

Consolidated Income Statement

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2019	2018	2017
Revenue				
Services		\$47,493	\$49,257*	\$48,652*
Sales		28,252	28,735*	28,772*
Financing		1,402	1,599	1,715
Total revenue	C	77,147	79,591	79,139
Cost				
Services		32,491	33,687*	33,399*
Sales		7,263	7,835*	7,587*
Financing		904	1,132	1,210
Total cost		40,659	42,655	42,196
Gross profit		36,488	36,936	36,943
Expense and other (income)				
Selling, general and administrative		20,604	19,366	19,680
Research, development and engineering	F	5,989	5,379	5,590
Intellectual property and custom development income		(648)	(1,026)	(1,466)
Other (income) and expense		(968)	1,152	1,125
Interest expense	P&T	1,344	723	615
Total expense and other (income)		26,322	25,594	25,543
Income from continuing operations before income taxes		10,166	11,342	11,400
Provision for income taxes	G	731	2,619	5,642
Income from continuing operations		9,435	8,723	5,758
Income/(loss) from discontinued operations, net of tax		(4)	5	(5)
Net income		\$ 9,431	\$ 8,728	\$ 5,753
Earnings/(loss) per share of common stock				
Assuming dilution				
Continuing operations	H	\$ 10.57	\$ 9.51	\$ 6.14
Discontinued operations	H	(0.01)	0.01	0.00
Total	H	\$ 10.56	\$ 9.52	\$ 6.14
Basic				
Continuing operations	H	\$ 10.63	\$ 9.56	\$ 6.17
Discontinued operations	H	0.00	0.01	0.00
Total	H	\$ 10.63	\$ 9.57	\$ 6.17
Weighted-average number of common shares outstanding				
Assuming dilution		892,813,376	916,315,714	937,385,625
Basic		887,235,105	912,048,072	932,828,295

* Reclassified to conform to 2019 presentation. Refer to "Basis of Presentation" in note A, "Significant Accounting Policies."

Amounts may not add due to rounding.

The accompanying notes are an integral part of the financial statements.

(\$ in millions)

For the year ended December 31:	Notes	2019	2018	2017
Net income		\$ 9,431	\$8,728	\$5,753
Other comprehensive income/(loss), before tax				
Foreign currency translation adjustments	S	(39)	(730)	152
Net changes related to available-for-sale securities	S			
Unrealized gains/(losses) arising during the period		1	(2)	1
Reclassification of (gains)/losses to net income		—	—	1
Total net changes related to available-for-sale securities		1	(2)	2
Unrealized gains/(losses) on cash flow hedges	S			
Unrealized gains/(losses) arising during the period		(689)	(136)	(58)
Reclassification of (gains)/losses to net income		75	449	(363)
Total unrealized gains/(losses) on cash flow hedges		(614)	313	(421)
Retirement-related benefit plans	S			
Prior service costs/(credits)		(73)	(182)	0
Net (losses)/gains arising during the period		(120)	(2,517)	682
Curtailments and settlements		41	11	19
Amortization of prior service (credits)/costs		(9)	(73)	(88)
Amortization of net (gains)/losses		1,843	2,966	2,889
Total retirement-related benefit plans		1,681	204	3,502
Other comprehensive income/(loss), before tax	S	1,029	(215)	3,235
Income tax (expense)/benefit related to items of other comprehensive income	S	(136)	(262)	(429)
Other comprehensive income/(loss)	S	893	(476)	2,806
Total comprehensive income		\$10,324	\$8,252	\$8,559

Amounts may not add due to rounding.

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheet

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

At December 31:	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents		\$ 8,172	\$ 11,379
Restricted cash		141	225
Marketable securities	I	696	618
Notes and accounts receivable—trade (net of allowances of \$299 in 2019 and \$309 in 2018)		7,870	7,432
Short-term financing receivables (net of allowances of \$188 in 2019 and \$244 in 2018)	K	14,192	22,388
Other accounts receivable (net of allowances of \$33 in 2019 and \$38 in 2018)		1,733	743
Inventory	J	1,619	1,682
Deferred costs	C	1,896	2,300
Prepaid expenses and other current assets		2,101	2,378
Total current assets		38,420	49,146
Property, plant and equipment	L	32,028	32,460
Less: Accumulated depreciation	L	22,018	21,668
Property, plant and equipment—net	L	10,010	10,792
Operating right-of-use assets—net*	M	4,996	—
Long-term financing receivables (net of allowances of \$33 in 2019 and \$48 in 2018)	K	8,712	9,148
Prepaid pension assets	V	6,865	4,666
Deferred costs	C	2,472	2,676
Deferred taxes	G	5,182	5,216
Goodwill	N	58,222	36,265
Intangible assets—net	N	15,235	3,087
Investments and sundry assets	O	2,074	2,386
Total assets		\$ 152,186	\$ 123,382
Liabilities and equity			
Current liabilities			
Taxes	G	\$ 2,839	\$ 3,046
Short-term debt	I&P	8,797	10,207
Accounts payable		4,896	6,558
Compensation and benefits		3,406	3,310
Deferred income		12,026	11,165
Operating lease liabilities*	M	1,380	—
Other accrued expenses and liabilities		4,357	3,941
Total current liabilities		37,701	38,227
Long-term debt	I&P	54,102	35,605
Retirement and nonpension postretirement benefit obligations	V	17,142	17,002
Deferred income		3,851	3,445
Operating lease liabilities*	M	3,879	—
Other liabilities	Q	14,526	12,174
Total liabilities		131,202	106,452
Commitments and Contingencies	R		
Equity	S		
IBM stockholders' equity			
Common stock, par value \$.20 per share, and additional paid-in capital		55,895	55,151
Shares authorized: 4,687,500,000			
Shares issued (2019—2,237,996,975; 2018—2,233,427,058)			
Retained earnings		162,954	159,206
Treasury stock, at cost (shares: 2019—1,350,886,521; 2018—1,340,947,648)		(169,413)	(168,071)
Accumulated other comprehensive income/(loss)		(28,597)	(29,490)
Total IBM stockholders' equity		20,841	16,796
Noncontrolling interests	A	144	134
Total equity		20,985	16,929
Total liabilities and equity		\$ 152,186	\$ 123,382

* Reflects the adoption of the FASB guidance on leases.

Amounts may not add due to rounding.

The accompanying notes are an integral part of the financial statements.

(\$ in millions)

For the year ended December 31:	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 9,431	\$ 8,728	\$ 5,753
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	4,209	3,127	3,021
Amortization of intangibles	1,850	1,353	1,520
Stock-based compensation	679	510	534
Deferred taxes	(1,527)	853	(931)
Net (gain)/loss on asset sales and other	(1,096)	123	14
Change in operating assets and liabilities, net of acquisitions/divestitures			
Receivables (including financing receivables)	502	1,006	1,297
Retirement related	301	1,368	1,014
Inventory	67	(127)	18
Other assets/other liabilities	858	(1,819)	4,437
Accounts payable	(503)	126	47
Net cash provided by operating activities	14,770	15,247	16,724
Cash flows from investing activities			
Payments for property, plant and equipment	(2,286)	(3,395)	(3,229)
Proceeds from disposition of property, plant and equipment	537	248	460
Investment in software	(621)	(569)	(544)
Purchases of marketable securities and other investments	(3,693)	(7,041)	(4,949)
Proceeds from disposition of marketable securities and other investments	3,961	6,487	3,910
Non-operating finance receivables—net	6,720	(503)	(2,028)
Acquisition of businesses, net of cash acquired	(32,630)	(139)	(496)
Divestiture of businesses, net of cash transferred	1,076	—	(205)
Net cash provided by/(used in) investing activities	(26,936)	(4,913)	(7,081)
Cash flows from financing activities			
Proceeds from new debt	31,825	6,891	9,643
Payments to settle debt	(12,944)	(8,533)	(6,816)
Short-term borrowings/(repayments) less than 90 days—net	(2,597)	1,341	620
Common stock repurchases	(1,361)	(4,443)	(4,340)
Common stock repurchases for tax withholdings	(272)	(171)	(193)
Financing—other	99	111	175
Cash dividends paid	(5,707)	(5,666)	(5,506)
Net cash provided by/(used in) financing activities	9,042	(10,469)	(6,418)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(167)	(495)	937
Net change in cash, cash equivalents and restricted cash	(3,290)	(630)	4,161
Cash, cash equivalents and restricted cash at January 1	11,604	12,234	8,073
Cash, cash equivalents and restricted cash at December 31	\$ 8,314	\$ 11,604	\$12,234
Supplemental data			
Income taxes paid—net of refunds received	\$ 2,091	\$ 1,745	\$ 1,597
Interest paid on debt	\$ 1,685	\$ 1,423	\$ 1,208

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