

Consolidated Statement of Earnings

INTERNATIONAL BUSINESS MACHINES CORPORATION
and Subsidiary Companies

(dollars in millions except per share amounts)

FOR THE YEAR ENDED DECEMBER 31:	Notes	2001	2000*	1999*
REVENUE:				
Global Services		\$ 34,956	\$ 33,152	\$ 32,172
Hardware		33,392	37,777	37,888
Software		12,939	12,598	12,662
Global Financing		3,426	3,465	3,137
Enterprise Investments/Other		1,153	1,404	1,689
TOTAL REVENUE		85,866	88,396	87,548
COST:				
Global Services		25,355	24,309	23,304
Hardware		24,137	27,038	27,591
Software		2,265	2,283	2,240
Global Financing	j	1,693	1,965	1,821
Enterprise Investments/Other		634	747	1,038
TOTAL COST		54,084	56,342	55,994
GROSS PROFIT		31,782	32,054	31,554
EXPENSE AND OTHER INCOME:				
Selling, general and administrative	p	17,197	17,535	16,294
Research, development and engineering	p	5,290	5,374	5,505
Intellectual property and custom development income	p	(1,535)	(1,728)	(1,506)
Other (income) and expense	p	(361)	(1,008)	(848)
Interest expense	j & k	238	347	352
TOTAL EXPENSE AND OTHER INCOME		20,829	20,520	19,797
INCOME BEFORE INCOME TAXES		10,953	11,534	11,757
Provision for income taxes	o	3,230	3,441	4,045
NET INCOME		7,723	8,093	7,712
Preferred stock dividends		10	20	20
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS		\$ 7,713	\$ 8,073	\$ 7,692
EARNINGS PER SHARE OF COMMON STOCK:				
ASSUMING DILUTION	r	\$ 4.35	\$ 4.44	\$ 4.12
BASIC	r	\$ 4.45	\$ 4.58	\$ 4.25

AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:

ASSUMING DILUTION: 2001—1,771,230,599; 2000—1,812,118,422; 1999—1,871,073,912

BASIC: 2001—1,733,348,422; 2000—1,763,037,049; 1999—1,808,538,346

* Reclassified to conform with 2001 presentation.

The accompanying notes on pages 75 through 105 are an integral part of the financial statements.

Consolidated Statement of Financial Position

INTERNATIONAL BUSINESS MACHINES CORPORATION
and Subsidiary Companies

(dollars in millions except per share amounts)

AT DECEMBER 31:

	Notes	2001	2000
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 6,330	\$ 3,563
Marketable securities	d	63	159
Notes and accounts receivable—trade, net of allowances		9,101	10,447
Short-term financing receivables	f	16,656	18,705
Other accounts receivable		1,261	1,574
Inventories	e	4,304	4,765
Deferred taxes	o	2,402	2,701
Prepaid expenses and other current assets		2,344	1,966
Total current assets		42,461	43,880
Plant, rental machines and other property	g	38,375	38,455
Less: Accumulated depreciation		21,871	21,741
Plant, rental machines and other property—net		16,504	16,714
Long-term financing receivables	f	12,246	13,308
Investments and sundry assets	h	17,102	14,447
TOTAL ASSETS		\$ 88,313	\$ 88,349
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Taxes	o	\$ 4,644	\$ 4,827
Short-term debt	j & k	11,188	10,205
Accounts payable		7,047	8,192
Compensation and benefits		3,796	3,801
Deferred income		4,223	4,516
Other accrued expenses and liabilities		4,221	4,865
Total current liabilities		35,119	36,406
Long-term debt	j & k	15,963	18,371
Other liabilities	l	13,617	12,948
TOTAL LIABILITIES		64,699	67,725
Contingencies	n		
Stockholders' equity:	m		
Preferred stock, par value \$.01 per share		—	247
Shares authorized: 150,000,000			
Shares issued and outstanding (2000—2,546,011)			
Common stock, par value \$.20 per share		14,248	12,400
Shares authorized: 4,687,500,000			
Shares issued (2001—1,913,513,218; 2000—1,893,940,595)			
Retained earnings		30,142	23,784
Treasury stock, at cost (shares: 2001—190,319,489; 2000—131,041,411)		(20,114)	(13,800)
Employee benefits trust (shares: 2000—20,000,000)		—	(1,712)
Accumulated gains and losses not affecting retained earnings		(662)	(295)
TOTAL STOCKHOLDERS' EQUITY		23,614	20,624
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 88,313	\$ 88,349

The accompanying notes on pages 75 through 105 are an integral part of the financial statements.

Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION
and Subsidiary Companies

(dollars in millions)	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Employee Benefits Trust	Accumulated Gains and (Losses) Not Affecting Retained Earnings	Total
1999*							
Stockholders' equity, January 1, 1999	\$ 247	\$ 10,121	\$ 10,141	\$ (133)	\$ (1,854)	\$ 911	\$ 19,433
Net income plus gains and losses not affecting retained earnings:							
Net income			7,712				<u>\$ 7,712</u>
Gains and losses not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax expense of \$180)						(549)	(549)
Minimum pension liability adjustment						3	3
Net unrealized gains on marketable securities (net of tax expense of \$456)						796	<u>796</u>
Total gains and losses not affecting retained earnings							<u>250</u>
Subtotal: Net income plus gains and losses not affecting retained earnings							<u>\$ 7,962</u>
Cash dividends declared—common stock			(859)				(859)
Cash dividends declared—preferred stock			(20)				(20)
Common stock issued under employee plans (22,927,141 shares)		741	(1)				740
Purchases (6,418,975 shares) and sales (6,606,223 shares) of treasury stock under employee plans—net			(95)	(50)			(145)
Other treasury shares purchased, not retired (70,711,971 shares)				(7,192)			(7,192)
Fair value adjustment of employee benefits trust		318			(308)		10
Increase due to shares issued by subsidiary		37					37
Tax effect—stock transactions		545					545
Stockholders' equity, December 31, 1999	\$ 247	\$ 11,762	\$ 16,878	\$ (7,375)	\$ (2,162)	\$ 1,161	\$ 20,511
2000*							
Net income plus gains and losses not affecting retained earnings:							
Net income			8,093				<u>\$ 8,093</u>
Gains and losses not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax expense of \$289)						(538)	(538)
Minimum pension liability adjustment						7	7
Net unrealized losses on marketable securities (net of tax benefit of \$506)						(925)	<u>(925)</u>
Total gains and losses not affecting retained earnings							<u>(1,456)</u>
Subtotal: Net income plus gains and losses not affecting retained earnings							<u>\$ 6,637</u>
Cash dividends declared—common stock			(909)				(909)
Cash dividends declared—preferred stock			(20)				(20)
Common stock issued under employee plans (17,275,350 shares)		615	1				616
Purchases (8,799,382 shares) and sales (9,074,212 shares) of treasury stock under employee plans—net			(259)	6			(253)
Other treasury shares purchased, not retired (58,867,226 shares)				(6,431)			(6,431)
Fair value adjustment of employee benefits trust		(439)			450		11
Increase due to shares remaining to be issued in acquisition		40					40
Tax effect—stock transactions		422					422
Stockholders' equity, December 31, 2000	\$ 247	\$ 12,400	\$ 23,784	\$ (13,800)	\$ (1,712)	\$ (295)	\$ 20,624

Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION
and Subsidiary Companies

(dollars in millions)	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Employee Benefits Trust	Accumulated Gains and (Losses) Not Affecting Retained Earnings	Total
2001							
Stockholders' equity, December 31, 2000	\$ 247	\$ 12,400	\$ 23,784	\$ (13,800)	\$ (1,712)	\$ (295)	\$ 20,624
Net income plus gains and losses not affecting retained earnings:							
Net income			7,723				<u>\$ 7,723</u>
Gains and losses not affecting retained earnings (net of tax):							
Cumulative effect of adoption of SFAS No. 133 on Jan. 1 (net of tax expense of \$120)						219	219
Net unrealized gains on SFAS No. 133 cash flow hedge derivatives during 2001 (net of tax expense of \$44)						77	77
Foreign currency translation adjustments (net of tax expense of \$323)						(539)	(539)
Minimum pension liability adjustment						(216)	(216)
Net unrealized gains on marketable securities (net of tax expense of \$58)						92	<u>92</u>
Total gains and losses not affecting retained earnings							<u>(367)</u>
Subtotal: Net income plus gains and losses not affecting retained earnings							<u>\$ 7,356</u>
Cash dividends declared—common stock			(956)				(956)
Cash dividends declared—preferred stock			(10)				(10)
Preferred stock purchased and retired (10,184,043 shares)	(247)		(7)				(254)
Common stock issued under employee plans (19,572,623 shares)		774	(1)				773
Purchases (2,237,935 shares) and sales (11,801,053 shares) of treasury stock under employee plans—net		32	(391)	1,032			673
Other treasury shares purchased, not retired (48,841,196 shares)				(5,091)			(5,091)
Dissolution of employee benefits trust (20,000,000 shares)		546		(2,255)	1,712		3
Decrease in shares remaining to be issued in acquisition		(6)					(6)
Tax effect—stock transactions		502					502
Stockholders' equity, December 31, 2001	\$ —	\$ 14,248	\$ 30,142	\$ (20,114)	\$ —	\$ (662)	\$ 23,614

* Reclassified to conform with 2001 presentation.

The accompanying notes on pages 75 through 105 are an integral part of the financial statements.

Consolidated Statement of Cash Flows

INTERNATIONAL BUSINESS MACHINES CORPORATION
and Subsidiary Companies

(dollars in millions)

FOR THE YEAR ENDED DECEMBER 31:

	2001	2000*	1999*
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	\$ 7,723	\$ 8,093	\$ 7,712
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	4,195	4,513	6,159
Amortization of software	625	482	426
Deferred income taxes	658	29	(713)
Gain on asset sales	(317)	(792)	(4,791)
Write-down of impaired investment assets	405	—	—
Other changes that provided/(used) cash:			
Receivables	3,284	(4,720)	(1,677)
Inventories	337	(55)	301
Other assets	(545)	(643)	(130)
Accounts payable	(969)	2,245	(3)
Other liabilities	(1,131)	122	2,827
NET CASH PROVIDED FROM OPERATING ACTIVITIES	14,265	9,274	10,111
CASH FLOW FROM INVESTING ACTIVITIES:			
Payments for plant, rental machines and other property	(5,660)	(5,616)	(5,959)
Proceeds from disposition of plant, rental machines and other property	1,165	1,619	1,207
Investment in software	(655)	(565)	(464)
Purchases of marketable securities and other investments	(778)	(750)	(2,628)
Proceeds from marketable securities and other investments	738	1,393	2,616
Proceeds from sale of the Global Network	—	—	4,880
Acquisitions	(916)	(329)	(1,321)
NET CASH USED IN INVESTING ACTIVITIES	(6,106)	(4,248)	(1,669)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from new debt	4,535	9,604	6,133
Short-term borrowings/(repayments) less than 90 days—net	2,926	(1,400)	276
Payments to settle debt	(7,898)	(7,561)	(7,510)
Preferred stock transactions—net	(254)	—	—
Common stock transactions—net	(3,652)	(6,073)	(6,645)
Cash dividends paid	(966)	(929)	(879)
NET CASH USED IN FINANCING ACTIVITIES	(5,309)	(6,359)	(8,625)
Effect of exchange rate changes on cash and cash equivalents	(83)	(147)	(149)
Net change in cash and cash equivalents	2,767	(1,480)	(332)
Cash and cash equivalents at January 1	3,563	5,043	5,375
CASH AND CASH EQUIVALENTS AT DECEMBER 31	\$ 6,330	\$ 3,563	\$ 5,043
SUPPLEMENTAL DATA:			
Cash paid during the year for:			
Income taxes	\$ 2,279	\$ 2,697	\$ 1,904
Interest	\$ 1,247	\$ 1,447	\$ 1,574

* Reclassified to conform with 2001 presentation.

The accompanying notes on pages 75 through 105 are an integral part of the financial statements.