

Consolidated Statement of Earnings

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2013	2012	2011
Revenue				
Services		\$57,655	\$ 59,453	\$ 60,721
Sales		40,049	43,014	44,063
Financing		2,047	2,040	2,132
Total revenue		99,751	104,507	106,916
Cost				
Services		37,564	39,166	40,740
Sales		12,572	13,956	14,973
Financing		1,110	1,087	1,065
Total cost		51,246	54,209	56,778
Gross profit		48,505	50,298	50,138
Expense and other income				
Selling, general and administrative		23,502	23,553	23,594
Research, development and engineering	O	6,226	6,302	6,258
Intellectual property and custom development income		(822)	(1,074)	(1,108)
Other (income) and expense		(327)	(843)	(20)
Interest expense	D&J	402	459	411
Total expense and other (income)		28,981	28,396	29,135
Income before income taxes		19,524	21,902	21,003
Provision for income taxes	N	3,041	5,298	5,148
Net income		\$16,483	\$ 16,604	\$ 15,855
Earnings per share of common stock				
Assuming dilution	P	\$ 14.94	\$ 14.37	\$ 13.06
Basic	P	\$ 15.06	\$ 14.53	\$ 13.25
Weighted-average number of common shares outstanding				
Assuming dilution		1,103,042,156	1,155,449,317	1,213,767,985
Basic		1,094,486,604	1,142,508,521	1,196,951,006

Amounts may not add due to rounding.

The accompanying notes on pages 84 through 146 are an integral part of the financial statements.

(\$ in millions)

For the year ended December 31:	Notes	2013	2012	2011
Net income		\$16,483	\$16,604	\$15,855
Other comprehensive income/(loss), before tax				
Foreign currency translation adjustments	L	(1,335)	(44)	(693)
Net changes related to available-for-sale securities	L			
Unrealized gains/(losses) arising during the period		(4)	8	(14)
Reclassification of (gains)/losses to net income		(8)	(42)	(231)
Subsequent changes in previously impaired securities arising during the period		4	20	4
Total net changes related to available-for-sale securities		(8)	(14)	(241)
Unrealized gains/(losses) on cash flow hedges	L			
Unrealized gains/(losses) arising during the period		43	32	(266)
Reclassification of (gains)/losses to net income		(166)	(253)	511
Total unrealized gains/(losses) on cash flow hedges		(123)	(220)	245
Retirement-related benefit plans	L			
Prior service costs/(credits)		16	—	(28)
Net (losses)/gains arising during the period		5,369	(7,489)	(5,463)
Curtailments and settlements		(3)	(2)	11
Amortization of prior service (credits)/cost		(114)	(148)	(157)
Amortization of net (gains)/losses		3,499	2,457	1,847
Total retirement-related benefit plans		8,767	(5,182)	(3,790)
Other comprehensive income/(loss), before tax	L	7,301	(5,460)	(4,479)
Income tax (expense)/benefit related to items of other comprehensive income	L	(3,144)	1,587	1,339
Other comprehensive income/(loss)	L	4,157	(3,874)	(3,142)
Total comprehensive income		\$20,641	\$12,731	\$12,713

Amounts may not add due to rounding.

The accompanying notes on pages 84 through 146 are an integral part of the financial statements.

Consolidated Statement of Financial Position

International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

At December 31:	Notes	2013	2012
Assets			
Current assets			
Cash and cash equivalents		\$ 10,716	\$ 10,412
Marketable securities	D	350	717
Notes and accounts receivable—trade (net of allowances of \$291 in 2013 and \$255 in 2012)		10,465	10,667
Short-term financing receivables (net of allowances of \$308 in 2013 and \$288 in 2012)	F	19,787	18,038
Other accounts receivable (net of allowances of \$36 in 2013 and \$17 in 2012)		1,584	1,873
Inventories	E	2,310	2,287
Deferred taxes	N	1,651	1,415
Prepaid expenses and other current assets		4,488	4,024
Total current assets		51,350	49,433
Property, plant and equipment	G	40,475	40,501
Less: Accumulated depreciation	G	26,654	26,505
Property, plant and equipment—net	G	13,821	13,996
Long-term financing receivables (net of allowances of \$80 in 2013 and \$66 in 2012)	F	12,755	12,812
Prepaid pension assets	S	5,551	945
Deferred taxes	N	3,051	3,973
Goodwill	I	31,184	29,247
Intangible assets—net	I	3,871	3,787
Investments and sundry assets	H	4,639	5,021
Total assets		\$ 126,223	\$ 119,213
Liabilities and equity			
Current liabilities			
Taxes	N	\$ 4,633	\$ 4,948
Short-term debt	D&J	6,862	9,181
Accounts payable		7,461	7,952
Compensation and benefits		3,893	4,745
Deferred income		12,557	11,952
Other accrued expenses and liabilities		4,748	4,847
Total current liabilities		40,154	43,625
Long-term debt	D&J	32,856	24,088
Retirement and nonpension postretirement benefit obligations	S	16,242	20,418
Deferred income		4,108	4,491
Other liabilities	K	9,934	7,607
Total liabilities		103,294	100,229
Contingencies and commitments	M		
Equity	L		
IBM stockholders' equity			
Common stock, par value \$.20 per share, and additional paid-in capital		51,594	50,110
Shares authorized: 4,687,500,000			
Shares issued (2013—2,207,522,548; 2012—2,197,561,159)			
Retained earnings		130,042	117,641
Treasury stock, at cost (shares: 2013—1,153,131,611; 2012—1,080,193,483)		(137,242)	(123,131)
Accumulated other comprehensive income/(loss)		(21,602)	(25,759)
Total IBM stockholders' equity		22,792	18,860
Noncontrolling interests	A	137	124
Total equity		22,929	18,984
Total liabilities and equity		\$ 126,223	\$ 119,213

Amounts may not add due to rounding.

The accompanying notes on pages 84 through 146 are an integral part of the financial statements.

(\$ in millions)

For the year ended December 31:	2013	2012	2011
Cash flows from operating activities			
Net income	\$ 16,483	\$ 16,604	\$ 15,855
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	3,327	3,392	3,589
Amortization of intangibles	1,351	1,284	1,226
Stock-based compensation	614	688	697
Deferred taxes	(1,610)	797	1,212
Net (gain)/loss on asset sales and other	(236)	(729)	(342)
Change in operating assets and liabilities, net of acquisitions/divestitures			
Receivables (including financing receivables)	(1,407)	(2,230)	(1,279)
Retirement related	294	(1,008)	(1,371)
Inventories	(57)	280	(163)
Other assets/other liabilities	(747)	733	(28)
Accounts payable	(529)	(224)	451
Net cash provided by operating activities	17,485	19,586	19,846
Cash flows from investing activities			
Payments for property, plant and equipment	(3,623)	(4,082)	(4,108)
Proceeds from disposition of property, plant and equipment	372	410	608
Investment in software	(517)	(635)	(559)
Purchases of marketable securities and other investments	(4,608)	(4,109)	(1,594)
Proceeds from disposition of marketable securities and other investments	4,873	3,142	3,345
Non-operating finance receivables—net	(1,063)	(608)	(291)
Acquisition of businesses, net of cash acquired	(3,056)	(3,722)	(1,811)
Divestiture of businesses, net of cash transferred	297	599	14
Net cash used in investing activities	(7,326)	(9,004)	(4,396)
Cash flows from financing activities			
Proceeds from new debt	16,353	12,242	9,996
Payments to settle debt	(10,013)	(9,549)	(8,947)
Short-term borrowings/(repayments) less than 90 days—net	621	(441)	1,321
Common stock repurchases	(13,859)	(11,995)	(15,046)
Common stock transactions—other	1,074	1,540	2,453
Cash dividends paid	(4,058)	(3,773)	(3,473)
Net cash used in financing activities	(9,883)	(11,976)	(13,696)
Effect of exchange rate changes on cash and cash equivalents	28	(116)	(493)
Net change in cash and cash equivalents	304	(1,511)	1,262
Cash and cash equivalents at January 1	10,412	11,922	10,661
Cash and cash equivalents at December 31	\$ 10,716	\$ 10,412	\$ 11,922
Supplemental data			
Income taxes paid—net of refunds received	\$ 4,024	\$ 3,169	\$ 4,168
Interest paid on debt	\$ 982	\$ 1,009	\$ 956
Capital lease obligations	\$ 14	\$ 10	\$ 39

Amounts may not add due to rounding.

The accompanying notes on pages 84 through 146 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

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
2011							
Equity, January 1, 2011	\$45,418	\$ 92,532	\$ (96,161)	\$(18,743)	\$ 23,046	\$126	\$ 23,172
Net income plus other comprehensive income/(loss)							
Net income		15,855			15,855		15,855
Other comprehensive income/(loss)				(3,142)	(3,142)		(3,142)
Total comprehensive income/(loss)					\$ 12,713		\$ 12,713
Cash dividends paid—common stock		(3,473)			(3,473)		(3,473)
Common stock issued under employee plans (20,669,785 shares)	2,394				2,394		2,394
Purchases (1,717,246 shares) and sales (4,920,198 shares) of treasury stock under employee plans—net		(56)	231		175		175
Other treasury shares purchased, not retired (88,683,716 shares)			(15,034)		(15,034)		(15,034)
Changes in other equity	317				317		317
Changes in noncontrolling interests						(29)	(29)
Equity, December 31, 2011	\$48,129	\$104,857	\$(110,963)	\$(21,885)	\$ 20,138	\$ 97	\$ 20,236

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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
2012							
Equity, January 1, 2012	\$48,129	\$104,857	\$(110,963)	\$(21,885)	\$ 20,138	\$ 97	\$ 20,236
Net income plus other comprehensive income/(loss)							
Net income		16,604			16,604		16,604
Other comprehensive income/(loss)				(3,874)	(3,874)		(3,874)
Total comprehensive income/(loss)					\$ 12,731		\$ 12,731
Cash dividends paid—common stock		(3,773)			(3,773)		(3,773)
Common stock issued under employee plans (15,091,320 shares)	1,532				1,532		1,532
Purchases (2,406,007 shares) and sales (2,746,169 shares) of treasury stock under employee plans—net		(48)	(160)		(208)		(208)
Other treasury shares purchased, not retired (61,246,371 shares)			(12,008)		(12,008)		(12,008)
Changes in other equity	448				448		448
Changes in noncontrolling interests						27	27
Equity, December 31, 2012	\$50,110	\$117,641	\$(123,131)	\$(25,759)	\$ 18,860	\$124	\$ 18,984

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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
2013							
Equity, January 1, 2013	\$50,110	\$117,641	\$(123,131)	\$(25,759)	\$ 18,860	\$124	\$ 18,984
Net income plus other comprehensive income/(loss)							
Net income		16,483			16,483		16,483
Other comprehensive income/(loss)				4,157	4,157		4,157
Total comprehensive income/(loss)					\$ 20,641		\$ 20,641
Cash dividends paid—common stock		(4,058)			(4,058)		(4,058)
Common stock issued under employee plans (9,961,389 shares)	1,216				1,216		1,216
Purchases (1,666,069 shares) and sales (1,849,883 shares) of treasury stock under employee plans—net		(25)	(117)		(142)		(142)
Other treasury shares purchased, not retired (73,121,942 shares)			(13,993)		(13,993)		(13,993)
Changes in other equity	268				268		268
Changes in noncontrolling interests						13	13
Equity, December 31, 2013	\$51,594	\$130,042	\$(137,242)	\$(21,602)	\$ 22,792	\$137	\$ 22,929

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