999 and 1998, employees paid $621 million, $514 million and $415 million, respectively, to purchase 6.9 million, 5.7 million and 8.0 million shares, respectively, all of which were treasury shares.

Pro Forma Disclosure

In accordance with APB Opinion No. 25, the company does not recognize expense for stock options granted under the Plans or for employee stock purchases under the ESPP. SFAS No. 123, "Accounting for Stock-Based Compensation," requires a company to determine the fair market value of all awards of stock-based compensation at the grant date and to disclose pro forma net income and earnings per share as if the resulting stock-based compensation amounts were recorded in the Consolidated Statement of Earnings. The table below presents these pro forma disclosures.

	2000		*1999*		*1998*	
(dollars in millions except per share amounts)	*As Reported*	*Pro Forma*	*As Reported*	*Pro Forma*	*As Reported*	*Pro Forma*
Net income applicable to common stockholders	$ 8,073	$ 7,183	$ 7,692	$ 7,044	$ 6,308	$ 5,985
Earnings per share of common stock:						
Assuming dilution	$ 4.44	$ 3.99	$ 4.12	$ 3.78	$ 3.29	$ 3.12
Basic	$ 4.58	$ 4.07	$ 4.25	$ 3.89	$ 3.38	$ 3.20

The pro forma amounts that are disclosed in accordance with SFAS No. 123 reflect the portion of the estimated fair value of awards that was earned for the years ended December 31, 2000, 1999 and 1998.

The fair market value of stock option grants is estimated using the Black-Scholes option-pricing model with the following assumptions:

	2000	*1999*	*1998*
Term (years)*	4/5	5/6	5/6
Volatility**	32.0%	27.3%	26.4%
Risk-free interest rate (zero coupon U.S. treasury note)	5.1%	6.6%	5.1%
Dividend yield	0.5%	0.4%	0.8%
Weighted-average fair value per option	$ 36	$ 46	$ 18

* *Option term is 4 years for tax incentive options and 5 years for non-tax incentive options for the year ended December 31, 2000. Option term is 5 years for tax incentive options and 6 years for non-tax incentive options for the years ended December 31, 1999 and 1998.*

** *To determine volatility, the company measured the daily price changes of the stock over the respective term for tax incentive options and non-tax incentive options.*

V RETIREMENT PLANS

The company and its subsidiaries have defined benefit and defined contribution retirement plans that cover substantially all regular employees, and a supplemental retirement plan that covers certain executives. Total retirement plan (income)/cost for the years ended December 31, 2000, 1999 and 1998, was $(728) million, $(288) million and $(89) million, respectively. Total retirement-related (income)/cost including postretirement medical coverage (see note W, "Nonpension Postretirement Benefits," on pages 88 and 89) for the years ended December 31, 2000, 1999 and 1998, was $(327) million, $83 million and $286 million, respectively.

U.S. Plans

U.S. regular, full-time and part-time employees are covered by a noncontributory plan that is funded by company contributions to an irrevocable trust fund, which is held for the sole benefit of participants.

Effective January 1, 2001, the company increased pension benefits to recipients who retired before January 1, 1997. The increases range from 2.5 percent to 25 percent, and are based on the year of retirement and the pension benefit currently being received. This improvement is expected to result in an additional cost to the company of approximately $100 million in 2001.

Effective July 1, 1999, the company amended the IBM Retirement Plan to establish the IBM Personal Pension Plan (the U.S. Plan). The new plan establishes a new formula for determining pension benefits for many of its employees. Under the amended U.S. Plan, a new formula was created whereby retirement benefits are credited to each employee's cash balance account monthly based on a percentage of the employee's pensionable compensation. Employees who were retirement eligible or within five years of retirement eligibility with at least one year of service, or who were at least forty years of age with at least ten years of service as of June 30, 1999, could elect to participate under the new formula or to have their service and earnings credit accrue under the pre-existing benefit formula. Benefits become vested on the completion of five years of service under either formula.

The number of individuals receiving benefits for this plan at December 31, 2000 and 1999, was 129,290 and 124,175, respectively. Net periodic pension (income)/cost for this plan for the years ended December 31, 2000, 1999 and 1998 was $(896) million, $(638) million and $(454) million, respectively.

U.S. regular, full-time and part-time employees are eligible to participate in the Tax Deferred Savings Plan (TDSP), which is a qualified voluntary defined contribution plan; the company matches 50 percent of the employee's contribution up to the first 6 percent of the employee's compensation. The total (income)/cost of all of the company's U.S. defined contribution plans was $294 million, $275 million and $258 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Non-U.S. Plans

Most subsidiaries and branches outside the United States have defined benefit and/or defined contribution retirement plans that cover substantially all regular employees, under which the company deposits funds under various fiduciary-type arrangements, purchases annuities under group contracts or provides reserves. Benefits are typically based on years of service and the employee's compensation, generally during a fixed number of years immediately before retirement. The ranges of assumptions that are used for the non-U.S. plans reflect the different economic environments within various countries. The total non-U.S. retirement plan (income)/cost of these plans for the years ended December 31, 2000, 1999 and 1998 was $(198) million, $7 million and $48 million, respectively.

U.S. Supplemental Executive Retention Plan

The company also has a non-qualified U.S. Supplemental Executive Retention Plan (SERP). The SERP, which is unfunded, provides defined pension benefits outside the IBM Retirement Plan to eligible executives based on average earnings, years of service and age at retirement. Effective July 1, 1999, the company adopted the Supplemental Executive Retention Plan (which replaced the previous Supplemental Executive Retirement Plan). Some participants of the pre-existing SERP will still be eligible for benefits under that plan, but will not be eligible for the new plan. The total (income)/cost of this plan for the years ended December 31, 2000, 1999 and 1998, was $24 million, $30 million and $25 million, respectively. These amounts are reflected in cost of other defined benefit plans below. At December 31, 2000 and 1999, the projected benefit obligation was $163 million and $149 million, respectively, and the amounts included in the Consolidated Statement of Financial Position were pension liabilities of $131 million and $109 million, respectively.

(INCOME)/COST OF PENSION PLANS:

	U.S. Plan			*Non-U.S. Plans*		
(dollars in millions)	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
Service cost	$ 563	$ 566	$ 532	$ 445	$ 475	$ 399
Interest cost	2,553	2,404	2,261	1,234	1,282	1,213
Expected return on plan assets	(3,902)	(3,463)	(3,123)	(2,042)	(1,937)	(1,739)
Amortization of transition assets	(141)	(140)	(140)	(10)	(11)	(10)
Amortization of prior service cost	31	(21)	16	24	25	26
Recognized actuarial losses	—	16	—	4	28	5
Settlement (gains)/losses	—	—	—	(25)	(23)	10
Net periodic pension (income)/cost— U.S. Plan and material non-U.S. Plans	$ (896)	$ (638)	$ (454)	$ (370)	$ (161)	$ (96)
Cost of other defined benefit plans	72	68	59	23	37	54
Total net periodic pension (income)/cost for all defined benefit plans	$ (824)	$ (570)	$ (395)	$ (347)	$ (124)	$ (42)
Cost of defined contribution plans	$ 294	$ 275	$ 258	$ 149	$ 131	$ 90
Total retirement plan (income)/cost recognized in the Consolidated Statement of Earnings	$ (530)	$ (295)	$ (137)	$ (198)	$ 7	$ 48

The changes in the benefit obligations and plan assets of the U.S. and material non-U.S. defined benefit plans for 2000 and 1999 were as follows:

	U.S. Plan		Non-U.S. Plans	
(dollars in millions)	*2000*	*1999*	*2000*	*1999*
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 34,434	$ 36,561	$ 21,770	$ 22,048
Service cost	563	566	445	475
Interest cost	2,553	2,404	1,234	1,282
Plan participants' contributions	—	—	28	29
Acquisitions/divestitures, net	36	68	(65)	(47)
Amendments	645	75	63	—
Actuarial losses/(gains)	1,729	(2,766)	243	522
Benefits paid from trust	(2,421)	(2,474)	(728)	(737)
Direct benefit payments	—	—	(218)	(257)
Foreign exchange impact	—	—	(1,626)	(1,552)
Plan curtailments/settlements/termination benefits	—	—	4	7
Benefit obligation at end of year	37,539	34,434	21,150	21,770
Change in plan assets:				
Fair value of plan assets at beginning of year	45,584	41,593	27,843	25,294
Actual return on plan assets	1,395	6,397	(196)	5,184
Employer contribution	—	—	66	143
Acquisitions/divestitures, net	36	68	(50)	(36)
Plan participants' contributions	—	—	28	29
Benefits paid from trust	(2,421)	(2,474)	(728)	(737)
Foreign exchange impact	—	—	(2,015)	(1,995)
Settlements	—	—	(115)	(39)
Fair value of plan assets at end of year	44,594	45,584	24,833	27,843
Fair value of plan assets in excess of benefit obligation	7,055	11,150	3,683	6,073
Unrecognized net actuarial gains	(2,768)	(7,003)	(1,860)	(4,597)
Unrecognized prior service costs	883	269	168	140
Unrecognized net transition asset	(491)	(632)	(56)	(72)
Adjustment to recognize minimum liability	—	—	(90)	(84)
Net prepaid pension asset recognized in the Consolidated Statement of Financial Position	$ 4,679	$ 3,784	$ 1,845	$ 1,460

Actuarial assumptions used to determine costs and benefit obligations for principal pension plans follow:

	U.S. Plans			Non-U.S. Plans		
WEIGHTED-AVERAGE ACTUARIAL ASSUMPTIONS AS OF DECEMBER 31:	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
Discount rate	7.25%	7.75%	6.5%	4.5-7.1%	4.5-7.3%	4.5-7.5%
Expected return on plan assets	10.0%	9.5%	9.5%	5.0-11.0%	6.0-10.5%	6.5-10.0%
Rate of compensation increase	6.0%	6.0%	5.0%	2.6-6.1%	2.6-6.1%	2.7-6.1%

The company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and the requirements of SFAS No. 87, "Employers' Accounting for Pensions."

The change in expected return on plan assets and the discount rate for the 2000 U.S. plan year had an effect of an additional $(195) million and $(26) million of net retirement plan (income)/cost, respectively, for the year ended December 31, 2000. This compares with an additional $46 million and $65 million of net retirement plan (income)/cost for the year ended December 31, 1999, as a result of plan year 1999 changes in the rate of compensation increase and the discount rate, respectively.

Net periodic pension cost is determined using the Projected Unit Credit actuarial method.

Funding Policy

It is the company's practice to fund amounts for pensions sufficient to meet the minimum requirements set forth in applicable employee benefits laws and local tax laws. From time to time, the company contributes additional amounts as it deems appropriate. Liabilities for amounts in excess of these funding levels are accrued and reported in the company's Consolidated Statement of Financial Position. The assets of the various plans include corporate equities, government securities, corporate debt securities and real estate.

Other

At December 31, 2000, the material non-U.S. defined benefit plans in which the fair value of plan assets exceeded the benefit obligation had obligations of $16,941 million and assets of $20,915 million. The material non-U.S. defined benefit plans in which the benefit obligation exceeded the fair value of plan assets had obligations of $4,209 million and assets of $3,919 million.

At December 31, 1999, the material non-U.S. defined benefit plans in which the fair value of plan assets exceeded the benefit obligation had obligations of $21,168 million and assets of $27,400 million. The material non-U.S. defined benefit plans in which the benefit obligation exceeded the fair value of plan assets had obligations of $602 million and assets of $443 million.

The change from 1999 to 2000 was the result of the company's pension plan in Japan. In 1999, the Japan pension plan assets exceeded its benefit obligation by approximately 15 percent. In 2000, the benefit obligation exceeded assets by approximately 3 percent. Total assets of this plan at December 31, 2000 exceeded $3,500 million.

W NONPENSION POSTRETIREMENT BENEFITS

The total (income)/cost of the company's nonpension postretirement benefits for the years ended December 31, 2000, 1999 and 1998 were $401 million, $371 million and $375 million, respectively. The company has a defined benefit postretirement plan that provides medical, dental and life insurance for U.S. retirees and eligible dependents. The total net (income)/cost of this plan for the years ended December 31, 2000, 1999 and 1998, was $374 million, $342 million and $331 million, respectively. Effective July 1, 1999, the company established a "Future Health Account (FHA) Plan" for employees who are more than five years away from retirement eligibility. Employees who can retire within five years retain the benefits under the company's preexisting retiree health benefits plan. Under either the FHA or the preexisting plan, there is a maximum cost to the company for retiree health care. For employees who retired before January 1, 1992, that maximum will become effective in the year 2001. For all other employees, the maximum is effective on retirement.

Certain of the company's non-U.S. subsidiaries have similar plans for retirees. However, most of the retirees outside the United States are covered by government-sponsored and administered programs. The total net (income)/cost of these plans for the years ended December 31, 2000, 1999 and 1998 was $27 million, $29 million and $44 million, respectively. At December 31, 2000 and 1999, Other liabilities on the Consolidated Statement of Financial Position include non-U.S. postretirement benefit liabilities of $208 million and $219 million, respectively.

The net periodic postretirement benefit cost for the U.S. plan for the years ended December 31 include the following components:

(dollars in millions)	*2000*	*1999*	*1998*
Service cost	$ 50	$ 48	$ 42
Interest cost	449	424	427
Expected return on plan assets	(2)	(6)	(5)
Amortization of prior service costs	(147)	(143)	(133)
Recognized actuarial losses	24	19	—
Net periodic post-retirement benefit cost	$ 374	$ 342	$ 331

The changes in the benefit obligation and plan assets of the U.S. plan for 2000 and 1999 are as follows:

(dollars in millions)	*2000*	*1999*
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 6,178	$ 6,457
Service cost	50	48
Interest cost	449	424
Amendments	—	(127)
Actuarial gains	(69)	(445)
Actuarial losses	432	371
Benefits paid from trust	(87)	(325)
Direct benefit payments	(510)	(225)
Benefit obligation at end of year	6,443	6,178
Change in plan assets:		
Fair value of plan assets at beginning of year	105	123
Actual loss on plan assets	(14)	(18)
Employer contributions	—	325
Benefits paid, net of employee contributions	(87)	(325)
Fair value of plan assets at end of year	4	105
Benefit obligation in excess of plan assets	(6,439)	(6,073)
Unrecognized net actuarial losses	986	631
Unrecognized prior service costs	(801)	(948)
Accrued postretirement benefit liability recognized in the Consolidated Statement of Financial Position	$ (6,254)	$ (6,390)

The plan assets primarily comprise short-term fixed income investments.

The benefit obligation was determined by applying the terms of medical, dental and life insurance plans, including the effects of established maximums on covered costs, together with relevant actuarial assumptions. These actuarial assumptions include a projected health care cost trend rate of 6 percent.

WEIGHTED-AVERAGE ACTUARIAL ASSUMPTIONS AS OF DECEMBER 31:	*2000*	*1999*	*1998*
Discount rate	7.25%	7.75%	6.5%
Expected return on plan assets	5.0%	5.0%	5.0%

The company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and the requirements of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The discount rate changes did not have a material effect on net postretirement benefit cost for the years ended December 31, 2000, 1999 and 1998.

A one-percentage-point change in the assumed health care cost trend rate would have the following effects as of December 31, 2000:

(dollars in millions)	*One-Percentage-Point Increase*	*One-Percentage-Point Decrease*
Effect on total service and interest cost	$ 8	$ (10)
Effect on postretirement benefit obligation	$ 52	$ (65)

X SEGMENT INFORMATION

IBM uses advanced information technology to provide customer solutions. The company operates primarily in a single industry using several segments that create value by offering a variety of solutions that include, either singularly or in some combination, technologies, systems, products, services, software and financing.

Organizationally, the company's major operations comprise three hardware product segments—Technology, Personal Systems and Enterprise Systems; a Global Services segment; a Software segment; a Global Financing segment and an Enterprise Investments segment. The segments are determined based on several factors, including customer base, homogeneity of products, technology and delivery channels.

The Technology segment produces peripheral equipment for use in general-purpose computer systems, including storage devices, networking components, advanced function printers and display devices. In addition, the segment provides components such as semiconductors and HDDs for use in the company's products and for sale to original equipment manufacturers (OEM). Major business units include Microelectronics, Storage Technology and Printing Systems.

The Personal Systems segment produces general-purpose computer systems, including some system and consumer software that operate applications for use by one user at a time (personal computer clients) or as servers. Major brands include the Aptiva home personal computers, IntelliStation workstations, IBM xSeries servers, NetVista and ThinkPad mobile systems. Also, in the first quarter of 2000, the company transferred the Retail Store Solutions (RSS) business, a leader in providing point-of-sale solutions, to the Personal Systems segment from the Enterprise Investments segment.

In the first quarter of 2000, the company reorganized the Server segment and renamed it the Enterprise Systems segment. In accordance with the organizational change, the company transferred system-level product businesses from the Technology segment to the Enterprise Systems segment. The system-level product businesses are the company's disk storage products, which include the Enterprise Storage Server known as "Shark," tape subsystems and the company's storage area networking program, and networking products. The segment also produces powerful multi-purpose computer servers that operate many open-network-based applications simultaneously for multiple users. They perform high-volume transaction processing and serve data to personal systems and other end-user devices. The servers are the engines behind the bulk of electronic business transactions, including e-commerce. Brands include the zSeries mainframe servers, the heart of the e-business infrastructure for mission-critical data and transaction processing, the IBM pSeries servers, the most powerful technologically advanced UNIX servers, and the IBM iSeries mid-range servers, integrated mid-range business servers that run sophisticated business applications.

The Global Services segment is the world's largest information technology (I/T) services provider, supporting computer hardware and software products and providing professional services to help customers of all sizes realize the full value of information technology. The segment provides value through three primary lines of business: Strategic Outsourcing Services, Business Innovation Services and Integrated Technology Services. Strategic Outsourcing Services creates business value through long-term strategic partnerships with customers by taking on responsibility for their processes and systems. Business Innovation Services provides business/industry consulting and end-to-end e-business implementation of such offerings as Supply Chain Management, Customer Relationship Management, Enterprise Resource Planning and Business Intelligence. Integrated Technology Services offers customers a single I/T partner to manage multi-vendor I/T systems' complexity in today's e-business environment including such traditional offerings as Product Support, Business Recovery

Services, Site and Connectivity Services, and Systems Management and Networking Services. Learning Services supports the three primary lines of business and helps customers design, develop and deploy curricula to educate their employees. The Global Services segment is uniquely suited to integrate the full range of the company's and key industry participants' capabilities, including hardware, software, services and research.

The Software segment delivers operating systems for the company's servers and e-business enabling software (middleware) for IBM and non-IBM platforms. The segment's business offerings align with key customer opportunity areas—transformation and integration, leveraging information, organizational effectiveness and managing technology. In addition to its own development, product and marketing effort, the segment supports more than 35,000 Independent Software Vendors to ensure that the company's software and hardware offerings are included in those partners' solutions.

The Global Financing segment is the world's largest provider of financing services for I/T. The segment provides lease and loan financing that enables the company's customers to acquire complete I/T and e-business solutions—hardware, software and services—provided by the company and its business partners. Global Financing, as a reliable source of capital for the distribution channel, also provides the company's business partners with customized commercial financing for inventory, accounts receivable and term loans, helping them manage their cash flow, invest in infrastructure and grow their business.

The Enterprise Investments segment provides industry-specific information technology solutions, supporting the hardware, software and services segments of the company. The segment develops unique products designed to meet specific marketplace requirements and to complement the company's overall portfolio of products.

Segment revenue and pre-tax income include transactions between the segments that are intended to reflect an arm's-length transfer price. Specifically, semiconductors and HDDs are sourced internally from the Technology segment for use in the manufacture of the Enterprise Systems segment and Personal Systems segment products. In addition, technology, hardware and software that are used by the Global Services segment in outsourcing engagements are sourced internally from the Technology, Enterprise Systems, Personal Systems and Software segments. For the internal use of information technology services, the Global Services segment recovers cost, as well as a reasonable fee reflecting the arm's-length value of providing the services. The Global Services segment enters into arm's-length leases at prices equivalent to market rates with the Global Financing segment to facilitate the acquisition of equipment used in outsourcing engagements. Generally, all internal transaction prices are reviewed and reset annually if appropriate.

The company uses shared-resources concepts to realize economies of scale and efficient use of resources. Thus, a considerable amount of expense is shared by all of the company's segments. This expense represents sales coverage, marketing and support functions such as Accounting, Treasury, Procurement, Legal, Human Resources, and Billing and Collections. Where practical, shared expenses are allocated based on measurable drivers of expense, e.g., headcount. When a clear and measurable driver cannot be identified, shared expenses are allocated on a financial basis that is consistent with the company's management system; e.g., image advertising is allocated based on the gross profit of the segments. In the first quarter of 2000, the company decided to allocate to specific segments certain expense items that previously were unallocated (certain infrastructure reductions and currency exchange gains and losses). The company also enhanced its pre-existing practice of allocating shared expenses, where practical, based on measurable drivers of expense to give a more precise representation of the expenses that are associated with each segment. The unallocated corporate amounts arising from certain acquisitions, indirect infrastructure reductions and certain intellectual property income are recorded in net income but are not allocated to the segments.

The following tables reflect the results of the segments consistent with the company's management system. These results are not necessarily a depiction that is in conformity with generally accepted accounting principles; e.g., employee retirement plan costs are developed using actuarial assumptions on a country-by-country basis and allocated to the segments on headcount. Different amounts could result if actuarial assumptions that are unique to the segment were used. Performance measurement is based on income before income taxes (pre-tax income). These results are used, in part, by management, both in evaluating the performance of, and in allocating resources to, each of the segments. The results for 1999 and 1998 have been reclassified to reflect the organizational changes, product transfers and expense allocation changes made in 2000.

MANAGEMENT SYSTEM SEGMENT VIEW

	Hardware							
(dollars in millions)	*Technology*	*Personal Systems*	*Enterprise Systems*	*Global Services*	*Software*	*Global Financing*	*Enterprise Investments*	*Total Segments*
2000:								
External revenue	$ 10,221	$ 16,250	$ 11,340	$ 33,152	$ 12,598	$ 3,500	$ 1,369	$ 88,430
Internal revenue	3,017	85	624	2,439	828	944	3	7,940
Total revenue	$ 13,238	$ 16,335	$ 11,964	$ 35,591	$ 13,426	$ 4,444	$ 1,372	$ 96,370
Pre-tax income/(loss)	$ 758	$ (148)	$ 2,092	$ 4,517	$ 2,793	$ 1,176	$ (297)	$ 10,891
Revenue year-to-year change	(2.7)%	1.1%	(0.9)%	2.2%	0.0%	9.6%	(17.8)%	0.6%
Pre-tax income year-to-year change	29.4%	58.9%	14.2%	1.2%	(9.9)%	12.3%	57.4%	9.2%
Pre-tax income margin	5.7%	(0.9)%	17.5%	12.7%	20.8%	26.5%	(21.6)%	11.3%
1999*:								
External revenue	$ 9,832	$ 16,118	$ 11,503	$ 32,172	$ 12,662	$ 3,219	$ 1,651	$ 87,157
Internal revenue	3,777	45	565	2,636	767	835	19	8,644
Total revenue	$ 13,609	$ 16,163	$ 12,068	$ 34,808	$ 13,429	$ 4,054	$ 1,670	$ 95,801
Pre-tax income/(loss)	$ 586	$ (360)	$ 1,832	$ 4,464	$ 3,099	$ 1,047	$ (697)	$ 9,971
Revenue year-to-year change	2.8%	20.2%	(16.9)%	9.9%	6.5%	7.5%	(9.6)%	5.1%
Pre-tax income year-to-year change	(41.3)%	63.5%	(37.4)%	23.9%	13.0%	12.3%	(5.8)%	4.3%
Pre-tax income margin	4.3%	(2.2)%	15.2%	12.8%	23.1%	25.8%	(41.7)%	10.4%
1998*:								
External revenue	$ 8,701	$ 13,419	$ 13,847	$ 28,916	$ 11,863	$ 2,979	$ 1,791	$ 81,516
Internal revenue	4,543	29	683	2,747	749	792	56	9,599
Total revenue	$ 13,244	$ 13,448	$ 14,530	$ 31,663	$ 12,612	$ 3,771	$ 1,847	$ 91,115
Pre-tax income/(loss)	$ 998	$ (986)	$ 2,928	$ 3,603	$ 2,742	$ 932	$ (659)	$ 9,558
Pre-tax income margin	7.5%	(7.3)%	20.2%	11.4%	21.7%	24.7%	(35.7)%	10.5%

**Reclassified to conform with 2000 presentation.*

Reconciliations to IBM as Reported

(dollars in millions)	*2000*	*1999**	*1998**
Revenue:			
Total reportable segments	$ 96,370	$ 95,801	$ 91,115
Other revenue and adjustments	(34)	391	151
Elimination of internal revenue	(7,940)	(8,644)	(9,599)
Total IBM Consolidated	$ 88,396	$ 87,548	$ 81,667

**Reclassified to conform with 2000 presentation.*

(dollars in millions)	*2000*	*1999**	*1998**
Pre-tax income:			
Total reportable segments	$ 10,891	$ 9,971	$ 9,558
Elimination of internal transactions	62	(47)	(162)
Sale of Global Network	—	4,057	—
1999 actions	—	(2,205)	—
Unallocated corporate amounts	581	(19)	(356)
Total IBM Consolidated	$ 11,534	$ 11,757	$ 9,040

**Reclassified to conform with 2000 presentation.*

Immaterial Items

INVESTMENT IN EQUITY ALLIANCES AND EQUITY ALLIANCES GAINS/LOSSES

The investments in equity alliances and the resulting gains and losses from these investments that are attributable to the segments do not have a significant effect on the financial results of the segments.

Segment Assets and Other Items

The assets of the hardware segments primarily are inventory and plant, property and equipment. The software segment assets mainly are plant, property and equipment, and investment in capitalized software. In the past, many of the assets utilized in the Global Services segment were shared and under ownership of the company's geographic marketing and distribution organizations and therefore were not included in any of the segment asset amounts below. In 2000, the assets discretely identifiable to and managed by the Global Services segment have been allocated to the segment and are reflected in the following table. Previously, these assets had not been allocated to any of the segments. This change was made in order to increase the level of focus and ownership on services-managed assets and to provide a more appropriate basis for business and competitive analysis. The assets primarily are accounts receivable, maintenance inventory, and plant, property and equipment including those associated with the segment's outsourcing business.

To accomplish the efficient use of the company's space and equipment, it usually is necessary for several segments to share plant, property and equipment assets. Where assets are shared, landlord ownership of the assets is assigned to one segment and is not allocated to each user segment. This is consistent with the company's management system and is reflected accordingly in the schedule below. In those cases, there will not be a precise correlation between segment pre-tax income and segment assets.

Similarly, the depreciation amounts reported by each segment are based on the assigned landlord ownership and may not be consistent with the amounts that are included in the segments' pre-tax income. The amounts that are included in pre-tax income reflect occupancy charges from the landlord segment and are not specifically identified by the management reporting system.

Capital expenditures that are reported by each segment also are in line with the landlord ownership basis of asset assignment.

The Global Financing segment amounts below for interest income and interest expense reflect the interest income and interest expense associated with the financing business, as well as the income from the investment in cash and marketable securities. Such Global Financing interest expense consists of interest expense on external debt of the Global Financing business, as well as interest expense on intercompany borrowings from other units of the company. The remaining amounts of interest income and interest expense under the caption "Total Segments" are not discretely identified to the other segments, but are included as part of an indirect expense allocation.

The segment information for 1999 and 1998 has been reclassified to reflect the organizational changes, product transfers between the segments and the aforementioned Global Services asset reclassifications.

MANAGEMENT SYSTEM SEGMENT VIEW

	Hardware							
(dollars in millions)	*Technology*	*Personal Systems*	*Enterprise Systems*	*Global Services*	*Software*	*Global Financing*	*Enterprise Investments*	*Total Segments*
2000:								
Assets	$ 9,632	$ 2,442	$ 3,141	$ 10,492	$ 2,488	$ 40,822	$ 246	$ 69,263
Depreciation/amortization	1,074	156	409	1,243	665	2,696	12	6,255
Capital expenditures/ investment in software	1,754	193	302	1,311	770	2,898	9	7,237
Interest income	—	—	—	—	—	3,051	—	3,051
Interest expense	—	—	—	—	—	1,318	—	1,318
1999*:								
Assets	$ 9,459	$ 1,611	$ 3,596	$ 9,312	$ 2,527	$ 39,686	$ 369	$ 66,560
Depreciation/amortization	2,088	147	225	1,259	576	2,976	15	7,286
Capital expenditures/ investment in software	1,803	177	338	1,292	656	3,217	12	7,495
Interest income	—	—	—	—	—	2,961	—	2,961
Interest expense	—	—	—	—	—	1,232	—	1,232
1998*:								
Assets	$ 10,191	$ 1,729	$ 2,957	$ 9,882	$ 2,577	$ 40,109	$ 307	$ 67,752
Depreciation/amortization	1,163	137	206	1,331	681	2,768	15	6,301
Capital expenditures/ investment in software	2,006	173	309	1,528	424	3,438	19	7,897
Interest income	—	—	—	—	—	2,725	—	2,725
Interest expense	—	—	—	—	—	1,252	—	1,252

* *Reclassified to conform with 2000 presentation.*

Reconciliations to IBM as Reported

(dollars in millions)	*2000*	*1999**	*1998**
Assets:			
Total reportable segments	$ 69,263	$ 66,560	$ 67,752
Elimination of internal transactions	(5,300)	(5,776)	(7,519)
Unallocated amounts:			
Cash and marketable securities	2,268	4,563	4,295
Notes and accounts receivable	3,145	2,658	3,085
Deferred tax assets	5,498	5,428	5,376
Plant, other property and equipment	3,798	4,161	5,720
Pension assets	6,809	5,636	4,836
Other	2,868	4,265	2,555
Total IBM Consolidated	$ 88,349	$ 87,495	$ 86,100

**Reclassified to conform with 2000 presentation.*

Revenue by Classes of Similar Products or Services

For the Personal Systems, Software and Global Financing segments, the segment data on page 91 represents the revenue contributions from the products that are contained in the segments and that are basically similar in nature. The following table provides external revenue for similar classes of products within the Technology, Enterprise Systems and Global Services segments. The Technology segment's OEM hardware comprises revenue primarily from the sale of HDD storage files, semiconductors and display devices. Other technology comprises advanced function printers and networking components. The Enterprise Systems segment's storage comprises revenue from the Enterprise Storage Server ("Shark"), other disk storage products and tape subsystems.

	Consolidated		
(dollars in millions)	*2000*	*1999**	*1998**
Technology:			
OEM	$ 8,305	$ 7,794	$ 6,742
Other technology	1,916	2,038	1,959
Enterprise Systems:			
Servers	$ 8,692	$ 8,718	$ 10,624
Storage	2,490	2,356	2,439
Networking products	158	429	784
Global Services:			
Services	$ 28,036	$ 27,035	$ 23,730
Maintenance	5,116	5,137	5,186

**Reclassified to conform with 2000 presentation.*

Major Customers

No single customer represents 10 percent or more of the company's total revenue.

Geographic Information

	*Revenue**			*Long-lived Assets***		
(dollars in millions)	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
United States	$ 37,216	$ 37,171	$ 35,303	$ 21,449	$ 19,309	$ 18,450
Japan	12,128	10,411	8,567	4,319	4,710	4,310
Other countries	39,052	39,966	37,797	10,029	10,259	12,343
Total	$ 88,396	$ 87,548	$ 81,667	$ 35,797	$ 34,278	$ 35,103

** Revenues are attributed to countries based on location of customer.*

***Includes all non-current assets except non-current financial instruments and deferred tax assets.*