

# 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	2005	2004	2003
<b>Revenue:</b>				
Global Services		\$ 47,357	\$ 46,213	\$ 42,635
Hardware		24,314	31,154	28,239
Software		15,753	15,094	14,311
Global Financing		2,407	2,608	2,826
Enterprise Investments/Other		1,303	1,224	1,120
<b>Total Revenue</b>		<b>91,134</b>	<b>96,293</b>	<b>89,131</b>
<b>Cost:</b>				
Global Services		35,070	35,038	32,304
Hardware		15,771	21,976	20,453
Software		1,972	1,933	1,943
Global Financing		1,091	1,046	1,249
Enterprise Investments/Other		698	731	635
<b>Total Cost</b>		<b>54,602</b>	<b>60,724</b>	<b>56,584</b>
<b>Gross Profit</b>		<b>36,532</b>	<b>35,569</b>	<b>32,547</b>
<b>Expense and Other Income:</b>				
Selling, general and administrative		21,314	20,079	18,601
Research, development and engineering	Q	5,842	5,874	5,314
Intellectual property and custom development income		(948)	(1,169)	(1,168)
Other (income) and expense		(2,122)	(23)	238
Interest expense	K&L	220	139	145
<b>Total Expense and Other Income</b>		<b>24,306</b>	<b>24,900</b>	<b>23,130</b>
<b>Income from Continuing Operations Before Income Taxes</b>		<b>12,226</b>	<b>10,669</b>	<b>9,417</b>
Provision for income taxes	P	4,232	3,172	2,829
<b>Income from Continuing Operations</b>		<b>7,994</b>	<b>7,497</b>	<b>6,588</b>
<b>Discontinued Operations:</b>				
Loss from discontinued operations, net of tax		(24)	(18)	(30)
Income before cumulative effect of change in accounting principle		7,970	7,479	6,558
Cumulative effect of change in accounting principle, net of tax**	B	(36)	—	—
<b>Net Income</b>		<b>\$ 7,934</b>	<b>\$ 7,479</b>	<b>\$ 6,558</b>
<b>Earnings/(Loss) per Share of Common Stock:</b>				
<b>Assuming Dilution:</b>				
Continuing operations	S	\$ 4.91	\$ 4.39	\$ 3.76
Discontinued operations	S	(0.01)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	S	4.90	4.38	3.74
Cumulative effect of change in accounting principle**	S	(0.02)	—	—
<b>Total</b>	S	<b>\$ 4.87*</b>	<b>\$ 4.38</b>	<b>\$ 3.74</b>
<b>Basic:</b>				
Continuing operations	S	\$ 4.99	\$ 4.48	\$ 3.83
Discontinued operations	S	(0.02)	(0.01)	(0.02)
Before cumulative effect of change in accounting principle	S	4.98*	4.47	3.81
Cumulative effect of change in accounting principle**	S	(0.02)	—	—
<b>Total</b>	S	<b>\$ 4.96</b>	<b>\$ 4.47</b>	<b>\$ 3.81</b>
<b>Weighted-Average Number of Common Shares Outstanding:</b>				
Assuming dilution		1,627,632,662	1,707,231,708	1,752,847,742
Basic		1,600,591,264	1,674,959,086	1,721,588,628

\* Does not total due to rounding.

\*\* Reflects implementation of FASB Interpretation No. 47. See note B, "Accounting Changes," on pages 61 and 62 for additional information.

The accompanying notes on pages 54 through 100 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	2005	2004
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 12,568	\$ 10,053
Marketable securities	D	1,118	517
Notes and accounts receivable—trade (net of allowances of \$267 in 2005 and \$277 in 2004)		9,540	10,522
Short-term financing receivables (net of allowances of \$422 in 2005 and \$681 in 2004)	F	13,750	15,801
Other accounts receivable (net of allowances of \$7 in 2005 and \$13 in 2004)		1,138	1,813
Inventories	E	2,841	3,316
Deferred taxes	P	1,765	2,413
Prepaid expenses and other current assets		2,941	2,708
<b>Total current assets</b>		<b>45,661</b>	<b>47,143</b>
Plant, rental machines and other property	G	34,261	36,385
Less: Accumulated depreciation	G	20,505	21,210
Plant, rental machines and other property—net	G	13,756	15,175
Long-term financing receivables	F	9,628	10,950
Prepaid pension assets	V	20,625	20,394
Investments and sundry assets	H	4,974	7,115
Goodwill	I	9,441	8,437
Intangible assets—net	I	1,663	1,789
<b>Total Assets</b>		<b>\$ 105,748</b>	<b>\$ 111,003</b>
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities:			
Taxes	P	\$ 4,710	\$ 4,728
Short-term debt	K & L	7,216	8,099
Accounts payable		7,349	9,444
Compensation and benefits		3,325	3,804
Deferred income		7,319	7,175
Other accrued expenses and liabilities		5,233	6,536
<b>Total current liabilities</b>		<b>35,152</b>	<b>39,786</b>
Long-term debt	K & L	15,425	14,828
Retirement and nonpension postretirement benefit obligations	V	13,779	15,883
Other liabilities	M	8,294	8,818
<b>Total Liabilities</b>		<b>72,650</b>	<b>79,315</b>
Contingencies and Commitments	O		
Stockholders' equity:	N		
Common stock, par value \$.20 per share and additional paid-in capital		28,926	26,673
Shares authorized: 4,687,500,000			
Shares issued (2005—1,981,259,104; 2004—1,962,687,087)			
Retained earnings		44,734	38,148
Treasury stock, at cost (shares: 2005—407,279,343; 2004—317,094,633)		(38,546)	(31,072)
Accumulated gains and (losses) not affecting retained earnings	N	(2,016)	(2,061)
<b>Total Stockholders' Equity</b>		<b>33,098</b>	<b>31,688</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>\$ 105,748</b>	<b>\$ 111,003</b>

The accompanying notes on pages 54 through 100 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:	2005	2004*	2003*
<b>Cash Flow from Operating Activities from Continuing Operations:</b>			
Net income	\$ 7,934	\$ 7,479	\$ 6,558
Loss from discontinued operations	24	18	30
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation	4,147	3,959	3,961
Amortization of intangibles	1,041	956	955
Stock-based compensation	1,043	1,578	1,573
Deferred income taxes	2,185	1,794	790
Net gain on asset sales and other	(1,525)	(420)	(275)
Other than temporary declines in securities and other investments	9	20	50
Change in operating assets and liabilities, net of acquisitions/divestitures:			
Receivables (including financing receivables)	2,219	2,613	2,024
Inventories	202	(291)	293
Pension assets	(1,562)	(1,284)	(1,409)
Other assets	(584)	(200)	(567)
Accounts payable	(536)	411	617
Pension liabilities	(166)	(584)	(286)
Other liabilities	483	(700)	223
<b>Net Cash Provided by Operating Activities from Continuing Operations</b>	<b>14,914</b>	<b>15,349</b>	<b>14,537</b>
<b>Cash Flow from Investing Activities from Continuing Operations:</b>			
Payments for plant, rental machines and other property	(3,842)	(4,368)	(4,393)
Proceeds from disposition of plant, rental machines and other property	1,107	1,311	1,039
Investment in software	(792)	(688)	(581)
Purchases of marketable securities and other investments	(4,526)	(8,718)	(6,471)
Proceeds from disposition of marketable securities and other investments	4,180	8,830	7,023
Divestiture of businesses, net of cash transferred	932	25	97
Acquisition of businesses, net of cash acquired	(1,482)	(1,738)	(1,836)
<b>Net Cash Used in Investing Activities from Continuing Operations</b>	<b>(4,423)</b>	<b>(5,346)</b>	<b>(5,122)</b>
<b>Cash Flow from Financing Activities from Continuing Operations:</b>			
Proceeds from new debt	4,363	2,438	1,573
Short-term (repayments)/borrowings less than 90 days—net	(232)	1,073	777
Payments to settle debt	(3,522)	(4,538)	(5,831)
Common stock transactions—net	(6,506)	(5,361)	(3,200)
Cash dividends paid	(1,250)	(1,174)	(1,085)
<b>Net Cash Used in Financing Activities from Continuing Operations</b>	<b>(7,147)</b>	<b>(7,562)</b>	<b>(7,766)</b>
Effect of exchange rate changes on cash and cash equivalents	(789)	405	421
Net cash used in discontinued operations from: (Revised—see note A)			
Operating activities	(40)	(83)	(164)
Investing activities	—	—	2
Net change in cash and cash equivalents	2,515	2,763	1,908
Cash and cash equivalents at January 1	10,053	7,290	5,382
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 12,568</b>	<b>\$ 10,053</b>	<b>\$ 7,290</b>
<b>Supplemental Data:</b>			
Income taxes paid	\$ 1,994	\$ 1,837	\$ 1,707
Interest paid	\$ 866	\$ 705	\$ 853
Capital lease obligations	\$ 287	\$ 110	\$ 27
Equity securities received as divestiture consideration**	\$ 430	\$ —	\$ —

\* Reclassified to conform with 2005 presentation.

\*\* Lenovo equity valued at \$542 million net of lock-up provisions of \$112 million. See note C, "Acquisitions/Divestitures," on pages 66 and 67 for additional information.

The accompanying notes on pages 54 through 100 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 AND ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
<b>2003</b>					
Stockholders' equity, January 1, 2003	\$ 20,986	\$ 26,757	\$ (20,213)	\$ (3,418)	\$ 24,112
Net income plus gains and (losses) not affecting retained earnings:					
Net income		6,558			\$ 6,558
Gains and (losses) not affecting retained earnings (net of tax):					
Net unrealized losses on SFAS No. 133 cash flow hedge derivatives (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					\$ 8,080
Cash dividends declared—common stock		(1,085)			(1,085)
Common stock issued under employee plans (16,445,473 shares)	2,392	(13)			2,379
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)
Income tax benefits—stock transactions	108				108
Stockholders' equity, December 31, 2003	\$ 23,490	\$ 31,971	\$ (24,034)	\$ (1,896)	\$ 29,531

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# Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(Dollars in millions)

	COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
<b>2004</b>					
Stockholders' equity, January 1, 2004	\$ 23,490	\$ 31,971	\$ (24,034)	\$ (1,896)	\$ 29,531
Net income plus gains and (losses) not affecting retained earnings:					
Net income		7,479			\$ 7,479
Gains and (losses) not affecting retained earnings (net of tax):					
Net unrealized losses on SFAS No. 133 cash flow hedge derivatives (net of tax benefit of \$112)				(199)	(199)
Foreign currency translation adjustments (net of tax benefit of \$93)				1,055	1,055
Minimum pension liability adjustment (net of tax benefit of \$540)				(1,066)	(1,066)
Net unrealized gains on marketable securities (net of tax expense of \$30)				45	45
Total gains and (losses) not affecting retained earnings					(165)
Subtotal: Net income plus gains and (losses) not affecting retained earnings					\$ 7,314
Cash dividends declared—common stock		(1,174)			(1,174)
Common stock issued under employee plans (25,293,484 shares)	3,033				3,033
Purchases (422,338 shares) and sales (2,840,648 shares) of treasury stock under employee plans—net		(128)	237		109
Other treasury shares purchased, not retired (78,562,974 shares)			(7,275)		(7,275)
Decrease in shares remaining to be issued in acquisition	(6)				(6)
Income tax benefits—stock transactions	156				156
Stockholders' equity, December 31, 2004	\$ 26,673	\$ 38,148	\$ (31,072)	\$ (2,061)	\$ 31,688

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# Consolidated Statement of Stockholders' Equity

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(Dollars in millions)

	COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
<b>2005</b>					
Stockholders' equity, January 1, 2005	\$ 26,673	\$ 38,148	\$ (31,072)	\$ (2,061)	\$ 31,688
Net income plus gains and (losses) not affecting retained earnings:					
Net income		7,934			\$ 7,934
Gains and (losses) not affecting retained earnings (net of tax):					
Net unrealized gains on SFAS No. 133 cash flow hedge derivatives (net of tax expense of \$502)				891	891
Foreign currency translation adjustments (net of tax expense of \$345)				(1,153)	(1,153)
Minimum pension liability adjustment (net of tax expense of \$320)				290	290
Net unrealized gains on marketable securities (net of tax expense of \$8)				17	17
Total gains and (losses) not affecting retained earnings					45
Subtotal: Net income plus gains and (losses) not affecting retained earnings					\$ 7,979
Cash dividends declared—common stock		(1,250)			(1,250)
Common stock issued under employee plans (18,572,017 shares)	2,257				2,257
Purchases (606,697 shares) and sales (2,594,786 shares) of treasury stock under employee plans—net		(98)	197		99
Other treasury shares purchased, not retired (90,237,800 shares)			(7,671)		(7,671)
Decrease in shares remaining to be issued in acquisition	(24)				(24)
Income tax benefits—stock transactions	20				20
<b>Stockholders' equity, December 31, 2005</b>	<b>\$ 28,926</b>	<b>\$ 44,734</b>	<b>\$ (38,546)</b>	<b>\$ (2,016)</b>	<b>\$ 33,098</b>

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