

[Table of Contents](#)

38

Management Discussion

International Business Machines Corporation and Subsidiary Companies

Total consolidated other (income) and expense was expense of \$861 million in 2020 compared to income of \$968 million in 2019. The year-to-year change was primarily driven by:

- Lower gains from divestitures (\$733 million) reflected in Other;
- Higher non-operating retirement-related costs (\$508 million). Refer to “Retirement-Related Plans” for additional information.
- Net exchange losses (including derivative instruments) in the current year versus net exchange gains (including derivative instruments) in the prior year (\$277 million); and
- Lower interest income (\$244 million) driven by lower interest rates and a lower average cash balance in the current year.

Operating (non-GAAP) other (income) and expense was \$265 million of income in 2020 and decreased \$1,167 million compared to the prior-year period. The year-to-year change was primarily driven by the lower gains from divestitures, effects of currency and lower interest income described above.

Interest Expense

(\$ in millions)

For the year ended December 31:	2020	2019	Yr.-to-Yr. Percent Change
Total consolidated interest expense	\$1,288	\$1,344	(4.2)%
Non-operating adjustment			
Acquisition-related charges	—	(228)	(100.0)
Operating (non-GAAP) interest expense	\$1,288	\$1,116	15.4 %

Interest expense decreased \$56 million compared to 2019. Interest expense is presented in cost of financing in the Consolidated Income Statement only if the related external borrowings are to support the Global Financing external business. Overall interest expense (excluding capitalized interest) in 2020 was \$1,738 million, a decrease of \$214 million year to year primarily driven by lower average interest rates.

Operating (non-GAAP) interest expense increased \$172 million compared to the prior-year period. The prior year excluded Red Hat pre-closing debt financing costs and the current year included a full year of interest expense associated with the higher level of debt.

Stock-Based Compensation

Pre-tax stock-based compensation cost of \$937 million increased \$258 million compared to 2019. This was primarily due to increases related to a full year of compensation expense associated with the issuances and conversions of stock-based compensation for Red Hat (\$167 million) compared to six months in 2019, and issuances of restricted stock units (\$91 million). Stock-based compensation cost, and the year-to-year change, was reflected in the following categories: Cost: \$153 million, up \$53 million; SG&A expense: \$586 million, up \$134 million; and RD&E expense: \$198 million, up \$72 million.

Retirement-Related Plans

The following table provides the total pre-tax cost for all retirement-related plans. Total operating costs/(income) are included in the Consolidated Income Statement within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants.

(\$ in millions)

For the year ended December 31:	2020	2019	Yr.-to-Yr. Percent Change
Retirement-related plans—cost			
Service cost	\$ 406	\$ 385	5.5 %
Multi-employer plans	29	32	(7.9)
Cost of defined contribution plans	1,058	1,040	1.8
Total operating costs/(income)	\$ 1,494	\$ 1,457	2.5 %
Interest cost	\$ 2,203	\$ 2,929	(24.8)%
Expected return on plan assets	(3,448)	(4,192)	(17.8)
Recognized actuarial losses	2,285	1,819	25.7