

Consolidated Statement of Earnings

(dollars in millions except per share amounts)

FOR THE YEAR ENDED DECEMBER 31:	NOTES	2002	2001	2000
REVENUE:				
Global Services		\$ 36,360	\$ 34,956	\$ 33,152
Hardware		27,456	30,593	34,470
Software		13,074	12,939	12,598
Global Financing		3,232	3,426	3,465
Enterprise Investments/Other		1,064	1,153	1,404
TOTAL REVENUE		81,186	83,067	85,089
COST:				
Global Services		26,812	25,355	24,309
Hardware		20,020	21,231	24,207
Software		2,043	2,265	2,283
Global Financing	K	1,416	1,693	1,965
Enterprise Investments/Other		611	634	747
TOTAL COST		50,902	51,178	53,511
GROSS PROFIT		30,284	31,889	31,578
EXPENSE AND OTHER INCOME:				
Selling, general and administrative	Q	18,738	17,048	17,393
Research, development and engineering	R	4,750	4,986	5,084
Intellectual property and custom development income		(1,100)	(1,476)	(1,664)
Other (income) and expense		227	(353)	(990)
Interest expense	K & L	145	234	344
TOTAL EXPENSE AND OTHER INCOME		22,760	20,439	20,167
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		7,524	11,450	11,411
Provision for income taxes	P	2,190	3,304	3,537
INCOME FROM CONTINUING OPERATIONS		5,334	8,146	7,874
DISCONTINUED OPERATIONS:				
(Loss)/income from discontinued operations	C	(1,755)	(423)	219
NET INCOME		3,579	7,723	8,093
Preferred stock dividends		—	10	20
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS		\$ 3,579	\$ 7,713	\$ 8,073
EARNINGS/(LOSS) PER SHARE OF COMMON STOCK:				
ASSUMING DILUTION:				
Continuing operations	T	\$ 3.07	\$ 4.59	\$ 4.32
Discontinued operations	T	(1.01)	(0.24)	0.12
TOTAL	T	\$ 2.06	\$ 4.35	\$ 4.44
BASIC:				
Continuing operations	T	\$ 3.13	\$ 4.69	\$ 4.45
Discontinued operations	T	(1.03)	(0.24)	0.12
TOTAL	T	\$ 2.10	\$ 4.45	\$ 4.58*
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Assuming dilution		1,730,941,054	1,771,230,599	1,812,118,422
Basic		1,703,244,345	1,733,348,422	1,763,037,049

* Does not total due to rounding.

The accompanying notes on pages 70 through 104 are an integral part of the financial statements.

Consolidated Statement of Financial Position

(dollars in millions except per share amounts)

AT DECEMBER 31:	NOTES	2002	2001*
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 5,382	\$ 6,330
Marketable securities	D	593	63
Notes and accounts receivable—trade, net of allowances		9,915	9,101
Short-term financing receivables	F	15,996	16,656
Other accounts receivable		1,447	1,261
Inventories	E	3,148	4,304
Deferred taxes	P	2,617	2,402
Prepaid expenses and other current assets		2,554	2,344
Total current assets		41,652	42,461
Plant, rental machines and other property	G	36,083	38,375
Less: Accumulated depreciation		21,643	21,871
Plant, rental machines and other property—net		14,440	16,504
Long-term financing receivables	F	11,440	12,246
Prepaid pension assets	W	16,003	11,397
Investments and sundry assets	H	8,834	6,417
Goodwill	I	4,115	1,278
TOTAL ASSETS		\$ 96,484	\$ 90,303
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Taxes	P	\$ 5,476	\$ 4,644
Short-term debt	K & L	6,031	11,188
Accounts payable		7,630	7,047
Compensation and benefits		3,724	3,796
Deferred income		5,276	4,223
Other accrued expenses and liabilities		6,413	4,221
Total current liabilities		34,550	35,119
Long-term debt	K & L	19,986	15,963
Retirement and nonpension postretirement benefit obligations	W	13,215	10,308
Other liabilities	M	5,951	5,465
TOTAL LIABILITIES		73,702	66,855
Contingencies	O		
Stockholders' equity:	N		
Common stock, par value \$.20 per share		14,858	14,248
Shares authorized: 4,687,500,000			
Shares issued (2002—1,920,957,772; 2001—1,913,513,218)			
Retained earnings		31,555	30,142
Treasury stock, at cost (shares: 2002—198,590,876; 2001—190,319,489)		(20,213)	(20,114)
Accumulated gains and (losses) not affecting retained earnings		(3,418)	(828)
TOTAL STOCKHOLDERS' EQUITY		22,782	23,448
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 96,484	\$ 90,303

* Reclassified to conform with 2002 presentation.

The accompanying notes on pages 70 through 104 are an integral part of the financial statements.

Consolidated Statement of Stockholders' Equity

<i>(dollars in millions)</i>	PREFERRED STOCK	COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK	EMPLOYEE BENEFITS TRUST	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
2000*							
Stockholders' equity, January 1, 2000	\$ 247	\$ 11,762	\$ 16,878	\$ (7,375)	\$ (2,162)	\$ 1,076	\$ 20,426
Net income plus gains and (losses) not affecting retained earnings:							
Net income			8,093				\$ 8,093
Gains and (losses) not affecting retained earnings (net of tax):							
Foreign currency translation adjustments (net of tax expense of \$289)						(538)	(538)
Minimum pension liability adjustment (net of tax expense of \$12)						18	18
Net unrealized losses on marketable securities (net of tax benefit of \$506)						(925)	(925)
Total gains and (losses) not affecting retained earnings							(1,445)
Subtotal: Net income plus gains and (losses) not affecting retained earnings							\$ 6,648
Cash dividends declared—common stock			(909)				(909)
Cash dividends declared—preferred stock			(20)				(20)
Common stock issued under employee plans (17,275,350 shares)		615	1				616
Purchases (8,799,382 shares) and sales (9,074,212 shares) of treasury stock under employee plans—net			(259)	6			(253)
Other treasury shares purchased, not retired (58,867,226 shares)				(6,431)			(6,431)
Fair value adjustment of employee benefits trust		(439)			450		11
Increase due to shares remaining to be issued in acquisition		40					40
Tax effect—stock transactions		422					422
Stockholders' equity, December 31, 2000	\$ 247	\$ 12,400	\$ 23,784	\$ (13,800)	\$ (1,712)	\$ (369)	\$ 20,550

* Reclassified to conform with 2002 presentation.

Consolidated Statement of Stockholders' Equity

<i>(dollars in millions)</i>	PREFERRED STOCK	COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK	EMPLOYEE BENEFITS TRUST	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
2001*							
Stockholders' equity, December 31, 2000	\$ 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				<u>\$ 7,723</u>
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	<u>92</u>
Total gains and (losses) not affecting retained earnings							<u>(459)</u>
Subtotal: Net income plus gains and (losses) not affecting retained earnings							<u>\$ 7,264</u>
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 (2,237,935 shares) and sales (11,801,053 shares) of treasury stock under employee plans—net		32	(391)	1,032			673
Other treasury shares purchased, not retired (48,841,196 shares)				(5,091)			(5,091)
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 2002 presentation.

Consolidated Statement of Stockholders' Equity

<i>(dollars in millions)</i>	COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK	EMPLOYEE BENEFITS TRUST	ACCUMULATED GAINS AND (LOSSES) NOT AFFECTING RETAINED EARNINGS	TOTAL
2002						
Stockholders' equity, December 31, 2001	\$ 14,248	\$ 30,142	\$ (20,114)	\$ —	\$ (828)	\$ 23,448
Net income plus gains and (losses) not affecting retained earnings:						
Net income		3,579				\$ 3,579
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)	(16)
Total gains and (losses) not affecting retained earnings						(2,590)
Subtotal: Net income plus gains and (losses) not affecting retained earnings						\$ 989
Cash dividends declared—common stock		(1,005)				(1,005)
Common stock issued under employee plans (7,255,995 shares)	440	4				444
Purchases (1,169,043 shares) and sales (12,873,502 shares) of treasury stock under employee plans—net		(475)	1,210			735
Other treasury shares purchased, not retired (47,501,854 shares)			(4,111)			(4,111)
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	\$ 14,858	\$ 31,555	\$ (20,213)	\$ —	\$ (3,418)	\$ 22,782

The accompanying notes on pages 70 through 104 are an integral part of the financial statements.

Consolidated Statement of Cash Flows

(dollars in millions)

FOR THE YEAR ENDED DECEMBER 31:

	2002	2001*	2000*
CASH FLOW FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:			
Income from continuing operations	\$ 5,334	\$ 8,146	\$ 7,874
Adjustments to reconcile net income from continuing operations to cash provided by operating activities:			
Depreciation	3,691	3,881	4,224
Amortization of software	688	625	482
Deferred income taxes	(67)	664	44
Net gain on assets sales and other	(343)	(340)	(751)
Other than temporary declines in securities and other investments	58	405	—
Noncash portion of special actions	1,350	—	—
Change in operating assets and liabilities, net of acquisitions/divestitures:			
Receivables	4,125	2,837	(4,692)
Inventories	793	287	(22)
Pension assets	(4,227)	(1,758)	(1,333)
Other assets	70	1,244	673
Accounts payable	(55)	(918)	2,134
Pension liabilities	83	(69)	(237)
Other liabilities	2,288	(1,038)	441
NET CASH PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS	13,788	13,966	8,837
CASH FLOW FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:			
Payments for plant, rental machines and other property	(4,753)	(5,400)	(5,319)
Proceeds from disposition of plant, rental machines and other property	775	1,149	1,569
Investment in software	(597)	(655)	(565)
Purchases of marketable securities and other investments	(1,582)	(778)	(750)
Proceeds from disposition of marketable securities and other investments	1,185	738	1,393
Divestiture of businesses	1,233	—	—
Acquisition of businesses	(3,158)	(916)	(329)
NET CASH USED IN INVESTING ACTIVITIES FROM CONTINUING OPERATIONS	(6,897)	(5,862)	(4,001)
CASH FLOW FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:			
Proceeds from new debt	6,726	4,535	9,604
Short-term (repayments)/borrowings less than 90 days—net	(4,087)	2,926	(1,400)
Payments to settle debt	(5,812)	(7,898)	(7,561)
Preferred stock transactions—net	—	(254)	—
Common stock transactions—net	(3,087)	(3,652)	(6,073)
Cash dividends paid	(1,005)	(966)	(929)
NET CASH USED IN FINANCING ACTIVITIES FROM CONTINUING OPERATIONS	(7,265)	(5,309)	(6,359)
Effect of exchange rate changes on cash and cash equivalents	148	(83)	(147)
Net cash (used in)/provided by discontinued operations	(722)	55	190
Net change in cash and cash equivalents	(948)	2,767	(1,480)
Cash and cash equivalents at January 1	6,330	3,563	5,043
CASH AND CASH EQUIVALENTS AT DECEMBER 31	\$ 5,382	\$ 6,330	\$ 3,563
SUPPLEMENTAL DATA:			
Cash paid during the year for the total company:			
Income taxes	\$ 1,841	\$ 2,279	\$ 2,697
Interest	\$ 831	\$ 1,247	\$ 1,447

NONCASH INVESTING AND FINANCING ACTIVITIES:

The noncash portion of the purchase price paid for PwCC is a significant noncash investing activity. This transaction is described on page 78.

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