

Consolidated Statement of Earnings

62 International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2010	2009	2008
Revenue:				
Services		\$56,868	\$55,128	\$ 58,892
Sales		40,736	38,300	42,156
Financing		2,267	2,331	2,582
Total revenue		99,870	95,758	103,630
Cost:				
Services		38,383	37,146	40,937
Sales		14,374	13,606	15,776
Financing		1,100	1,220	1,256
Total cost		53,857	51,973	57,969
Gross profit		46,014	43,785	45,661
Expense and other income:				
Selling, general and administrative		21,837	20,952	23,386
Research, development and engineering	Q	6,026	5,820	6,337
Intellectual property and custom development income		(1,154)	(1,177)	(1,153)
Other (income) and expense		(787)	(351)	(298)
Interest expense	K&L	368	402	673
Total expense and other income		26,291	25,647	28,945
Income before income taxes		19,723	18,138	16,715
Provision for income taxes	P	4,890	4,713	4,381
Net income		\$14,833	\$13,425	\$ 12,334
Earnings per share of common stock:				
Assuming dilution	R	\$ 11.52	\$ 10.01	\$ 8.89
Basic	R	\$ 11.69	\$ 10.12	\$ 9.02
Weighted-average number of common shares outstanding:				
Assuming dilution		1,287,355,388	1,341,352,754	1,387,797,198
Basic		1,268,789,202	1,327,157,410	1,369,367,069

The accompanying notes on pages 68 through 130 are an integral part of the financial statements.

Consolidated Statement of Financial Position
International Business Machines Corporation and Subsidiary Companies

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(\$ in millions except per share amounts)

At December 31:	Notes	2010	2009
Assets			
Current assets:			
Cash and cash equivalents		\$ 10,661	\$ 12,183
Marketable securities	E	990	1,791
Notes and accounts receivable — trade (net of allowances of \$324 in 2010 and \$217 in 2009)		10,834	10,736
Short-term financing receivables (net of allowances of \$342 in 2010 and \$438 in 2009)	G	16,257	14,914
Other accounts receivable (net of allowances of \$10 in 2010 and \$15 in 2009)		1,134	1,143
Inventories	F	2,450	2,494
Deferred taxes	P	1,564	1,730
Prepaid expenses and other current assets		4,226	3,946
Total current assets		48,116	48,935
Plant, rental machines and other property	H	40,289	39,596
Less: Accumulated depreciation	H	26,193	25,431
Plant, rental machines and other property — net	H	14,096	14,165
Long-term financing receivables (net of allowances of \$58 in 2010 and \$97 in 2009)	G	10,548	10,644
Prepaid pension assets	U	3,068	3,001
Deferred taxes	P	3,220	4,195
Goodwill	J	25,136	20,190
Intangible assets — net	J	3,488	2,513
Investments and sundry assets	I	5,778	5,379
Total assets		\$113,452	\$109,022
Liabilities and equity			
Current liabilities:			
Taxes	P	\$ 4,216	\$ 3,826
Short-term debt	K&L	6,778	4,168
Accounts payable		7,804	7,436
Compensation and benefits		5,028	4,505
Deferred income		11,580	10,845
Other accrued expenses and liabilities		5,156	5,223
Total current liabilities		40,562	36,002
Long-term debt	K&L	21,846	21,932
Retirement and nonpension postretirement benefit obligations	U	15,978	15,953
Deferred income		3,666	3,562
Other liabilities	M	8,226	8,819
Total liabilities		90,279	86,267
Contingencies and commitments	O		
Equity:	N		
IBM stockholders' equity:			
Common stock, par value \$.20 per share and additional paid-in capital		45,418	41,810
Shares authorized: 4,687,500,000			
Shares issued (2010 — 2,161,800,054; 2009 — 2,127,016,668)			
Retained earnings		92,532	80,900
Treasury stock, at cost (shares: 2010 — 933,806,510; 2009 — 821,679,245)		(96,161)	(81,243)
Accumulated other comprehensive income/(loss)		(18,743)	(18,830)
Total IBM stockholders' equity		23,046	22,637
Noncontrolling interests	A	126	118
Total equity		23,172	22,755
Total liabilities and equity		\$113,452	\$109,022

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Consolidated Statement of Cash Flows

64 International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

For the year ended December 31:	2010	2009	2008
Cash flow from operating activities:			
Net income	\$ 14,833	\$ 13,425	\$ 12,334
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	3,657	3,773	4,140
Amortization of intangibles	1,174	1,221	1,310
Stock-based compensation	629	558	659
Deferred taxes	1,294	1,773	1,900
Net (gain)/loss on asset sales and other	(801)	(395)	(338)
Change in operating assets and liabilities, net of acquisitions/divestitures:			
Receivables (including financing receivables)	(489)	2,131	274
Retirement related	(1,963)	(2,465)	(1,773)
Inventories	92	263	(102)
Other assets/other liabilities	949	319	1,268
Accounts payable	174	170	(860)
Net cash provided by operating activities	19,549	20,773	18,812
Cash flow from investing activities:			
Payments for plant, rental machines and other property	(4,185)	(3,447)	(4,171)
Proceeds from disposition of plant, rental machines and other property	770	330	350
Investment in software	(569)	(630)	(716)
Purchases of marketable securities and other investments	(6,129)	(5,604)	(4,590)
Proceeds from disposition of marketable securities and other investments	7,877	3,599	6,100
Non-operating finance receivables — net	(405)	(184)	(16)
Divestiture of businesses, net of cash transferred	55	400	71
Acquisition of businesses, net of cash acquired	(5,922)	(1,194)	(6,313)
Net cash used in investing activities	(8,507)	(6,729)	(9,285)
Cash flow from financing activities:			
Proceeds from new debt	8,055	6,683	13,829
Payments to settle debt	(6,522)	(13,495)	(10,248)
Short-term (repayments)/borrowings less than 90 days — net	817	(651)	(6,025)
Common stock repurchases	(15,375)	(7,429)	(10,578)
Common stock transactions — other	3,774	3,052	3,774
Cash dividends paid	(3,177)	(2,860)	(2,585)
Net cash used in financing activities	(12,429)	(14,700)	(11,834)
Effect of exchange rate changes on cash and cash equivalents	(135)	98	58
Net change in cash and cash equivalents	(1,522)	(558)	(2,250)
Cash and cash equivalents at January 1	12,183	12,741	14,991
Cash and cash equivalents at December 31	\$ 10,661	\$ 12,183	\$ 12,741
Supplemental data:			
Income taxes paid — net of refunds received	\$ 3,238	\$ 1,567	\$ 2,111
Interest paid on debt	\$ 951	\$ 1,240	\$ 1,460
Capital lease obligations	\$ 30	\$ 15	\$ 41

The accompanying notes on pages 68 through 130 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity
International Business Machines Corporation and Subsidiary Companies

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(\$ in millions)

	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/ (Loss)	Total IBM Stockholders' Equity	Non- controlling Interests	Total Equity
2008							
Equity, January 1, 2008	\$35,188	\$60,640	\$(63,945)	\$ (3,414)	\$ 28,470	\$145	\$ 28,615
Net income plus other comprehensive income/(loss):							
Net income		12,334			12,334		12,334
Other comprehensive income/(loss), net of tax:							
Net unrealized gains/(losses) on cash flow hedge derivatives (net of tax expense of \$79)							
				301	301		301
Foreign currency translation adjustments (net of tax benefit of \$153*)							
				(3,552)	(3,552)		(3,552)
Retirement-related benefit plans:							
Prior service (credits)/costs (net of tax benefit of \$86)							
				(136)	(136)		(136)
Net (losses)/gains (net of tax benefit of \$8,436)							
				(15,245)	(15,245)		(15,245)
Curtailments and settlements (net of tax expense of \$9)							
				16	16		16
Amortization of prior service (credits)/costs (net of tax benefit of \$73)							
				(132)	(132)		(132)
Amortization of net gains/(losses) (net of tax expense of \$358)							
				640	640		640
Net unrealized gains/(losses) on marketable securities (net of tax benefit of \$207)							
				(324)	(324)		(324)
Total other comprehensive income/(loss)					(18,431)		(18,431)
Subtotal: Net income plus other comprehensive income/(loss)					\$ (6,097)		\$ (6,097)
Cash dividends declared—common stock		(2,585)			(2,585)		(2,585)
Common stock issued under employee plans (39,374,439 shares)		3,919			3,919		3,919
Purchases (1,505,107 shares) and sales (5,882,800 shares) of treasury stock under employee plans—net		(36)	391		355		355
Other treasury shares purchased, not retired (89,890,347 shares)		54	(10,618)		(10,563)		(10,563)
Changes in other equity		(33)			(33)		(33)
Changes in noncontrolling interests						(26)	(26)
Equity, December 31, 2008		\$39,129	\$70,353	\$(74,171)	\$(21,845)	\$ 13,465	\$ 13,584

* Foreign currency translation adjustments are presented gross except for associated hedges which are presented net of tax.

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Consolidated Statement of Changes in Equity

66 International Business Machines Corporation and Subsidiary Companies

(\$ in millions)

	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/ (Loss)	Total IBM Stockholders' Equity	Non- controlling Interests	Total Equity
2009							
Equity, January 1, 2009	\$39,129	\$70,353	\$(74,171)	\$(21,845)	\$13,465	\$119	\$13,584
Net income plus other comprehensive income/(loss):							
Net income		13,425			13,425		13,425
Other comprehensive income/(loss), net of tax:							
Net unrealized gains/(losses) on cash flow hedge derivatives (net of tax benefit of \$256)				(556)	(556)		(556)
Foreign currency translation adjustments (net of tax benefit of \$57*)				1,732	1,732		1,732
Retirement-related benefit plans:							
Prior service costs/(credits) (net of tax expense of \$146)				229	229		229
Net (losses)/gains (net of tax expense of \$439)				994	994		994
Curtailments and settlements (net of tax benefit of \$33)				(93)	(93)		(93)
Amortization of prior service (credits)/ costs (net of tax benefit of \$55)				(107)	(107)		(107)
Amortization of net gains/(losses) (net of tax expense of \$402)				704	704		704
Net unrealized gains/(losses) on marketable securities (net of tax expense of \$71)				111	111		111
Total other comprehensive income/(loss)					3,015		3,015
Subtotal: Net income plus other comprehensive income/(loss)					\$16,440		\$16,440
Cash dividends declared—common stock		(2,860)			(2,860)		(2,860)
Common stock issued under employee plans (30,034,808 shares)	3,011				3,011		3,011
Purchases (1,550,846 shares) and sales (6,408,265 shares) of treasury stock under employee plans—net		(19)	462		443		443
Other treasury shares purchased, not retired (68,650,727 shares)			(7,534)		(7,534)		(7,534)
Changes in other equity	(330)				(330)		(330)
Changes in noncontrolling interests						(1)	(1)
Equity, December 31, 2009	\$41,810	\$80,900	\$(81,243)	\$(18,830)	\$22,637	\$118	\$22,755

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Consolidated Statement of Changes in Equity

International Business Machines Corporation and Subsidiary Companies

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(\$ in millions)

	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/ (Loss)	Total IBM Stockholders' Equity	Non- controlling Interests	Total Equity
2010							
Equity, January 1, 2010	\$41,810	\$80,900	\$(81,243)	\$(18,830)	\$ 22,637	\$118	\$ 22,755
Net income plus other comprehensive income/(loss):							
Net income		14,833			14,833		14,833
Other comprehensive income/(loss), net of tax:							
Net unrealized gains/(losses) on cash flow hedge derivatives (net of tax expense of \$188)							
				385	385		385
Foreign currency translation adjustments (net of tax expense of \$69*)							
				643	643		643
Retirement-related benefit plans:							
Prior service costs/(credits) (net of tax expense of \$8)							
				20	20		20
Net (losses)/gains (net of tax benefit of \$1,016)							
				(1,712)	(1,712)		(1,712)
Curtailments and settlements (net of tax expense of \$3)							
				7	7		7
Amortization of prior service (credits)/costs (net of tax benefit of \$67)							
				(116)	(116)		(116)
Amortization of net gains/(losses) (net of tax expense of \$441)							
				808	808		808
Net unrealized gains/(losses) on marketable securities (net of tax expense of \$27)							
				51	51		51
Total other comprehensive income/(loss)							
					87		87
Subtotal: Net income plus other comprehensive income/(loss)							
					\$ 14,920		\$ 14,920
Cash dividends declared—common stock							
		(3,177)			(3,177)		(3,177)
Common stock issued under employee plans (34,783,386 shares)							
	3,579				3,579		3,579
Purchases (2,334,932 shares) and sales (7,929,318 shares) of treasury stock under employee plans—net							
		(24)	501		477		477
Other treasury shares purchased, not retired (117,721,650 shares)							
			(15,419)		(15,419)		(15,419)
Changes in other equity							
	28				28		28
Changes in noncontrolling interests							
						8	8
Equity, December 31, 2010	\$45,418	\$92,532	\$(96,161)	\$(18,743)	\$ 23,046	\$126	\$ 23,172

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