

## Contractual Obligations

(\$ in millions)

|   | Total Contractual<br>Payment Stream | Payments Due In |                 |                 |                 |
|---|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
|   |                                     | 2020            | 2021–22         | 2023–24         | After 2024      |
| Long-term debt obligations                                | \$62,003                            | \$ 7,474        | \$16,910        | \$11,648        | \$25,971        |
| Interest on long-term debt obligations                    | 16,299                              | 1,703           | 2,753           | 2,121           | 9,722           |
| Finance lease obligations*                                | 204                                 | 52              | 91              | 32              | 29              |
| Operating lease obligations*                              | 5,605                               | 1,486           | 2,126           | 1,187           | 806             |
| Purchase obligations                                      | 4,952                               | 1,379           | 1,832           | 1,530           | 211             |
| Other long-term liabilities:                              |                                     |                 |                 |                 |                 |
| Minimum defined benefit plan pension funding (mandated)** | 1,500                               | 300             | 600             | 600             |                 |
| Excess 401(k) Plus Plan                                   | 1,734                               | 213             | 471             | 531             | 519             |
| Long-term termination benefits                            | 972                                 | 214             | 138             | 108             | 512             |
| Tax reserves <sup>+</sup>                                 | 4,582                               | 236             |                 |                 |                 |
| Other   | 951                                 | 385             | 218             | 72              | 276             |
| <b>Total</b>  | <b>\$98,801</b>                     | <b>\$13,442</b> | <b>\$25,139</b> | <b>\$17,829</b> | <b>\$38,046</b> |

\* Finance lease obligations are presented on a discounted cash flow basis, whereas operating lease obligations are presented on an undiscounted cash flow basis.

\*\*As funded status on plans will vary, obligations for mandated minimum pension payments after 2024 could not be reasonably estimated.

<sup>+</sup> These amounts represent the liability for unrecognized tax benefits. We estimate that approximately \$236 million of the liability is expected to be settled within the next 12 months. The settlement period for the noncurrent portion of the income tax liability cannot be reasonably estimated as the timing of the payments will depend on the progress of tax examinations with the various tax authorities; however, it is not expected to be due within the next 12 months.

Certain contractual obligations reported in the previous table exclude the effects of time value and therefore, may not equal the amounts reported in the Consolidated Balance Sheet. Certain noncurrent liabilities are excluded from the previous table as their future cash outflows are uncertain. This includes deferred taxes, derivatives, deferred income, disability benefits and other sundry items. Certain obligations related to our divestitures are included.

Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that meet any of the following criteria: (1) they are noncancelable, (2) we would incur a penalty if the agreement was canceled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services (take-or-pay). If the obligation to purchase goods or services is noncancelable, the entire value of the contract is included in the previous table. If the obligation is cancelable, but we would incur a penalty if canceled, the dollar amount of the penalty is included as a purchase obligation. Contracted minimum amounts specified in take-or-pay contracts are also included in the table as they represent the portion of each contract that is a firm commitment.

In the ordinary course of business, we enter into contracts that specify that we will purchase all or a portion of our requirements of a specific product, commodity or service from a supplier or vendor. These contracts are generally entered into in order to secure pricing or other negotiated terms. They do not specify fixed or minimum quantities to be purchased and, therefore, we do not consider them to be purchase obligations.

Interest on floating-rate debt obligations is calculated using the effective interest rate at December 31, 2019, plus the interest rate spread associated with that debt, if any.

## Off-Balance Sheet Arrangements

From time to time, we may enter into off-balance sheet arrangements as defined by SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."

At December 31, 2019, we had no such off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. See the table above for our contractual obligations, and note R, "Commitments & Contingencies," for detailed information about our guarantees, financial commitments and indemnification arrangements. We do not have retained interests in assets transferred to unconsolidated entities or other material off-balance sheet interests or instruments.

## Critical Accounting Estimates

The application of GAAP requires IBM to make estimates and assumptions about certain items and future events that directly affect its reported financial condition. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to IBM's financial condition. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of IBM's Board of Directors. Our significant accounting policies are described in note A, "Significant Accounting Policies."

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to