

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	2003	2002	2001
<i>Revenue:</i>				
Global Services		\$ 42,635	\$ 36,360	\$ 34,956
Hardware		28,239	27,456	30,593
Software		14,311	13,074	12,939
Global Financing		2,826	3,232	3,426
Enterprise Investments/Other		1,120	1,064	1,153
<i>Total Revenue</i>		89,131	81,186	83,067
<i>Cost:</i>				
Global Services		31,903	26,812	25,355
Hardware		20,401	20,020	21,231
Software		1,927	2,043	2,265
Global Financing	K	1,248	1,416	1,693
Enterprise Investments/Other		634	611	634
<i>Total Cost</i>		56,113	50,902	51,178
<i>Gross Profit</i>		33,018	30,284	31,889
<i>Expense and Other Income:</i>				
Selling, general and administrative	Q	17,852	18,738	17,048
Research, development and engineering	R	5,077	4,750	4,986
Intellectual property and custom development income		(1,168)	(1,100)	(1,476)
Other (income) and expense		238	227	(353)
Interest expense	K & L	145	145	234
<i>Total Expense and Other Income</i>		22,144	22,760	20,439
<i>Income from Continuing Operations Before Income Taxes</i>		10,874	7,524	11,450
Provision for income taxes	P	3,261	2,190	3,304
<i>Income from Continuing Operations</i>		7,613	5,334	8,146
<i>Discontinued Operations:</i>				
Loss from discontinued operations	C	30	1,755	423
<i>Net Income</i>		7,583	3,579	7,723
Preferred stock dividends		—	—	10
<i>Net Income Applicable to Common Stockholders</i>		\$ 7,583	\$ 3,579	\$ 7,713
<i>Earnings/(Loss) per Share of Common Stock:</i>				
<i>Assuming Dilution:</i>				
Continuing operations	T	\$ 4.34	\$ 3.07	\$ 4.59
Discontinued operations	T	(0.02)	(1.01)	(0.24)
<i>Total</i>	T	\$ 4.32	\$ 2.06	\$ 4.35
<i>Basic:</i>				
Continuing operations	T	\$ 4.42	\$ 3.13	\$ 4.69
Discontinued operations	T	(0.02)	(1.03)	(0.24)
<i>Total</i>	T	\$ 4.40	\$ 2.10	\$ 4.45
<i>Weighted-Average Number of Common Shares Outstanding:</i>				
Assuming dilution		1,756,090,689	1,730,941,054	1,771,230,599
Basic		1,721,588,628	1,703,244,345	1,733,348,422

The accompanying notes on pages 80 through 121 are an integral part of the financial statements.

Consolidated Statement of Financial Position

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(dollars in millions)

AT DECEMBER 31:	NOTES	2003	2002*
<i>Assets</i>			
Current assets:			
Cash and cash equivalents		\$ 7,290	\$ 5,382
Marketable securities	D	357	593
Notes and accounts receivable — trade, net of allowances		10,026	9,915
Short-term financing receivables	F	17,583	15,996
Other accounts receivable		1,314	1,447
Inventories	E	2,942	3,148
Deferred taxes	P	2,542	2,617
Intangible assets — net	I	336	245
Prepaid expenses and other current assets		2,608	2,379
Total current assets		44,998	41,722
Plant, rental machines and other property	G	37,122	36,083
Less: Accumulated depreciation	G	22,433	21,643
Plant, rental machines and other property — net	G	14,689	14,440
Long-term financing receivables	F	10,741	11,440
Prepaid pension assets	W	18,426	16,003
Investments and sundry assets	H	8,108	8,272
Goodwill	I	6,921	4,115
Intangible assets — net	I	574	492
Total Assets		\$ 104,457	\$ 96,484
<i>Liabilities and Stockholders' Equity</i>			
Current liabilities:			
Taxes	P	\$ 5,475	\$ 5,476
Short-term debt	K & L	6,646	6,031
Accounts payable		8,460	7,630
Compensation and benefits		3,671	3,724
Deferred income		6,492	4,946
Other accrued expenses and liabilities		7,156	6,413
Total current liabilities		37,900	34,220
Long-term debt	K & L	16,986	19,986
Retirement and nonpension postretirement benefit obligations	W	14,251	13,215
Other liabilities	M	7,456	6,281
Total Liabilities		76,593	73,702
Contingencies and commitments	O		
Stockholders' equity:			
Common stock, par value \$.20 per share	N	16,269	14,858
Shares authorized: 4,687,500,000			
Shares issued (2003 — 1,937,393,604; 2002 — 1,920,957,772)			
Retained earnings		37,525	31,555
Treasury stock, at cost (shares: 2003 — 242,884,969; 2002 — 198,590,876)		(24,034)	(20,213)
Accumulated gains and (losses) not affecting retained earnings		(1,896)	(3,418)
Total Stockholders' Equity		27,864	22,782
Total Liabilities and Stockholders' Equity		\$ 104,457	\$ 96,484

* Reclassified to conform with 2003 presentation.

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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
<i>2001*</i>							
Stockholders' equity, January 1, 2001	\$ 247	\$ 12,400	\$ 23,784	\$ (13,800)	\$ (1,712)	\$ (369)	\$ 20,550
Net income plus gains and (losses) not affecting retained earnings:							
Net income			7,723				\$ 7,723
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 (net of tax benefit of \$226)						(308)	(308)
Net unrealized gains on marketable securities (net of tax expense of \$58)						92	92
Total gains and (losses) not affecting retained earnings							(459)
Subtotal: Net income plus gains and (losses) not affecting retained earnings							\$ 7,264
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 (314,433 shares) and sales (11,801,053 shares) of treasury stock under employee plans — net		32	(391)	1,234			875
Other treasury shares purchased, not retired (50,764,698 shares)				(5,293)			(5,293)
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)	\$ —	\$ (828)	\$ 23,448

* Reclassified to conform with 2003 presentation.

The accompanying notes on pages 80 through 121 are an integral part of the financial statements.

Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(dollars in millions)

	COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
<i>2002*</i>					
Stockholders' equity, January 1, 2002	\$ 14,248	\$ 30,142	\$ (20,114)	\$ (828)	\$ 23,448
Net income plus gains and (losses) not affecting retained earnings:					
Net income		3,579			<u>\$ 3,579</u>
Gains and (losses) not affecting retained earnings (net of tax):					
Net unrealized losses on SFAS No. 133 cash flow hedge derivatives during 2002 (net of tax benefit of \$372)				(659)	(659)
Foreign currency translation adjustments (net of tax benefit of \$197)				850	850
Minimum pension liability adjustment (net of tax benefit of \$1,574)				(2,765)	(2,765)
Net unrealized losses on marketable securities (net of tax benefit of \$8)				(16)	<u>(16)</u>
Total gains and (losses) not affecting retained earnings					<u>(2,590)</u>
Subtotal: Net income plus gains and (losses) not affecting retained earnings					<u>\$ 989</u>
Cash dividends declared — common stock		(1,005)			(1,005)
Common stock issued under employee plans (7,255,995 shares)	440	4			444
Purchases (189,797 shares) and sales (12,873,502 shares) of treasury stock under employee plans — net		(475)	1,311		836
Other treasury shares purchased, not retired (48,481,100 shares)			(4,212)		(4,212)
Treasury shares issued to fund the U.S. pension fund (24,037,354 shares)		(576)	2,447		1,871
Shares issued/to be issued in the PwCC acquisition (3,677,213 shares issued)	43	(114)	355		284
Decrease in shares remaining to be issued in acquisition	(9)				(9)
Tax effect — stock transactions	136				136
Stockholders' equity, December 31, 2002	<u>\$ 14,858</u>	<u>\$ 31,555</u>	<u>\$ (20,213)</u>	<u>\$ (3,418)</u>	<u>\$ 22,782</u>

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Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(dollars in millions)

	COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
<i>2003</i>					
Stockholders' equity, January 1, 2003	\$ 14,858	\$ 31,555	\$ (20,213)	\$ (3,418)	\$ 22,782
Net income plus gains and (losses) not affecting retained earnings:					
Net income		7,583			\$ 7,583
Gains and (losses) not affecting retained earnings (net of tax):					
Net unrealized losses on SFAS No. 133 cash flow hedge derivatives during 2003 (net of tax benefit of \$51)				(91)	(91)
Foreign currency translation adjustments (net of tax benefit of \$125)				1,768	1,768
Minimum pension liability adjustment (net of tax benefit of \$124)				(162)	(162)
Net unrealized gains on marketable securities (net of tax expense of \$3)				7	7
Total gains and (losses) not affecting retained earnings					1,522
Subtotal: Net income plus gains and (losses) not affecting retained earnings					\$ 9,105
Cash dividends declared — common stock		(1,085)			(1,085)
Common stock issued under employee plans (16,445,473 shares)	1,205	(282)			923
Purchases (291,921 shares) and sales (5,992,342 shares) of treasury stock under employee plans — net		(246)	582		336
Other treasury shares purchased, not retired (49,994,514 shares)			(4,403)		(4,403)
Shares to be issued in the PwCC acquisition	8				8
Decrease in shares remaining to be issued in acquisition	(4)				(4)
Tax effect — stock transactions	202				202
<i>Stockholders' equity, December 31, 2003</i>	<i>\$ 16,269</i>	<i>\$ 37,525</i>	<i>\$ (24,034)</i>	<i>\$ (1,896)</i>	<i>\$ 27,864</i>

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Consolidated Statement of Cash Flows

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(dollars in millions)

FOR THE YEAR ENDED DECEMBER 31:	2003	2002	2001
<i>Cash Flow from Operating Activities from Continuing Operations:</i>			
Income from continuing operations	\$ 7,613	\$ 5,334	\$ 8,146
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation	3,961	3,691	3,881
Amortization of software	740	688	625
Deferred income taxes	1,126	(67)	664
Net gain on asset sales and other	(275)	(343)	(340)
Other than temporary declines in securities and other investments	50	58	405
Noncash portion of special actions	—	1,350	—
Change in operating assets and liabilities, net of acquisitions/divestitures:			
Receivables	2,024	4,125	2,837
Inventories	293	793	287
Pension assets	(1,409)	(4,227)	(1,758)
Other assets	(352)	70	1,244
Accounts payable	617	(55)	(918)
Pension liabilities	(286)	83	(69)
Other liabilities	467	2,288	(1,038)
<i>Net Cash Provided by Operating Activities from Continuing Operations</i>	<i>14,569</i>	<i>13,788</i>	<i>13,966</i>
<i>Cash Flow from Investing Activities from Continuing Operations:</i>			
Payments for plant, rental machines and other property	(4,393)	(4,753)	(5,400)
Proceeds from disposition of plant, rental machines and other property	1,039	775	1,149
Investment in software	(581)	(597)	(655)
Purchases of marketable securities and other investments	(6,471)	(1,582)	(778)
Proceeds from disposition of marketable securities and other investments	7,023	1,185	738
Divestiture of businesses	97	1,233	—
Acquisition of businesses	(1,836)	(3,158)	(916)
<i>Net Cash Used in Investing Activities from Continuing Operations</i>	<i>(5,122)</i>	<i>(6,897)</i>	<i>(5,862)</i>
<i>Cash Flow from Financing Activities from Continuing Operations:</i>			
Proceeds from new debt	1,573	6,726	4,535
Short-term borrowings/(repayments) less than 90 days — net	777	(4,087)	2,926
Payments to settle debt	(5,831)	(5,812)	(7,898)
Preferred stock transactions — net	—	—	(254)
Common stock transactions — net	(3,232)	(3,087)	(3,652)
Cash dividends paid	(1,085)	(1,005)	(966)
<i>Net Cash Used in Financing Activities from Continuing Operations</i>	<i>(7,798)</i>	<i>(7,265)</i>	<i>(5,309)</i>
Effect of exchange rate changes on cash and cash equivalents	421	148	(83)
Net cash (used in)/provided by discontinued operations	(162)	(722)	55
Net change in cash and cash equivalents	1,908	(948)	2,767
Cash and cash equivalents at January 1	5,382	6,330	3,563
<i>Cash and Cash Equivalents at December 31</i>	<i>\$ 7,290</i>	<i>\$ 5,382</i>	<i>\$ 6,330</i>
<i>Supplemental Data:</i>			
Cash paid during the year for the total company:			
Income taxes	\$ 1,707	\$ 1,841	\$ 2,279
Interest	\$ 853	\$ 831	\$ 1,247

Noncash Investing and Financing Activities :

The noncash portion of the purchase price paid to PwCC is a significant noncash investing activity. This transaction is described on pages 90 and 91.

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