

Consolidated Statement of Earnings

70 International Business Machines Corporation and Subsidiary Companies

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2011	2010	2009
Revenue				
Services		\$ 60,721	\$56,868	\$55,128
Sales		44,063	40,736	38,300
Financing		2,132	2,267	2,331
Total revenue		106,916	99,870	95,758
Cost				
Services		40,740	38,383	37,146
Sales		14,973	14,374	13,606
Financing		1,065	1,100	1,220
Total cost		56,778	53,857	51,973
Gross profit		50,138	46,014	43,785
Expense and other income				
Selling, general and administrative		23,594	21,837	20,952
Research, development and engineering	O	6,258	6,026	5,820
Intellectual property and custom development income		(1,108)	(1,154)	(1,177)
Other (income) and expense		(20)	(787)	(351)
Interest expense	D&J	411	368	402
Total expense and other income		29,135	26,291	25,647
Income before income taxes		21,003	19,723	18,138
Provision for income taxes	N	5,148	4,890	4,713
Net income		\$ 15,855	\$14,833	\$13,425
Earnings per share of common stock				
Assuming dilution	P	\$ 13.06	\$ 11.52	\$ 10.01
Basic	P	\$ 13.25	\$ 11.69	\$ 10.12
Weighted-average number of common shares outstanding				
Assuming dilution		1,213,767,985	1,287,355,388	1,341,352,754
Basic		1,196,951,006	1,268,789,202	1,327,157,410

Amounts may not add due to rounding.

The accompanying notes on pages 76 through 139 are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income
International Business Machines Corporation and Subsidiary Companies

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(\$ in millions)

For the year ended December 31:	Notes	2011	2010	2009
Net income		\$15,855	\$14,833	\$13,425
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	L	(693)	712	1,675
Net changes related to available-for-sale securities	L			
Unrealized gains/(losses) arising during the period		(14)	70	118
Reclassification of (gains)/losses to net income		(231)	0	64
Subsequent changes in previously impaired securities arising during the period		4	8	—
Total net changes related to available-for-sale securities		(241)	78	182
Unrealized gains/(losses) on cash flow hedges	L			
Unrealized gains/(losses) arising during the period		(266)	371	(718)
Reclassification of (gains)/losses to net income		511	203	(94)
Total unrealized gains/(losses) on cash flow hedges		245	573	(812)
Retirement-related benefit plans	L			
Prior service costs/(credits)		(28)	28	375
Net (losses)/gains arising during the period		(5,463)	(2,728)	1,433
Curtailments and settlements		11	10	(125)
Amortization of prior service (credits)/cost		(157)	(183)	(162)
Amortization of net gains/(losses)		1,847	1,249	1,105
Total retirement-related benefit plans		(3,790)	(1,624)	2,626
Other comprehensive income/(loss), before tax	L	(4,479)	(260)	3,671
Income tax (expense)/benefit related to items of other comprehensive income	L	1,339	348	(656)
Other comprehensive income/(loss)	L	(3,142)	87	3,015
Total comprehensive income		\$12,713	\$14,920	\$16,440

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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	2011	2010
Assets			
Current assets			
Cash and cash equivalents		\$ 11,922	\$ 10,661
Marketable securities	D	0	990
Notes and accounts receivable—trade (net of allowances of \$256 in 2011 and \$324 in 2010)		11,179	10,834
Short-term financing receivables (net of allowances of \$311 in 2011 and \$342 in 2010)	F	16,901	16,257
Other accounts receivable (net of allowances of \$11 in 2011 and \$10 in 2010)		1,481	1,134
Inventories	E	2,595	2,450
Deferred taxes	N	1,601	1,564
Prepaid expenses and other current assets		5,249	4,226
Total current assets		50,928	48,116
Property, plant and equipment	G	40,124	40,289
Less: Accumulated depreciation	G	26,241	26,193
Property, plant and equipment—net	G	13,883	14,096
Long-term financing receivables (net of allowances of \$38 in 2011 and \$58 in 2010)	F	10,776	10,548
Prepaid pension assets	S	2,843	3,068
Deferred taxes	N	3,503	3,220
Goodwill	I	26,213	25,136
Intangible assets—net	I	3,392	3,488
Investments and sundry assets	H	4,895	5,778
Total assets		\$ 116,433	\$113,452
Liabilities and equity			
Current liabilities			
Taxes	N	\$ 3,313	\$ 4,216
Short-term debt	D&J	8,463	6,778
Accounts payable		8,517	7,804
Compensation and benefits		5,099	5,028
Deferred income		12,197	11,580
Other accrued expenses and liabilities		4,535	5,156
Total current liabilities		42,123	40,562
Long-term debt	D&J	22,857	21,846
Retirement and nonpension postretirement benefit obligations	S	18,374	15,978
Deferred income		3,847	3,666
Other liabilities	K	8,996	8,226
Total liabilities		96,197	90,279
Contingencies and commitments	M		
Equity	L		
IBM stockholders' equity			
Common stock, par value \$.20 per share, and additional paid-in capital		48,129	45,418
Shares authorized: 4,687,500,000			
Shares issued (2011—2,182,469,838; 2010—2,161,800,054)			
Retained earnings		104,857	92,532
Treasury stock, at cost (shares: 2011—1,019,287,274; 2010—933,806,510)		(110,963)	(96,161)
Accumulated other comprehensive income/(loss)		(21,885)	(18,743)
Total IBM stockholders' equity		20,138	23,046
Noncontrolling interests	A	97	126
Total equity		20,236	23,172
Total liabilities and equity		\$ 116,433	\$113,452

Amounts may not add due to rounding.

The accompanying notes on pages 76 through 139 are an integral part of the financial statements.

Consolidated Statement of Cash Flows
International Business Machines Corporation and Subsidiary Companies

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(\$ in millions)

For the year ended December 31:	2011	2010	2009
Cash flows from operating activities			
Net income	\$ 15,855	\$ 14,833	\$ 13,425
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	3,589	3,657	3,773
Amortization of intangibles	1,226	1,174	1,221
Stock-based compensation	697	629	558
Deferred taxes	1,212	1,294	1,773
Net (gain)/loss on asset sales and other	(342)	(801)	(395)
Change in operating assets and liabilities, net of acquisitions/divestitures			
Receivables (including financing receivables)	(1,279)	(489)	2,131
Retirement related	(1,371)	(1,963)	(2,465)
Inventories	(163)	92	263
Other assets/other liabilities	(28)	949	319
Accounts payable	451	174	170
Net cash provided by operating activities	19,846	19,549	20,773
Cash flows from investing activities			
Payments for property, plant and equipment	(4,108)	(4,185)	(3,447)
Proceeds from disposition of property, plant and equipment	608	770	330
Investment in software	(559)	(569)	(630)
Purchases of marketable securities and other investments	(1,594)	(6,129)	(5,604)
Proceeds from disposition of marketable securities and other investments	3,345	7,877	3,599
Non-operating finance receivables—net	(291)	(405)	(184)
Acquisition of businesses, net of cash acquired	(1,811)	(5,922)	(1,194)
Divestiture of businesses, net of cash transferred	14	55	400
Net cash used in investing activities	(4,396)	(8,507)	(6,729)
Cash flows from financing activities			
Proceeds from new debt	9,996	8,055	6,683
Payments to settle debt	(8,947)	(6,522)	(13,495)
Short-term borrowings/(repayments) less than 90 days—net	1,321	817	(651)
Common stock repurchases	(15,046)	(15,375)	(7,429)
Common stock transactions—other	2,453	3,774	3,052
Cash dividends paid	(3,473)	(3,177)	(2,860)
Net cash used in financing activities	(13,696)	(12,429)	(14,700)
Effect of exchange rate changes on cash and cash equivalents	(493)	(135)	98
Net change in cash and cash equivalents	1,262	(1,522)	(558)
Cash and cash equivalents at January 1	10,661	12,183	12,741
Cash and cash equivalents at December 31	\$ 11,922	\$ 10,661	\$ 12,183
Supplemental data			
Income taxes paid—net of refunds received	\$ 4,168	\$ 3,238	\$ 1,567
Interest paid on debt	\$ 956	\$ 951	\$ 1,240
Capital lease obligations	\$ 39	\$ 30	\$ 15

Amounts may not add due to rounding.

The accompanying notes on pages 76 through 139 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

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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)				3,015	3,015		3,015
Total comprehensive income/(loss)					<u>\$16,440</u>		<u>\$16,440</u>
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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(\$ 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)				87	87		87
Total comprehensive income/(loss)					<u>\$14,920</u>		<u>\$14,920</u>
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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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
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 declared—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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