# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

## FORM 10-Q
**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTER ENDED SEPTEMBER 30, 2026**

**1-2360**
(Commission file number)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
(Exact name of registrant as specified in its charter)

| **New York** | **13-0871985** |
|---|---|
| (State of incorporation) | (IRS employer identification number) |
| **One New Orchard Road**<br>**Armonk, New York** | **10504** |
| (Address of principal executive offices) | (Zip Code) |

**914-499-1900**
(Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Capital stock, par value $.20 per share | IBM | New York Stock Exchange |
| | | NYSE Texas |
| 0.300% Notes due 2026 | IBM 26B | New York Stock Exchange |
| 1.250% Notes due 2027 | IBM 27B | New York Stock Exchange |
| 3.375% Notes due 2027 | IBM 27F | New York Stock Exchange |
| 0.300% Notes due 2028 | IBM 28B | New York Stock Exchange |
| 1.750% Notes due 2028 | IBM 28A | New York Stock Exchange |
| 1.500% Notes due 2029 | IBM 29 | New York Stock Exchange |
| 0.875% Notes due 2030 | IBM 30A | New York Stock Exchange |
| 2.900% Notes due 2030 | IBM 30C | New York Stock Exchange |
| 1.750% Notes due 2031 | IBM 31 | New York Stock Exchange |
| 3.000% Notes due 2031 | IBM 31A | New York Stock Exchange |
| 3.625% Notes due 2031 | IBM 31B | New York Stock Exchange |
| 0.650% Notes due 2032 | IBM 32A | New York Stock Exchange |
| 3.150% Notes due 2033 | IBM 33A | New York Stock Exchange |
| 3.450% Notes due 2034 | IBM 34A | New York Stock Exchange |
| 1.250% Notes due 2034 | IBM 34 | New York Stock Exchange |
| 3.750% Notes due 2035 | IBM 35 | New York Stock Exchange |
| 3.450% Notes due 2037 | IBM 37 | New York Stock Exchange |
| 3.850% Notes due 2038 | IBM 38B | New York Stock Exchange |
| 4.875% Notes due 2038 | IBM 38 | New York Stock Exchange |
| 1.200% Notes due 2040 | IBM 40 | New York Stock Exchange |
| 4.000% Notes due 2043 | IBM 43 | New York Stock Exchange |
| 3.800% Notes due 2045 | IBM 45A | New York Stock Exchange |
| Floating Rate Notes due 2028 | IBM 28E | New York Stock Exchange |
| 6.22% Debentures due 2027 | IBM 27 | New York Stock Exchange |
| 6.50% Debentures due 2028 | IBM 28 | New York Stock Exchange |
| 5.875% Debentures due 2032 | IBM 32D | New York Stock Exchange |
| 7.00% Debentures due 2045 | IBM 45 | New York Stock Exchange |
| 7.125% Debentures due 2096 | IBM 96 | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Smaller reporting company ☐ |
| Non-accelerated filer ☐ | | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant had 945,120,805 shares of common stock outstanding at September 30, 2026.

## Index


| | Page |
|---|---|
| **Part I - Financial Information:** | |
| **Item 1. Consolidated Financial Statements (Unaudited):** | |
| Consolidated Income Statement for the three and nine months ended September 30, 2026 and 2025 | 3 |
| Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2026 and 2025 | 4 |
| Consolidated Balance Sheet at September 30, 2026 and December 31, 2025 | 5 |
| Consolidated Statement of Cash Flows for the nine months ended September 30, 2026 and 2025 | 7 |
| Consolidated Statement of Equity for the three and nine months ended September 30, 2026 and 2025 | 8 |
| Notes to Consolidated Financial Statements | 10 |
| **Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition** | 45 |
| **Item 4. Controls and Procedures** | 75 |
| **Part II - Other Information:** | |
| **Item 1. Legal Proceedings** | 76 |
| **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities** | 76 |
| **Item 5. Other Information** | 76 |
| **Item 6. Exhibits** | 77 |

## Part I - Financial Information

### Item 1. Consolidated Financial Statements:

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED INCOME STATEMENT**
**(UNAUDITED)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ and shares in millions, except per share amounts)** | **2026** | **2025** | **2026** | **2025** |
| **Revenue:** | | | | |
| Services | $ 8,000 | $ 7,724 | $ 23,615 | $ 22,686 |
| Sales | 8,912 | 8,407 | 25,970 | 24,606 |
| Financing | 192 | 200 | 598 | 557 |
| **Total revenue** | 17,103 | 16,331 | 50,182 | 47,849 |
| **Cost:** | | | | |
| Services | 5,441 | 5,224 | 15,979 | 15,506 |
| Sales | 1,834 | 1,637 | 5,287 | 4,672 |
| Financing | 114 | 109 | 345 | 303 |
| **Total cost** | 7,389 | 6,970 | 21,611 | 20,481 |
| **Gross profit** | 9,714 | 9,360 | 28,571 | 27,369 |
| **Expense and other (income):** | | | | |
| Selling, general and administrative | 4,620 | 4,748 | 14,691 | 14,661 |
| Research and development | 2,378 | 2,082 | 6,863 | 6,129 |
| Intellectual property and custom development income | (164) | (219) | (501) | (687) |
| Other (income) and expense | (109) | (173) | (296) | (376) |
| Interest expense | 491 | 492 | 1,451 | 1,457 |
| **Total expense and other (income)** | 7,217 | 6,931 | 22,208 | 21,184 |
| **Income from continuing operations before income taxes** | 2,497 | 2,430 | 6,363 | 6,185 |
| Provision for/(benefit from) income taxes | 298 | 686 | 782 | 1,193 |
| **Income from continuing operations** | 2,199 | 1,744 | 5,581 | 4,992 |
| Income/(loss) from discontinued operations, net of tax | (10) | 0 | (10) | 1 |
| **Net income** | $ 2,190 | $ 1,744 | $ 5,571 | $ 4,993 |
| **Earnings/(loss) per share of common stock:** | | | | |
| **Assuming dilution:** | | | | |
| Continuing operations | $ 2.31 | $ 1.84 | $ 5.86 | $ 5.27 |
| Discontinued operations | (0.01) | 0.00 | (0.01) | 0.00 |
| **Total** | $ 2.30 | $ 1.84 | $ 5.85 | $ 5.27 |
| **Basic:** | | | | |
| Continuing operations | $ 2.33 | $ 1.87 | $ 5.93 | $ 5.36 |
| Discontinued operations | (0.01) | 0.00 | (0.01) | 0.00 |
| **Total** | $ 2.32 | $ 1.87 | $ 5.92 | $ 5.36 |
| **Weighted-average number of common shares outstanding:** | | | | |
| Assuming dilution | 953.5 | 948.9 | 953.0 | 947.4 |
| Basic | 944.4 | 933.9 | 941.4 | 930.9 |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**(UNAUDITED)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in millions)** | **2026** | **2025** | **2026** | **2025** |
| **Net income** | $ 2,190 | $ 1,744 | $ 5,571 | $ 4,993 |
| **Other comprehensive income/(loss), before tax:** | | | | |
| **Foreign currency translation adjustments** | 79 | (100) | 206 | (1,056) |
| **Net unrealized gains/(losses) on available-for-sale securities** | 0 | (2) | 0 | 1 |
| **Unrealized gains/(losses) on cash flow hedges:** | | | | |
| Unrealized gains/(losses) arising during the period | (66) | 20 | (123) | (121) |
| Reclassification of (gains)/losses to net income | 5 | 94 | 443 | (649) |
| **Total unrealized gains/(losses) on cash flow hedges** | (61) | 113 | 321 | (769) |
| **Retirement-related benefit plans:** | | | | |
| Prior service costs/(credits) | — | 0 | — | 0 |
| Net gains/(losses) arising during the period | (2) | 0 | (1) | 0 |
| Curtailments and settlements | 2 | 2 | 7 | 8 |
| Amortization of prior service costs/(credits) | 9 | (2) | 26 | (5) |
| Amortization of net (gains)/losses | 196 | 158 | 590 | 466 |
| **Total retirement-related benefit plans** | 205 | 158 | 622 | 469 |
| **Other comprehensive income/(loss), before tax** | 222 | 170 | 1,148 | (1,355) |
| **Income tax (expense)/benefit related to items of other comprehensive income** | (56) | (112) | (420) | 641 |
| **Other comprehensive income/(loss), net of tax** | 166 | 58 | 728 | (715) |
| **Total comprehensive income** | $ 2,356 | $ 1,802 | $ 6,299 | $ 4,278 |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED BALANCE SHEET**
**(UNAUDITED)**

**ASSETS**

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| **Assets:** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 9,233 | $ 13,587 |
| Restricted cash | 48 | 54 |
| Marketable securities | 1,825 | 830 |
| Notes and accounts receivable — trade (net of allowances of $115 in 2026 and $99 in 2025) | 5,794 | 8,112 |
| Short-term financing receivables: | | |
| Held for investment (net of allowances of $92 in 2026 and $106 in 2025) | 5,638 | 7,344 |
| Held for sale | 774 | 1,131 |
| Other accounts receivable (net of allowances of $29 in 2026 and $37 in 2025) | 1,673 | 1,052 |
| Inventory, at lower of average cost or net realizable value: | | |
| Finished goods | 320 | 230 |
| Work in process and raw materials | 1,625 | 990 |
| Total inventory | 1,945 | 1,220 |
| Deferred costs | 1,177 | 1,084 |
| Prepaid expenses and other current assets | 3,083 | 2,530 |
| **Total current assets** | 31,192 | 36,944 |
| Property, plant and equipment | 17,692 | 17,874 |
| Less: Accumulated depreciation | 11,649 | 11,975 |
| Property, plant and equipment — net | 6,043 | 5,899 |
| Operating right-of-use assets — net | 3,114 | 3,129 |
| Long-term financing receivables (net of allowances of $28 in 2026 and $34 in 2025) | 6,844 | 7,708 |
| Prepaid pension assets | 7,715 | 7,544 |
| Deferred costs | 808 | 825 |
| Deferred taxes | 8,827 | 8,610 |
| Goodwill | 74,916 | 67,717 |
| Intangible assets — net | 13,603 | 11,391 |
| Investments and sundry assets | 1,950 | 2,112 |
| **Total assets** | $ 155,011 | $ 151,880 |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED BALANCE SHEET – (CONTINUED)**
**(UNAUDITED)**

**LIABILITIES AND EQUITY**

| ($ and shares in millions, except per share amount) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| **Liabilities:** | | |
| **Current liabilities:** | | |
| Taxes | $ 1,867 | $ 2,347 |
| Short-term debt | 7,013 | 6,424 |
| Accounts payable | 4,491 | 4,756 |
| Compensation and benefits | 3,668 | 4,114 |
| Deferred income | 15,164 | 16,101 |
| Operating lease liabilities | 749 | 800 |
| Other accrued expenses and liabilities | 3,534 | 4,116 |
| **Total current liabilities** | 36,485 | 38,658 |
| Long-term debt | 56,804 | 54,836 |
| Retirement and nonpension postretirement benefit obligations | 8,452 | 9,018 |
| Deferred income | 4,318 | 4,271 |
| Operating lease liabilities | 2,574 | 2,547 |
| Other liabilities | 10,172 | 9,810 |
| **Total liabilities** | $ 118,805 | $ 119,139 |
| **Equity:** | | |
| IBM stockholders' equity: | | |
| Common stock, par value $0.20 per share, and additional paid-in capital | 65,137 | 63,318 |
| Shares authorized: 4,688 | | |
| Shares issued: 2026 — 2,300 | | |
| 2025 — 2,291 | | |
| Retained earnings | 156,576 | 155,648 |
| Treasury stock - at cost | (171,191) | (170,605) |
| Shares: 2026 — 1,355 | | |
| 2025 — 1,354 | | |
| Accumulated other comprehensive income/(loss) | (14,985) | (15,713) |
| Total IBM stockholders' equity | 35,537 | 32,648 |
| Noncontrolling interests | 669 | 93 |
| **Total equity** | 36,206 | 32,740 |
| **Total liabilities and equity** | $ 155,011 | $ 151,880 |

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**(UNAUDITED)**

| ($ in millions) | Nine Months Ended September 30, 2026 | 2025 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 5,571 | $ 4,993 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation [1] | 1,638 | 1,698 |
| Amortization of capitalized software and acquired intangible assets | 2,363 | 2,027 |
| Stock-based compensation | 1,539 | 1,285 |
| Net (gain)/loss on divestitures, asset sales and other | (124) | (46) |
| Changes in operating assets and liabilities, net of acquisitions/divestitures | 804 | (804) |
| **Net cash provided by operating activities** | 11,791 | 9,153 |
| **Cash flows from investing activities:** | | |
| Payments for property, plant and equipment | (793) | (709) |
| Proceeds from disposition of property, plant and equipment/other | 60 | 118 |
| Investment in software | (467) | (476) |
| Purchases of marketable securities and other investments | (4,769) | (8,910) |
| Proceeds from disposition of marketable securities and other investments | 3,763 | 6,162 |
| Acquisition of businesses, net of cash acquired | (11,364) | (7,903) |
| Divestiture of businesses, net of cash transferred | 30 | (1) |
| **Net cash provided by/(used in) investing activities** | (13,539) | (11,719) |
| **Cash flows from financing activities:** | | |
| Proceeds from new debt | 9,415 | 8,391 |
| Payments to settle debt | (7,261) | (3,679) |
| Short-term borrowings/(repayments) less than 90 days — net | 3 | (29) |
| Common stock repurchases for tax withholdings | (817) | (851) |
| Proceeds from issuance of shares | 562 | 535 |
| Noncontrolling interest transactions [2] [3] | 557 | (15) |
| Financing — other [2] | (98) | (93) |
| Cash dividends paid | (4,762) | (4,681) |
| **Net cash provided by/(used in) financing activities** | (2,402) | (423) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (209) | 429 |
| Net change in cash, cash equivalents and restricted cash | (4,359) | (2,561) |
| Cash, cash equivalents and restricted cash at January 1 | 13,640 | 14,160 |
| **Cash, cash equivalents and restricted cash at September 30** | $ 9,282 | $ 11,600 |

(1) Includes operating lease right-of-use assets amortization expense of $0.6 billion in 2026 and 2025.

(2) Prior-year amounts have been reclassified to conform to the change in 2026 presentation.

(3) Refer to "Other Transactions" in note 5, "Acquisition, Divestitures and Other Transactions," for additional information.

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED STATEMENT OF EQUITY**
**(UNAUDITED)**

| ($ in millions, except per share amount) | 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 |
|---|---|---|---|---|---|---|---|
| **Equity – July 1, 2026** | $ 64,600 | $155,937 | $(170,934) | $ (15,151) | $ 34,452 | $ 89 | $34,541 |
| Net income plus other comprehensive income/(loss): | | | | | | | |
| Net income | | 2,190 | | | 2,190 | | 2,190 |
| Other comprehensive income/(loss) | | | | 166 | 166 | | 166 |
| Total comprehensive income | | | | | $ 2,356 | | $ 2,356 |
| Cash dividends paid — common stock ($1.69 per share) | | (1,596) | | | (1,596) | | (1,596) |
| Common stock issued under employee plans | 537 | | | | 537 | | 537 |
| Purchases and sales of treasury stock under employee plans — net | | 45 | (257) | | (211) | | (211) |
| Changes in noncontrolling interests [1] | | | | | | 580 | 580 |
| **Equity – September 30, 2026** | $ 65,137 | $156,576 | $(171,191) | $ (14,985) | $ 35,537 | $ 669 | $36,206 |

| ($ in millions, except per share amount) | 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 |
|---|---|---|---|---|---|---|---|
| **Equity – July 1, 2025** | $ 62,392 | $151,367 | $(170,209) | $ (16,041) | $ 27,509 | $ 79 | $27,588 |
| Net income plus other comprehensive income/(loss): | | | | | | | |
| Net income | | 1,744 | | | 1,744 | | 1,744 |
| Other comprehensive income/(loss) | | | | 58 | 58 | | 58 |
| Total comprehensive income | | | | | $ 1,802 | | $ 1,802 |
| Cash dividends paid — common stock ($1.68 per share) | | (1,569) | | | (1,569) | | (1,569) |
| Common stock issued under employee plans | 427 | | | | 427 | | 427 |
| Purchases and sales of treasury stock under employee plans — net | | 39 | (303) | | (263) | | (263) |
| Changes in noncontrolling interests | | | | | | 6 | 6 |
| **Equity – September 30, 2025** | $ 62,819 | $151,581 | $(170,512) | $ (15,983) | $ 27,905 | $ 85 | $27,990 |

(1) Refer to "Other Transactions" in note 5, "Acquisition, Divestitures and Other Transactions," for additional information.

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**
**AND SUBSIDIARY COMPANIES**
**CONSOLIDATED STATEMENT OF EQUITY – (CONTINUED)**
**(UNAUDITED)**

| ($ in millions, except per share amount) | 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 |
|---|---|---|---|---|---|---|---|
| **Equity – January 1, 2026** | $ 63,318 | $155,648 | $(170,605) | $ (15,713) | $ 32,648 | $ 93 | $32,740 |
| Net income plus other comprehensive income/(loss): | | | | | | | |
| Net income | | 5,571 | | | 5,571 | | 5,571 |
| Other comprehensive income/(loss) | | | | 728 | 728 | | 728 |
| Total comprehensive income | | | | | $ 6,299 | | $ 6,299 |
| Cash dividends paid — common stock ($5.06 per share) | | (4,762) | | | (4,762) | | (4,762) |
| Common stock issued under employee plans | 1,821 | | | | 1,821 | | 1,821 |
| Purchases and sales of treasury stock under employee plans — net | | 119 | (586) | | (467) | | (467) |
| Other equity | (1) | 0 | | | (1) | | (1) |
| Changes in noncontrolling interests [1] | | | | | | 576 | 576 |
| **Equity – September 30, 2026** | $ 65,137 | $156,576 | $(171,191) | $ (14,985) | $ 35,537 | $ 669 | $36,206 |

| ($ in millions, except per share amount) | 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 |
|---|---|---|---|---|---|---|---|
| **Equity – January 1, 2025** | $ 61,380 | $151,163 | $(169,968) | $ (15,269) | $ 27,307 | $ 86 | $27,393 |
| Net income plus other comprehensive income/(loss): | | | | | | | |
| Net income | | 4,993 | | | 4,993 | | 4,993 |
| Other comprehensive income/(loss) | | | | (715) | (715) | | (715) |
| Total comprehensive income | | | | | $ 4,278 | | $ 4,278 |
| Cash dividends paid — common stock ($5.03 per share) | | (4,681) | | | (4,681) | | (4,681) |
| Common stock issued under employee plans | 1,439 | | | | 1,439 | | 1,439 |
| Purchases and sales of treasury stock under employee plans — net | | 107 | (544) | | (437) | | (437) |
| Changes in noncontrolling interests | | | | | | (1) | (1) |
| **Equity – September 30, 2025** | $ 62,819 | $151,581 | $(170,512) | $ (15,983) | $ 27,905 | $ 85 | $27,990 |

(1) Refer to "Other Transactions" in note 5, "Acquisition, Divestitures and Other Transactions," for additional information.

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation:**

The accompanying Consolidated Financial Statements and footnotes of the International Business Machines Corporation (IBM or the company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements and footnotes are unaudited. In the opinion of the company's management, these statements include all adjustments, which are only of a normal recurring nature, necessary to present a fair statement of the company's results of operations, financial position and cash flows.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of assets, liabilities, revenue, costs, expenses and other comprehensive income/(loss) that are reported in the Consolidated Financial Statements and accompanying disclosures. These estimates are based on management's best knowledge of current events, historical experience, actions that the company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. As a result, actual results may be different from these estimates.

Noncontrolling interest amounts that impact the Consolidated Income Statement are included as a reduction within other (income) and expense and were not material to the consolidated results for the periods presented.

Interim results are not necessarily indicative of financial results for a full year. The information included in this Form 10-Q should be read in conjunction with the company's 2025 Annual Report.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts. Certain prior-period amounts have been reclassified to conform to the change in current-period presentation. This is annotated where applicable.

**2. Accounting Changes:**

**New Standards to be Implemented**

***Accounting for Government Grants Received by Business Entities***

*Standard/Description – Issuance date*: December 2025. This guidance establishes the accounting for government grants received by business entities and permits recognition when it is probable that the entity will comply with the grant's conditions and the grant will be received. The guidance also establishes presentation requirements for asset-related and income-related grants and expands related disclosure requirements.

*Effective Date and Adoption Considerations* – The guidance is effective for the company for annual and interim reporting periods beginning January 1, 2029. Early adoption is permitted.

*Effect on Financial Statements or Other Significant Matters* – The company is evaluating the impact of the guidance in the consolidated financial results.

***Intangibles - Goodwill and Other - Internal-Use Software***

*Standard/Description – Issuance date*: September 2025. This guidance requires internal-use software development cost capitalization to begin when both of the following occur: management has authorized and committed to funding the software project, and it is probable the project will be completed and the software will be used to perform its intended function. This guidance eliminates accounting considerations of software development stages.

*Effective Date and Adoption Considerations* – The guidance is effective for the company for annual and interim reporting periods beginning January 1, 2028. Early adoption is permitted.

*Effect on Financial Statements or Other Significant Matters* – The company is evaluating the impact of the guidance in the consolidated financial results.

***Disaggregation of Income Statement Expenses***

*Standard/Description* – Issuance date: November 2024. This guidance requires a new tabular disclosure of certain types of expenses (including purchases of inventory, employee compensation, depreciation and amortization) that are included within commonly presented expense captions on the income statement. The guidance also requires the disclosure

of a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. Additionally, the guidance requires the disclosure of the total amount of selling expenses and an entity's definition of selling expenses. The disclosures are required on an interim and annual basis.

*Effective Date and Adoption Considerations* – The guidance is effective for the company for annual reporting periods beginning in 2027, and for interim reporting periods beginning January 1, 2028. Early adoption is permitted. The company expects to adopt the guidance as of the effective date and to apply the guidance on a prospective basis.

*Effect on Financial Statements or Other Significant Matters* – The company continues to evaluate the need for any changes to processes and controls to meet the additional disclosure requirements. The guidance is a change to disclosures only and will impact the Notes to the Consolidated Financial Statements but will not impact the consolidated financial results.

## 3. Revenue Recognition:

### Disaggregation of Revenue

The following tables provide details of revenue by major products/service offerings and revenue by geography.

### Revenue by Major Products/Service Offerings

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in millions)** | **2026** | **2025** | **2026** | **2025** |
| Hybrid Cloud | $ 2,086 | $ 1,886 | $ 5,988 | $ 5,369 |
| Automation | 1,870 | 1,934 | 5,562 | 5,401 |
| Data | 1,738 | 1,459 | 4,994 | 4,194 |
| Transaction Processing | 2,111 | 1,930 | 6,073 | 5,967 |
| **Total Software** | $ 7,804 | $ 7,209 | $ 22,617 | $ 20,932 |
| Strategy and Technology | 2,965 | 2,905 | 8,794 | 8,607 |
| Intelligent Operations | 2,370 | 2,419 | 7,140 | 7,100 |
| **Total Consulting** | $ 5,335 | $ 5,324 | $ 15,934 | $ 15,706 |
| Hybrid Infrastructure | 2,452 | 2,263 | 7,130 | 6,775 |
| Infrastructure Support | 1,255 | 1,296 | 3,738 | 3,811 |
| **Total Infrastructure** | $ 3,707 | $ 3,559 | $ 10,868 | $ 10,586 |
| **Financing** [(1)] | 192 | 200 | 598 | 557 |
| **Other** [(2)] | 66 | 38 | 165 | 68 |
| **Total revenue** | $ 17,103 | $ 16,331 | $ 50,182 | $ 47,849 |

(1) Contains lease and loan financing arrangements which are not subject to the guidance on revenue from contracts with customers.

(2) Includes reductions in revenue for estimated residual value less related unearned income on sales-type leases, which reflects the z17 launch in June 2025. Refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report for additional information.

### Revenue by Geography

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **($ in millions)** | **2026** | **2025** | **2026** | **2025** |
| Americas | $ 8,576 | $ 8,143 | $ 24,854 | $ 23,811 |
| Europe/Middle East/Africa | 5,426 | 5,251 | 16,302 | 15,216 |
| Asia Pacific | 3,101 | 2,936 | 9,027 | 8,822 |
| Total | $ 17,103 | $ 16,331 | $ 50,182 | $ 47,849 |

**Remaining Performance Obligations**

The remaining performance obligation (RPO) disclosure provides the aggregate amount of the transaction price yet to be recognized as of the end of the reporting period and an explanation as to when the company expects to recognize these amounts in revenue. It is intended to be a statement of overall work under contract that has not yet been performed and does not include contracts in which the customer is not committed, such as certain as-a-service, governmental, term software license and services offerings. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property. Additionally, as a practical expedient, the company does not include contracts that have an original duration of one year or less. RPO estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustment for revenue that has not materialized and adjustments for currency.

At September 30, 2026, the aggregate amount of the transaction price allocated to RPO related to customer contracts that are unsatisfied or partially unsatisfied was approximately $69 billion. Approximately 70 percent of the amount is expected to be recognized as revenue in the subsequent two years, approximately 27 percent in the subsequent three to five years and the balance thereafter.

**Revenue Recognized for Performance Obligations Satisfied (or Partially Satisfied) in Prior Periods**

For the three and nine months ended September 30, 2026, revenue recognized for performance obligations satisfied or partially satisfied in prior periods was not material.

**Reconciliation of Contract Balances**

The following table provides information about notes and accounts receivable — trade, contract assets and deferred income balances.

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Notes and accounts receivable — trade (net of allowances of $115 in 2026 and $99 in 2025) | $ 5,794 | $ 8,112 |
| Contract assets [1] | $ 667 | $ 482 |
| Deferred income (current) | $ 15,164 | $ 16,101 |
| Deferred income (noncurrent) | $ 4,318 | $ 4,271 |

(1) Included within prepaid expenses and other current assets in the Consolidated Balance Sheet.

The amount of revenue recognized during the nine months ended September 30, 2026 that was included within the deferred income balance at December 31, 2025 was $11.4 billion and was primarily related to software and services.

The following table provides roll forwards of the notes and accounts receivable — trade allowance for expected credit losses for the nine months ended September 30, 2026 and the year ended December 31, 2025.

($ in millions)

| January 1, 2026 | Additions / (Releases) | Write-offs [1] | Foreign currency and other | September 30, 2026 |
|---|---|---|---|---|
| $99 | $25 | $(17) | $9 | $115 |
| **January 1, 2025** | **Additions / (Releases)** | **Write-offs [1]** | **Foreign currency and other** | **December 31, 2025** |
| $114 | $5 | $(31) | $10 | $99 |

(1) The majority of the write-offs during the period related to receivables which had been previously reserved.

The contract assets allowance for expected credit losses was not material in any of the periods presented.

## 4. Segments:

The following tables reflect the results of continuing operations of the company's segments consistent with the management and measurement system utilized within the company. Performance measurement is based on segment profit. The chief operating decision maker (CODM) considers budget-to-actual results of segment profit, both when evaluating the performance of and allocating resources to each of the segments as well as in developing certain compensation recommendations. The CODM reviews segment revenue, cost and profit information related to each segment, which is included in the tables below, but does not regularly review total assets by segment and therefore, such information is not presented.

**Management System Segment View**

| ($ in millions) | Software | Consulting | Infrastructure | Financing | Total Segments |
|---|---|---|---|---|---|
| **For the three months ended September 30, 2026:** | | | | | |
| Revenue | $ 7,804 | $ 5,335 | $ 3,707 | $ 192 | $ 17,038 |
| Segment cost | 1,368 | 3,873 | 1,603 | 114 | 6,958 |
| Other expenses and (income) [1] | 3,702 | 810 | 1,389 | (29) | 5,871 |
| Segment profit | $ 2,734 | $ 653 | $ 715 | $ 108 | $ 4,209 |
| Revenue year-to-year change | 8.2 % | 0.2 % | 4.2 % | (3.9)% | 4.6 % |
| Segment profit year-to-year change | 15.2 % | (4.8)% | 10.9 % | (12.5)% | 10.0 % |
| Segment profit margin | 35.0 % | 12.2 % | 19.3 % | 56.1 % | 24.7 % |
| **For the three months ended September 30, 2025:** | | | | | |
| Revenue | $ 7,209 | $ 5,324 | $ 3,559 | $ 200 | $ 16,292 |
| Segment cost | 1,220 | 3,766 | 1,525 | 109 | 6,619 |
| Other expenses and (income) [1] | 3,615 | 872 | 1,390 | (32) | 5,846 |
| Segment profit | $ 2,374 | $ 686 | $ 644 | $ 123 | $ 3,827 |
| Segment profit margin | 32.9 % | 12.9 % | 18.1 % | 61.6 % | 23.5 % |

| ($ in millions) | Software | Consulting | Infrastructure | Financing | Total Segments |
|---|---|---|---|---|---|
| **For the nine months ended September 30, 2026:** | | | | | |
| Revenue | $ 22,617 | $ 15,934 | $ 10,868 | $ 598 | $ 50,017 |
| Segment cost | 3,934 | 11,484 | 4,634 | 345 | 20,398 |
| Other expenses and (income) [1] | 11,348 | 2,593 | 4,159 | (81) | 18,018 |
| Segment profit | $ 7,335 | $ 1,858 | $ 2,074 | $ 334 | $ 11,601 |
| Revenue year-to-year change | 8.1 % | 1.5 % | 2.7 % | 7.3 % | 4.7 % |
| Segment profit year-to-year change | 12.5 % | 2.8 % | 11.7 % | (9.9)% | 9.9 % |
| Segment profit margin | 32.4 % | 11.7 % | 19.1 % | 55.9 % | 23.2 % |
| **For the nine months ended September 30, 2025:** | | | | | |
| Revenue | $ 20,932 | $ 15,706 | $ 10,586 | $ 557 | $ 47,782 |
| Segment cost | 3,452 | 11,306 | 4,481 | 303 | 19,542 |
| Other expenses and (income) [1] | 10,962 | 2,594 | 4,248 | (116) | 17,688 |
| Segment profit | $ 6,517 | $ 1,807 | $ 1,857 | $ 371 | $ 10,552 |
| Segment profit margin | 31.1 % | 11.5 % | 17.5 % | 66.5 % | 22.1 % |

(1) Other expenses and (income) by segment primarily includes:

Software – Selling, general and administrative (SG&A) expense, Research and development (R&D) expense

Consulting – SG&A expense

Infrastructure – R&D expense, SG&A expense, Other expense, Intellectual property and custom development income

Financing – Intercompany financing net other income which reflects IBM Z product cycle dynamics, SG&A expense

**Reconciliations to IBM as Reported:**

| ($ in millions) For the three months ended September 30: | 2026 | 2025 |
|---|---|---|
| **Revenue:** | | |
| Total reportable segments | $ 17,038 | $ 16,292 |
| Other revenue [1] | 66 | 38 |
| Total revenue from continuing operations | $ 17,103 | $ 16,331 |
| **Pre-tax income from continuing operations:** | | |
| Total reportable segment profit | $ 4,209 | $ 3,827 |
| Amortization of acquired intangible assets | (672) | (561) |
| Acquisition-related charges | (36) | (29) |
| Non-operating retirement-related (costs)/income | (91) | (13) |
| Stock-based compensation [2] | (524) | (430) |
| Net interest excluding the Financing segment | (414) | (345) |
| Workforce rebalancing charges [2] | 4 | (40) |
| Other–divested businesses | 2 | (1) |
| Unallocated corporate amounts and other [3] | 19 | 21 |
| Total pre-tax income from continuing operations | $ 2,497 | $ 2,430 |

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 |
|---|---|---|
| **Revenue:** | | |
| Total reportable segments | $ 50,017 | $ 47,782 |
| Other revenue [1] | 165 | 68 |
| Total revenue from continuing operations | $ 50,182 | $ 47,849 |
| **Pre-tax income from continuing operations:** | | |
| Total reportable segment profit | $ 11,601 | $ 10,552 |
| Amortization of acquired intangible assets | (1,905) | (1,605) |
| Acquisition-related charges | (163) | (118) |
| Non-operating retirement-related (costs)/income | (283) | (61) |
| Stock-based compensation [2] | (1,511) | (1,255) |
| Net interest excluding the Financing segment | (1,165) | (953) |
| Workforce rebalancing charges [2] | (362) | (372) |
| Other–divested businesses | (3) | (28) |
| Unallocated corporate amounts and other [3] | 155 | 24 |
| Total pre-tax income from continuing operations | $ 6,363 | $ 6,185 |

(1) Includes reductions in revenue for the estimated residual value less related unearned income on sales-type leases, which reflects the z17 launch in June 2025. Refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report for additional information.

(2) Excludes certain acquisition-related charges.

(3) Includes net gains/(losses) from asset sales and equity investments.

**Other Reportable Segment Items**

| ($ in millions) | Software | Consulting | Infrastructure | Financing | Total Segments |
|---|---|---|---|---|---|
| **For the three months ended September 30, 2026:** | | | | | |
| Depreciation [1] /amortization of non-acquired intangibles | $ 149 | $ 16 | $ 276 | $ 1 | $ 442 |
| Interest Income | — | — | — | 187 | 187 |
| Interest Expense | — | — | — | 104 | 104 |
| **For the three months ended September 30, 2025:** | | | | | |
| Depreciation [1] /amortization of non-acquired intangibles | $ 133 | $ 20 | $ 296 | $ 1 | $ 451 |
| Interest Income | — | — | — | 190 | 190 |
| Interest Expense | — | — | — | 95 | 95 |

| ($ in millions) | Software | Consulting | Infrastructure | Financing | Total Segments |
|---|---|---|---|---|---|
| **For the nine months ended September 30, 2026:** | | | | | |
| Depreciation [1] /amortization of non-acquired intangibles | $ 420 | $ 46 | $ 832 | $ 2 | $ 1,300 |
| Interest Income | — | — | — | 575 | 575 |
| Interest Expense | — | — | — | 320 | 320 |
| **For the nine months ended September 30, 2025:** | | | | | |
| Depreciation [1] /amortization of non-acquired intangibles | $ 388 | $ 61 | $ 841 | $ 3 | $ 1,293 |
| Interest Income | — | — | — | 528 | 528 |
| Interest Expense | — | — | — | 268 | 268 |

(1) Where several segments share leased or owned assets, landlord ownership of these assets is assigned to one segment. Depreciation expense in this table is presented consistently with this ownership view. However, from a segment profit perspective, depreciation expense is allocated to each user segment. Therefore, there is no precise correlation between the depreciation expense presented above and segment profit.

**Immaterial Items**

The resulting gains and (losses) from equity method investments that are attributable to the segments did not have a material effect on the financial results of the segments.

## 5. Acquisitions, Divestitures and Other Transactions:

### Acquisitions

Purchase price consideration for all acquisitions was paid primarily in cash. All acquisitions, unless otherwise stated, were for 100 percent of the acquired business and are reported in the Consolidated Statement of Cash Flows, net of acquired cash and cash equivalents.

During the nine months ended September 30, 2026, the company completed two acquisitions within the Software segment, one acquisition within the Infrastructure segment and one acquisition within the Consulting segment at an aggregate total purchase price of $12,600 million. These acquisitions are expected to enhance the company's portfolio of products and services capabilities and further advance IBM's hybrid cloud and AI strategy.

The following table reflects the purchase price and the resulting purchase price allocation as of September 30, 2026.

| ($ in millions) | Amortization Life (in years) | Confluent, Inc. (Confluent) | Other Acquisitions |
|---|---|---|---|
| Current assets [1] | | $ 2,405 | $ 342 |
| Property, plant and equipment/noncurrent assets | | 93 | 195 |
| Intangible assets: | | | |
| Goodwill | N/A | 7,247 | 319 |
| Client relationships | 7-12 | 2,122 | 40 |
| Completed technology | 5-7 | 1,590 | 281 |
| Trademarks | 1-5 | 122 | 3 |
| Total assets acquired | | $ 13,578 | $ 1,179 |
| Current liabilities [2] | | 1,723 | 91 |
| Noncurrent liabilities | | 253 | 90 |
| Total liabilities assumed | | $ 1,976 | $ 181 |
| Total purchase price | | $ 11,602 | $ 998 |

(1) Includes $1,165 million of cash and cash equivalents and $917 million of short-term marketable securities acquired from Confluent at the acquisition date. Short-term marketable securities were sold by March 31, 2026.

(2) Includes $1,100 million of short-term debt related to convertible notes acquired from Confluent that were recognized at fair value on the acquisition date. The notes were settled on April 15, 2026.

N/A – not applicable

The goodwill generated is primarily attributable to the assembled workforce and the expected synergies from the integration of the acquired businesses. The identified intangible assets are amortized on a straight-line basis over their useful life which approximates the economic life of the assets.

The valuation of the assets acquired and liabilities assumed is subject to revision. If additional information becomes available, the company may further revise the purchase price allocation as soon as practical, but no later than one year from the acquisition date. Any such revisions or changes may be material.

Confluent — On March 17, 2026, the company completed the acquisition of all of the outstanding shares of Confluent. IBM's and Confluent's combined portfolios enable enterprises to deploy generative and agentic AI better and faster by providing trusted communication and data flow between environments, applications and APIs. Confluent's shareholders on record immediately prior to the effective time on the closing date received $31 per share in cash, representing a total equity value of approximately $11.3 billion. The following table reflects the consideration paid related to the acquisition.

| ($ in millions) | Total Consideration [1] |
|---|---|
| Cash paid for outstanding Confluent common stock | $ 11,268 |
| Cash paid for Confluent equity awards | 269 |
| Cash consideration | $ 11,537 |
| Fair value of stock-based compensation awards attributable to pre-acquisition services | 65 |
| Total consideration | $ 11,602 |

(1) As part of the assets acquired, the company received $1,165 million of cash and cash equivalents and $917 million of short-term marketable securities from Confluent at the acquisition date.

Goodwill of $7,158 million and $89 million was assigned to the Software and Consulting segments, respectively. It is expected that 1 percent of the goodwill will be deductible for tax purposes. The overall weighted-average useful life of the identified amortizable intangible assets acquired was 9.7 years. In connection with the acquisition, the company issued and assumed 3.0 million stock awards with a fair value of $665 million. Refer to note 17, "Stock-Based Compensation," for additional information. The acquisition was integrated into the Software segment.

Other Acquisitions — Goodwill of $189 million, $114 million, and $16 million was assigned to the Infrastructure, Consulting and Software segments, respectively. It is expected that 59 percent of the goodwill will be deductible for tax purposes. The overall weighted-average useful life of the identified amortizable assets acquired was 6.8 years.

**Divestitures**

On September 30, 2026, the company completed the divestiture of a joint venture whose historical results were reported within Other, outside of our reportable segments. The transaction did not have a material impact on IBM's Consolidated Financial Statements.

**Other Transactions**

On September 14, 2026, Anderon LLC (“Anderon”), an IBM subsidiary, finalized an award agreement with the U.S. Department of Commerce (the “Department”) providing an incentive of up to an aggregate $1.0 billion under the CHIPS and Science Act (the "CHIPS") to accelerate research and development of quantum wafer manufacturing capabilities. In addition to the CHIPS incentive provided by the Department, IBM has contributed $1.0 billion of cash into Anderon, along with intellectual property and other assets.

As part of the transaction, the Department made available $650 million of the award at closing to be used for eligible expenses and an additional $350 million will be granted upon the achievement of contractual milestones. In connection with the transaction, Anderon issued a minority equity interest to the Department. The award agreement permits award funds not yet deployed for eligible expenses to be invested in U.S. government securities, funds that invest exclusively in such securities, and other permitted investments. The award agreement also contains customary provisions, including the Department's right to terminate the agreement for convenience, and certain clawback rights.

IBM retains a controlling ownership interest and controlling financial interest in Anderon. Accordingly, Anderon is consolidated in IBM's financial statements, with all intercompany balances and transactions eliminated in consolidation. The Department’s equity interest is presented as noncontrolling interests in IBM's Consolidated Balance Sheet and Statement of Equity at September 30, 2026. Proceeds related to the Department’s equity interest are classified within financing activities while proceeds from the grant are classified within operating or investing activities based on the nature of expenditures funded in IBM's Consolidated Statement of Cash Flows.

## 6. Other (Income) and Expense:

Components of other (income) and expense are as follows:

| ($ in millions) | Three Months Ended September 30, 2026 | Three Months Ended September 30, 2025 | Nine Months Ended September 30, 2026 | Nine Months Ended September 30, 2025 |
|---|---|---|---|---|
| Other (income) and expense: | | | | |
| (Gains)/losses on foreign currency transactions [1] | $ (52) | $ (84) | $ (487) | $ 1,131 |
| (Gains)/losses on derivative instruments [1] | 21 | 162 | 560 | (881) |
| Interest income | (87) | (150) | (325) | (513) |
| Net (gains)/losses from securities and investment assets [2] | 18 | (3) | (97) | 8 |
| Retirement-related costs/(income) | 91 | 13 | 283 | 61 |
| Other [3] | (100) | (110) | (230) | (181) |
| Total other (income) and expense | $ (109) | $ (173) | $ (296) | $ (376) |

(1) The company uses financial hedging instruments to limit specific currency risks related to foreign currency-based transactions. The hedging program does not hedge 100 percent of currency exposures and defers, versus eliminates, the impact of currency. Refer to note 16, "Derivative Financial Instruments," for additional information on foreign exchange risk.

(2) Includes realized and unrealized net (gains)/losses from equity investments.

(3) Includes net (gains)/losses from divestitures and asset sales.

## 7. Earnings Per Share of Common Stock:

The following tables provide the computation of basic and diluted earnings per share of common stock for the three and nine months ended September 30, 2026 and 2025.

| ($ in millions, except per share amounts) For the three months ended September 30: | 2026 | 2025 |
|---|---|---|
| Number of shares on which basic earnings per share is calculated: | | |
| Weighted-average shares outstanding during period | 944,400,458 | 933,861,791 |
| Add — Incremental shares under stock-based compensation plans | 6,984,869 | 12,486,696 |
| Add — Incremental shares associated with contingently issuable shares | 2,138,160 | 2,582,540 |
| Number of shares on which diluted earnings per share is calculated | 953,523,487 | 948,931,026 |
| | | |
| Income from continuing operations | $ 2,199 | $ 1,744 |
| Income/(loss) from discontinued operations, net of tax | (10) | 0 |
| Net income on which basic and dilutive earnings per share is calculated | $ 2,190 | $ 1,744 |
| | | |
| Earnings/(loss) per share of common stock: | | |
| Assuming dilution | | |
| Continuing operations | $ 2.31 | $ 1.84 |
| Discontinued operations | (0.01) | 0.00 |
| Total | $ 2.30 | $ 1.84 |
| Basic | | |
| Continuing operations | $ 2.33 | $ 1.87 |
| Discontinued operations | (0.01) | 0.00 |
| Total | $ 2.32 | $ 1.87 |

Stock options to purchase 3,447,784 shares and 1,803,688 shares were outstanding as of September 30, 2026 and 2025, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options during the respective period was greater than the average market price of the common shares, and therefore, the effect would have been antidilutive.

| **($ in millions, except per share amounts)**<br>**For the nine months ended September 30:** | **2026** | **2025** |
|---|---|---|
| Number of shares on which basic earnings per share is calculated: | | |
| Weighted-average shares outstanding during period | 941,375,371 | 930,891,930 |
| Add — Incremental shares under stock-based compensation plans | 9,576,464 | 14,132,523 |
| Add — Incremental shares associated with contingently issuable shares | 2,020,857 | 2,395,938 |
| Number of shares on which diluted earnings per share is calculated | 952,972,693 | 947,420,391 |
| | | |
| Income from continuing operations | $ 5,581 | $ 4,992 |
| Income/(loss) from discontinued operations, net of tax | (10) | 1 |
| Net income on which basic and dilutive earnings per share is calculated | $ 5,571 | $ 4,993 |
| | | |
| Earnings/(loss) per share of common stock: | | |
| Assuming dilution | | |
| Continuing operations | $ 5.86 | $ 5.27 |
| Discontinued operations | (0.01) | 0.00 |
| Total | $ 5.85 | $ 5.27 |
| Basic | | |
| Continuing operations | $ 5.93 | $ 5.36 |
| Discontinued operations | (0.01) | 0.00 |
| Total | $ 5.92 | $ 5.36 |

Stock options to purchase 1,774,161 shares and 1,838,436 shares (average of first, second and third quarter share amounts) were outstanding as of September 30, 2026 and 2025, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options during the respective period was greater than the average market price of the common shares, and therefore, the effect would have been antidilutive.

## 8. Financial Assets & Liabilities:

### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The company classifies certain assets and liabilities based on the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for the asset or liability.

When available, the company uses unadjusted quoted market prices in active markets to measure the fair value and classifies such items as Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use current market-based or independently sourced market parameters such as interest rates and currency rates. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation.

The determination of fair value considers various factors including interest rate yield curves and time value underlying the financial instruments. For derivatives and debt securities, the company uses a discounted cash flow analysis using discount rates commensurate with the duration of the instrument.

In determining the fair value of financial instruments, the company considers certain market valuation adjustments to the “base valuations” calculated using the methodologies described below for several parameters that market participants would consider in determining fair value:

- Counterparty credit risk adjustments are applied to financial instruments, taking into account the actual credit risk of a counterparty as observed in the credit default swap market to determine the true fair value of such an instrument.
- Credit risk adjustments are applied to reflect the company’s own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the company’s own credit risk as observed in the credit default swap market.

The primary objective of the company’s cash and debt investment portfolio is to protect principal by investing in very liquid investment securities with highly rated counterparties.

Available-for-sale securities are measured for impairment on a recurring basis by comparing the security’s fair value with its amortized cost basis. If the fair value of the security falls below its amortized cost basis, the change in fair value is recognized in the period the impairment is identified when the loss is due to credit factors. The change in fair value due to non-credit factors is recorded in other comprehensive income when the company does not intend to sell and has the ability to hold the investment. The company’s standard practice is to hold all of its debt security investments classified as available-for-sale until maturity. No impairments for credit losses and no material non-credit impairments were recorded for the three and nine months ended September 30, 2026 and 2025, respectively.

Certain non-financial assets such as property, plant and equipment, operating right-of-use assets, goodwill and intangible assets are also subject to nonrecurring fair value measurements if they are deemed to be impaired. The impairment models used for non-financial assets depend on the type of asset. There were no material impairments of non-financial assets for the three and nine months ended September 30, 2026 and 2025, respectively.

The following table presents the company's financial assets and financial liabilities that are measured at fair value on a recurring basis at September 30, 2026 and December 31, 2025.

| ($ in millions) | Fair Value Hierarchy Level | At September 30, 2026 | | At December 31, 2025 | |
|---|---|---|---|---|---|
| | | Assets [6] | Liabilities [7] | Assets [6] | Liabilities [7] |
| Cash equivalents: [1] | | | | | |
| Time deposits, certificates of deposit and other [2] | 2 | $ 2,408 | N/A | $ 7,072 | N/A |
| Money market funds [3] | 1 | 1,721 | N/A | 413 | N/A |
| Total cash equivalents | | $ 4,129 | N/A | $ 7,485 | N/A |
| Equity investments [4] | 1 | 56 | N/A | — | N/A |
| Debt securities — current [2] [5] | 2 | 1,825 | N/A | 830 | N/A |
| Debt securities — noncurrent [2] | 2,3 | 12 | N/A | 9 | N/A |
| Derivatives designated as hedging instruments: | | | | | |
| Interest rate contracts | 2 | — | 325 | 2 | 171 |
| Foreign exchange contracts | 2 | 616 | 363 | 545 | 325 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts | 2 | 21 | 13 | 12 | 14 |
| Equity contracts | 2 | 11 | 27 | 34 | 3 |
| Total | | $ 6,670 | $ 728 | $ 8,916 | $ 513 |

(1) Included within cash and cash equivalents in the Consolidated Balance Sheet.

(2) Available-for-sale debt securities with carrying values that approximate fair value.

(3) Includes cash invested primarily in money market funds holding U.S. government securities. Refer to "Other Transactions" in note 5, "Acquisitions, Divestitures and Other Transactions," for additional information.

(4) Included within investments and sundry assets in the Consolidated Balance Sheet.

(5) Term deposits and government securities that are reported within marketable securities in the Consolidated Balance Sheet.

(6) The gross balances of derivative assets contained within prepaid expenses and other current assets, and investments and sundry assets in the Consolidated Balance Sheet at September 30, 2026 were $521 million and $128 million, respectively, and at December 31, 2025 were $232 million and $361 million, respectively.

(7) The gross balances of derivative liabilities contained within other accrued expenses and liabilities, and other liabilities in the Consolidated Balance Sheet at September 30, 2026 were $198 million and $531 million, respectively, and at December 31, 2025 were $254 million and $259 million, respectively.

N/A – not applicable

**Financial Assets and Liabilities Not Measured at Fair Value**

Short-Term Receivables and Payables

Short-term receivables (excluding the current portion of long-term receivables) and other investments are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and short-term debt (excluding the current portion of long-term debt) are financial liabilities with carrying values that approximate fair value. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy, except for short-term debt which would be classified as Level 2.

Loans and Long-Term Receivables

Fair values are based on discounted future cash flows using current interest rates offered for similar loans to clients with similar credit ratings for the same remaining maturities. At September 30, 2026 and December 31, 2025, the difference between the carrying amount and estimated fair value for loans and long-term receivables was not material. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy.

Long-Term Debt

The majority of the company's long-term debt portfolio is comprised of publicly traded debt, and its fair value is based on quoted market prices for the identical liability when traded as an asset in an active market (Level 1). For other long-term debt (including long-term finance lease liabilities) for which a quoted market price is not available, an expected present value technique that uses rates currently available to the company for debt with similar terms and remaining maturities is used to estimate fair value (Level 2). The carrying amount of long-term debt was $56,804 million and $54,836 million, and the estimated fair value was $51,404 million and $52,703 million at September 30, 2026 and December 31, 2025, respectively.

## 9. Financing Receivables:

Financing receivables primarily consist of client loan and installment payment receivables (loans), investment in sales-type and direct financing leases (collectively referred to as client financing receivables) and commercial financing receivables. Loans are provided primarily to clients to finance the purchase of IBM hardware, software and services. Payment terms on these financing arrangements are for terms generally up to seven years. Investment in sales-type and direct financing leases relate principally to the company's Infrastructure products and are for terms generally up to five years. Commercial financing receivables, which consist of both held-for-investment and held-for-sale receivables, relate primarily to working capital financing for business partners and distributors of IBM products and services. Payment terms for working capital financing generally range from 30 to 60 days.

A summary of the components of the company's financing receivables is presented as follows:

| | Client Financing Receivables | | Commercial Financing Receivables | | |
|---|---|---|---|---|---|
| ($ in millions)<br>At September 30, 2026 | Client Loan and Installment Payment Receivables (Loans) | Investment in Sales-Type and Direct Financing Leases | Held for Investment | Held for Sale [1] | Total |
| Financing receivables, gross | $ 8,530 | $ 3,877 | $ 775 | $ 774 | $ 13,956 |
| Unearned income | (653) | (411) | — | — | (1,064) |
| Unguaranteed residual value | — | 485 | — | — | 485 |
| Amortized cost | $ 7,877 | $ 3,951 | $ 775 | $ 774 | $ 13,377 |
| Allowance for credit losses | (61) | (58) | (1) | — | (120) |
| Total financing receivables, net | $ 7,815 | $ 3,893 | $ 774 | $ 774 | $ 13,257 |
| Current portion | $ 3,639 | $ 1,225 | $ 774 | $ 774 | $ 6,413 |
| Noncurrent portion | $ 4,176 | $ 2,668 | $ — | $ — | $ 6,844 |

| | Client Financing Receivables | | Commercial Financing Receivables | | |
|---|---|---|---|---|---|
| ($ in millions)<br>At December 31, 2025 | Client Loan and Installment Payment Receivables (Loans) | Investment in Sales-Type and Direct Financing Leases | Held for Investment | Held for Sale [1] | Total |
| Financing receivables, gross | $ 9,634 | $ 4,338 | $ 1,865 | $ 1,131 | $ 16,968 |
| Unearned income | (710) | (479) | — | — | (1,189) |
| Unguaranteed residual value | — | 545 | — | — | 545 |
| Amortized cost | $ 8,925 | $ 4,403 | $ 1,865 | $ 1,131 | $ 16,324 |
| Allowance for credit losses | (69) | (67) | (5) | — | (141) |
| Total financing receivables, net | $ 8,856 | $ 4,336 | $ 1,861 | $ 1,131 | $ 16,184 |
| Current portion | $ 4,226 | $ 1,257 | $ 1,861 | $ 1,131 | $ 8,475 |
| Noncurrent portion | $ 4,630 | $ 3,079 | $ — | $ — | $ 7,708 |

(1) The carrying value of the receivables classified as held for sale approximates fair value.

The company has a long-standing practice of taking mitigation actions, in certain circumstances, to transfer credit risk to third parties. These actions may include credit insurance, financial guarantees, nonrecourse secured borrowings, true sales, or sales of equipment under operating lease. Sale of receivables arrangements are also utilized in the normal course of business as part of the company's cash and liquidity management.

Financing receivables pledged as collateral for secured borrowings were not material at September 30, 2026 and December 31, 2025, respectively. These borrowings are included in note 12, "Borrowings."

**Transfer of Financial Assets**

The company has an existing agreement with a third-party investor to sell up to $1.3 billion of IBM short-term commercial financing receivables on a revolving basis. In addition, the company enters into agreements with third-party financial institutions to sell certain of its client financing receivables, including both loan and lease receivables, for cash proceeds. There were no material client financing receivables transferred for the nine months ended September 30, 2026 and 2025.

The following table presents the total amount of commercial financing receivables transferred.

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 |
|---|---|---|
| Commercial financing receivables: | | |
| Receivables transferred during the period | $ 6,265 | $ 5,681 |
| Receivables uncollected at end of period [1] | $ 659 | $ 712 |

(1) Of the total amount of commercial financing receivables sold and derecognized from the Consolidated Balance Sheet, the amounts presented remained uncollected from business partners as of September 30, 2026 and 2025.

The transfer of these receivables qualified as true sales and therefore reduced financing receivables. For the nine months ended September 30, 2026 and 2025, the net loss, including fees, associated with the transfer of commercial financing receivables was not material, and is included in other (income) and expense in the Consolidated Income Statement. For the company's policy on determining treatment for transfer of financial assets, refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report.

**Financing Receivables by Portfolio Segment**

The following tables present the amortized cost basis for client financing receivables at September 30, 2026 and December 31, 2025, further segmented by three classes: Americas, Europe/Middle East/Africa (EMEA) and Asia Pacific. The commercial financing receivables portfolio segment is excluded from the tables in the sections below as the receivables are short term in nature and the current estimated risk of loss and resulting impact to the company's financial results are not material.

| ($ in millions)<br>At September 30, 2026: | Americas | EMEA | Asia Pacific | Total |
|---|---|---|---|---|
| Amortized cost | $ 6,674 | $ 3,657 | $ 1,497 | $ 11,828 |
| Allowance for credit losses: | | | | |
| Beginning balance at January 1, 2026 | $ 69 | $ 60 | $ 7 | $ 136 |
| Write-offs | (7) | 0 | (3) | (10) |
| Recoveries | 0 | 0 | 0 | 0 |
| Additions/(releases) | 3 | (9) | (1) | (7) |
| Other [1] | 0 | (1) | 0 | (1) |
| Ending balance at September 30, 2026 | $ 66 | $ 49 | $ 4 | $ 119 |

(1) Primarily represents translation adjustments.

| ($ in millions) At December 31, 2025: | Americas | EMEA | Asia Pacific | Total |
|---|---|---|---|---|
| Amortized cost | $ 7,278 | $ 4,440 | $ 1,610 | $ 13,328 |
| Allowance for credit losses: | | | | |
| Beginning balance at January 1, 2025 | $ 69 | $ 45 | $ 9 | $ 123 |
| Write-offs | (16) | (1) | (5) | (22) |
| Recoveries | 0 | 0 | 0 | 1 |
| Additions/(releases) | 10 | 10 | 2 | 22 |
| Other [1] | 7 | 6 | 0 | 13 |
| Ending balance at December 31, 2025 | $ 69 | $ 60 | $ 7 | $ 136 |

(1) Primarily represents translation adjustments.

When determining the allowances, financing receivables are evaluated either on an individual or a collective basis. For the company's policy on determining allowances for credit losses, refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report.

The company's total past due financing receivables, including client financing receivables with amortized cost aged over 90 days and still accruing, as well as amortized cost not accruing, were not material at September 30, 2026, or December 31, 2025.

**Credit Quality Indicators**

The company's credit quality indicators, which are based on rating agency data, publicly available information and information provided by customers, are reviewed periodically based on the relative level of risk. The resulting indicators are a numerical rating system that maps to Moody's Investors Service credit ratings as shown below. The company uses information provided by Moody's, where available, as one of many inputs in its determination of customer credit ratings. The credit quality of the customer is evaluated based on these indicators and is assigned the same risk rating whether the receivable is a lease or a loan.

The following tables present the amortized cost basis for client financing receivables by credit quality indicator at September 30, 2026 and December 31, 2025, respectively. Receivables with a credit quality indicator ranging from Aaa to Baa3 are considered investment grade. All others are considered non-investment grade. The credit quality indicators reflect mitigating credit enhancement actions taken by customers which reduce the risk to IBM. Gross write-offs by vintage year at September 30, 2026 and December 31, 2025 were not material.

| ($ in millions) | Americas | | EMEA | | Asia Pacific | |
|---|---|---|---|---|---|---|
| At September 30, 2026: | Aaa – Baa3 | Ba1 – C | Aaa – Baa3 | Ba1 – C | Aaa – Baa3 | Ba1 – C |
| Vintage year: | | | | | | |
| 2026 | $ 1,806 | $ 520 | $ 449 | $ 452 | $ 478 | $ 60 |
| 2025 | 2,608 | 322 | 1,512 | 274 | 418 | 57 |
| 2024 | 776 | 113 | 441 | 183 | 241 | 32 |
| 2023 | 303 | 57 | 149 | 73 | 115 | 6 |
| 2022 | 89 | 6 | 41 | 30 | 67 | 9 |
| 2021 and prior | 26 | 47 | 19 | 35 | 14 | 0 |
| Total | $ 5,608 | $ 1,066 | $ 2,611 | $ 1,047 | $ 1,332 | $ 164 |

| ($ in millions) | Americas | | EMEA | | Asia Pacific | |
|---|---|---|---|---|---|---|
| At December 31, 2025: | Aaa – Baa3 | Ba1 – C | Aaa – Baa3 | Ba1 – C | Aaa – Baa3 | Ba1 – C |
| Vintage year: | | | | | | |
| 2025 | $ 3,979 | $ 644 | $ 2,223 | $ 501 | $ 777 | $ 93 |
| 2024 | 1,142 | 220 | 715 | 296 | 330 | 46 |
| 2023 | 708 | 181 | 262 | 143 | 177 | 9 |
| 2022 | 237 | 27 | 118 | 74 | 126 | 17 |
| 2021 | 73 | 4 | 42 | 8 | 25 | 1 |
| 2020 and prior | 15 | 49 | 15 | 41 | 5 | 4 |
| Total | $ 6,153 | $ 1,125 | $ 3,376 | $ 1,064 | $ 1,440 | $ 170 |

**Modifications**

The company did not have any significant modifications due to clients experiencing financial difficulty during the nine months ended September 30, 2026 or for the year ended December 31, 2025.

## 10. Leases:

**Accounting for Leases as a Lessor**

The following table presents amounts included in the Consolidated Income Statement related to lessor activity.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in millions) | 2026 | 2025 | 2026 | 2025 |
| Lease income — sales-type and direct financing leases: | | | | |
| Sales-type lease selling price | $ 124 | $ 280 | $ 568 | $ 1,227 |
| Less: Carrying value of underlying assets [1] | (31) | (66) | (153) | (247) |
| Gross profit | 93 | 214 | 414 | 979 |
| Interest income on lease receivables | 62 | 65 | 193 | 180 |
| Total sales-type and direct financing lease income | 155 | 279 | 608 | 1,160 |
| Lease income — operating leases | 14 | 11 | 40 | 32 |
| Variable lease income | 21 | 19 | 71 | 47 |
| Total lease income | $ 190 | $ 309 | $ 719 | $ 1,239 |

(1) Excludes unguaranteed residual value.

## 11. Intangible Assets Including Goodwill:

### Intangible Assets

The following tables present the company's intangible asset balances by major asset class.

| ($ in millions) | At September 30, 2026 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount [1] |
| Intangible asset class: | | | |
| Capitalized software | $ 1,518 | $ (524) | $ 994 |
| Client relationships | 13,370 | (6,544) | 6,826 |
| Completed technology | 9,190 | (4,838) | 4,353 |
| Patents/trademarks | 2,140 | (782) | 1,357 |
| Other [2] | 139 | (67) | 72 |
| Total | $ 26,357 | $ (12,754) | $ 13,603 |

| ($ in millions) | At December 31, 2025 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount [1] |
| Intangible asset class: | | | |
| Capitalized software | $ 1,388 | $ (424) | $ 964 |
| Client relationships | 11,261 | (5,602) | 5,659 |
| Completed technology | 7,399 | (4,096) | 3,304 |
| Patents/trademarks | 2,030 | (665) | 1,365 |
| Other [2] | 139 | (40) | 99 |
| Total | $ 22,218 | $ (10,827) | $ 11,391 |

(1) Amounts at September 30, 2026 and December 31, 2025 include a decrease in the net intangible asset balance of $37 million and an increase in the net intangible asset balance of $182 million, respectively, due to foreign currency translation.

(2) Other intangibles are primarily acquired proprietary and non-proprietary technology licenses, data, business processes, methodologies and systems.

The net carrying amount of intangible assets increased $2,211 million during the first nine months of 2026, driven by additions of acquired intangibles primarily from Confluent of $3,834 million in the first quarter of 2026 and additions of capitalized software, partially offset by intangible asset amortization. The aggregate intangible asset amortization expense was $828 million and $2,363 million for the three and nine months ended September 30, 2026 and $699 million and $2,027 million for the three and nine months ended September 30, 2025, respectively. During the nine months ended September 30, 2026, the company retired $361 million of fully amortized intangible assets, impacting both the gross carrying amount and accumulated amortization by this amount.

The future amortization expense relating to intangible assets currently recorded in the Consolidated Balance Sheet was estimated to be the following at September 30, 2026:

| ($ in millions) | Capitalized Software | Acquired Intangibles | Total |
|---|---|---|---|
| Remainder of 2026 | $ 146 | $ 688 | $ 834 |
| 2027 | 482 | 2,712 | 3,194 |
| 2028 | 291 | 2,408 | 2,699 |
| 2029 | 76 | 1,727 | 1,802 |
| 2030 | — | 1,287 | 1,287 |
| Thereafter | — | 3,787 | 3,787 |

**Goodwill**

The changes in the goodwill balances by segment for the nine months ended September 30, 2026 and for the year ended December 31, 2025 were as follows:

| ($ in millions) Segment | Balance 1/1/2026 | Goodwill Additions | Purchase Price Adjustments | Divestitures | Foreign Currency Translation and Other Adjustments [1] | Balance 9/30/2026 |
|---|---|---|---|---|---|---|
| Software | $ 52,987 | $ 7,153 | $ 12 | $ — | $ (310) | $ 59,843 |
| Consulting | 10,341 | 203 | 13 | — | (52) | 10,504 |
| Infrastructure | 4,389 | 189 | 1 | — | (10) | 4,569 |
| Total | $ 67,717 | $ 7,544 | $ 26 | $ — | $ (372) | $ 74,916 |

| ($ in millions) Segment | Balance 1/1/2025 | Goodwill Additions | Purchase Price Adjustments | Divestitures | Foreign Currency Translation and Other Adjustments [1] | Balance 12/31/2025 |
|---|---|---|---|---|---|---|
| Software | $ 47,136 | $ 5,004 | $ (8) | $ — | $ 855 | $ 52,987 |
| Consulting | 9,206 | 908 | 10 | — | 217 | 10,341 |
| Infrastructure | 4,363 | — | 0 | 0 | 26 | 4,389 |
| Total | $ 60,706 | $ 5,912 | $ 1 | $ 0 | $ 1,098 | $ 67,717 |

(1) Primarily driven by foreign currency translation.

Goodwill additions recorded in the nine months ended September 30, 2026 were primarily driven by the acquisition of Confluent. Refer to note 5, "Acquisitions, Divestitures and Other Transactions," for additional information.

There were no goodwill impairment losses recorded during the nine months ended September 30, 2026 or the year ended December 31, 2025 and the company has no accumulated impairment losses. Purchase price adjustments recorded during the nine months ended September 30, 2026 and the year ended December 31, 2025 were related to acquisitions that were still subject to the measurement period that ends at the earlier of 12 months from the acquisition date or when information becomes available. Net purchase price adjustments recorded in the nine months ended September 30, 2026 and the year ended December 31, 2025 were not material.

## 12. Borrowings:

**Short-Term Debt**

The company's total short-term debt at September 30, 2026 and December 31, 2025 was $7,013 million and $6,424 million, respectively, and primarily consisted of current maturities of long-term debt detailed in "Long-Term Debt" below.

## Long-Term Debt

Pre-Swap Borrowing

| ($ in millions) | Maturities | Balance 9/30/2026 | Balance 12/31/2025 |
|---|---|---|---|
| U.S. dollar debt (weighted-average interest rate at September 30, 2026): [1] [2] | | | |
| 3.7% | 2026 | $ — | $ 5,800 |
| 3.3% | 2027 | 4,119 | 4,119 |
| 4.8% | 2028 | 2,317 | 2,319 |
| 3.7% | 2029 | 4,256 | 3,757 |
| 3.2% | 2030 | 2,380 | 2,355 |
| 4.5% | 2031 | 1,000 | 500 |
| 4.6% | 2032 | 2,700 | 2,700 |
| 4.7% | 2033 | 1,250 | 750 |
| 4.9% | 2034 | 1,000 | 1,000 |
| 5.2% | 2035 | 900 | 900 |
| 5.0% | 2036 | 1,000 | — |
| 8.0% | 2038 | 83 | 83 |
| 4.5% | 2039 | 2,745 | 2,745 |
| 2.9% | 2040 | 650 | 650 |
| 4.0% | 2042 | 1,107 | 1,107 |
| 5.3% | 2044 | 1,000 | 1,000 |
| 7.0% | 2045 | 27 | 27 |
| 4.7% | 2046 | 650 | 650 |
| 4.3% | 2049 | 3,000 | 3,000 |
| 3.0% | 2050 | 750 | 750 |
| 4.2% | 2052 | 1,400 | 1,400 |
| 5.1% | 2053 | 650 | 650 |
| 5.3% | 2054 | 1,400 | 1,400 |
| 5.7% | 2055 | 1,000 | 1,000 |
| 5.8% | 2056 | 750 | — |
| 7.1% | 2096 | 316 | 316 |
| | | $ 36,450 | $ 38,979 |
| Euro debt (weighted-average interest rate at September 30, 2026): [1] | | | |
| 2.3% | 2027 | $ 2,272 | $ 2,349 |
| 1.3% | 2028 | 2,896 | 2,114 |
| 1.5% | 2029 | 1,136 | 1,174 |
| 1.7% | 2030 | 1,988 | 2,055 |
| 2.8% | 2031 | 3,975 | 2,936 |
| 0.7% | 2032 | 1,817 | 1,879 |
| 3.2% | 2033 | 1,249 | 1,292 |
| 2.4% | 2034 | 2,272 | 1,174 |
| 3.8% | 2035 | 1,136 | 1,174 |
| 3.5% | 2037 | 1,022 | 1,057 |
| 3.9% | 2038 | 852 | — |
| 1.2% | 2040 | 965 | 998 |
| 4.0% | 2043 | 1,136 | 1,174 |
| 3.8% | 2045 | 852 | 881 |
| | | $ 23,567 | $ 20,258 |
| Other currencies (weighted-average interest rate at September 30, 2026): [1] | | | |
| Canadian dollar (4.3%) | 2030-2034 | $ 1,937 | $ — |
| Pound sterling (4.9%) | 2038 | 996 | 1,009 |
| Japanese yen (1.5%) | 2026–2028 | 808 | 811 |
| Other (13.4%) | 2026–2027 | 13 | 78 |
| | | $ 63,772 | $ 61,134 |
| Finance lease obligations (4.9% weighted-average interest rate at September 30, 2026) | 2026–2035 | 1,240 | 1,153 |
| | | $ 65,012 | $ 62,286 |
| Less: net unamortized discount | | 791 | 806 |
| Less: net unamortized debt issuance costs | | 199 | 185 |
| Add: fair value adjustment [3] | | (209) | (36) |
| | | $ 63,813 | $ 61,259 |
| Less: current maturities | | 7,009 | 6,424 |
| Total | | $ 56,804 | $ 54,836 |

(1) Includes notes, debentures, bank loans and secured borrowings.

(2) Includes a total of $4.9 billion from the 2024 issuance of U.S. dollar fixed-rate notes by IBM International Capital Pte. Ltd (IIC), a 100-percent owned finance subsidiary of IBM. The notes are fully and unconditionally guaranteed by IBM and no other subsidiary of IBM guarantees the notes.

(3) The portion of the company's fixed-rate debt obligations that is hedged is reflected in the Consolidated Balance Sheet as an amount equal to the sum of the debt's carrying value and a fair value adjustment representing changes in the fair value of the hedged debt obligations attributable to movements in benchmark interest rates.

The company's indenture governing its debt securities and its various credit facilities each contain significant covenants which obligate the company to promptly pay principal and interest, limit the aggregate amount of secured indebtedness and sale and leaseback transactions to 10 percent of the company's consolidated net tangible assets, and restrict the company's ability to merge or consolidate unless certain conditions are met. The credit facilities also include a covenant on the company's consolidated net interest expense ratio, which cannot be less than 2.20 to 1.0, as well as a cross-default provision with respect to other defaulted indebtedness of at least $500 million.

The company is in compliance with its debt covenants and provides periodic certifications to its lenders. The failure to comply with its debt covenants could constitute an event of default with respect to the debt to which such provisions apply. If certain events of default were to occur, the principal and interest on the debt to which such event of default applied would become immediately due and payable.

On February 3, 2026, the company issued $3.25 billion of U.S. dollar fixed-rate notes in tranches with maturities ranging from 3 to 30 years and coupons ranging from 4.0 to 5.8 percent; and $3.3 billion of Euro fixed-rate notes in tranches with maturities ranging from 5 to 12 years and coupons ranging from 3.0 to 3.85 percent; and $0.9 billion of Euro floating-rate notes with a maturity of 2 years. On August 17, 2026, the company issued $2 billion of Canadian dollar fixed-rate notes in tranches with maturities ranging from 4 to 8 years and coupons ranging from 4.1 to 4.75 percent.

Pre-swap annual contractual obligations of long-term debt outstanding at September 30, 2026, were as follows:

| ($ in millions) | Total |
|---|---|
| Remainder of 2026 | $ 359 |
| 2027 | 6,732 |
| 2028 | 6,036 |
| 2029 | 5,614 |
| 2030 | 5,706 |
| Thereafter | 40,564 |
| Total | $ 65,012 |

## Interest on Debt

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 |
|---|---|---|
| Cost of financing | $ 320 | $ 268 |
| Interest expense | 1,451 | 1,457 |
| Interest capitalized | 4 | 5 |
| Total interest paid and accrued | $ 1,774 | $ 1,730 |

## Lines of Credit

The company has a $2.5 billion Three-Year Credit Agreement and $7.5 billion Five-Year Credit Agreement (the Credit Agreements) with maturity dates of June 20, 2029 and June 22, 2031, respectively. The Credit Agreements permit the company and its subsidiary borrowers to borrow up to $10 billion on a revolving basis. At September 30, 2026, there were no borrowings by the company, or its subsidiaries, under these credit facilities.

**13. Commitments:**

The company's extended lines of credit to third-party entities include unused amounts of $2.1 billion and $1.7 billion at September 30, 2026 and December 31, 2025, respectively. In addition, the company has committed to provide future financing to its clients in connection with client purchase agreements for $1.6 billion and $1.9 billion at September 30, 2026 and December 31, 2025, respectively. The company collectively evaluates the allowance for these arrangements using a provision methodology consistent with the portfolio of the commitments. Refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report for additional information. The allowance for these commitments recorded in other liabilities in the Consolidated Balance Sheet at September 30, 2026 and December 31, 2025 was not material.

The company has applied the guidance requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in which the company is the guarantor.

The company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the company, under which the company customarily agrees to hold the party harmless against losses arising from a breach of representations and covenants related to such matters as title to the assets sold, certain intellectual property rights, specified environmental matters, third-party performance of nonfinancial contractual obligations and certain income taxes. In each of these circumstances, payment by the company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, the procedures of which typically allow the company to challenge the other party's claims. While indemnification provisions typically do not include a contractual maximum on the company's payment, the company's obligations under these agreements may be limited in terms of time and/or nature of claim, and in some instances, the company may have recourse against third parties for certain payments made by the company.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the company under these agreements have not had a material effect on the company's business, financial condition or results of operations.

In addition, the company guarantees certain loans and financial commitments. The maximum potential future payment under these financial guarantees and the fair value of these guarantees recognized in the Consolidated Balance Sheet at September 30, 2026 and December 31, 2025 were not material.

The company's liabilities for standard and extended warranties, which are included in other accrued expenses and liabilities and other liabilities, and in deferred income, respectively, in the Consolidated Balance Sheet, were not material for the periods presented.

## 14. Contingencies:

As a company with a substantial employee population and with clients in more than 175 countries, IBM is involved, either as plaintiff or defendant, in a variety of ongoing claims, demands, suits, investigations, tax matters and proceedings that arise from time to time in the ordinary course of its business. The company is a leader in the information technology industry and, as such, has been and will continue to be subject to claims challenging its Intellectual Property (IP) rights and associated products and offerings, including claims of copyright and patent infringement and violations of trade secrets and other IP rights. In addition, the company enforces its own IP against infringement, through license negotiations, lawsuits or otherwise. Further, given the rapidly evolving external landscape of cybersecurity, AI, privacy and data protection laws, regulations and threat actors, the company and its clients have been and will continue to be subject to actions or proceedings in various jurisdictions. Also, as is typical for companies of IBM's scope and scale, the company is party to actions and proceedings in various jurisdictions involving a wide range of labor and employment issues (including matters related to contested employment decisions, country-specific labor and employment laws, and the company's pension, retirement and other benefit plans), as well as actions with respect to contracts, product liability, cybersecurity, data privacy, securities, foreign operations, competition law and environmental matters. These actions may be commenced by a number of different parties, including competitors, clients, current or former employees, government and regulatory agencies, stockholders and representatives of the locations in which the company does business. Some of the actions to which the company is party may involve particularly complex technical issues, and some actions may raise novel questions under the laws of the various jurisdictions in which these matters arise.

The company records a provision with respect to a claim, suit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any recorded liabilities, including any changes to such liabilities for the quarter ended September 30, 2026 were not material to the Consolidated Financial Statements.

In accordance with the relevant accounting guidance, the company provides disclosures of matters for which the likelihood of material loss is at least reasonably possible. In addition, the company also discloses matters based on its consideration of other matters and qualitative factors, including the experience of other companies in the industry, and investor, customer and employee relations considerations.

With respect to certain of the claims, suits, investigations and proceedings discussed herein, the company believes at this time that the likelihood of any material loss is remote, given, for example, the procedural status, court rulings, and/or the strength of the company's defenses in those matters. With respect to the remaining claims, suits, investigations and proceedings discussed in this note, except as specifically discussed herein, the company is unable to provide estimates of reasonably possible losses or range of losses, including losses in excess of amounts accrued, if any, for the following reasons. Claims, suits, investigations and proceedings are inherently uncertain, and it is not possible to predict the ultimate outcome of these matters. It is the company's experience that damage amounts claimed in litigation against it are unreliable and unrelated to possible outcomes, and as such are not meaningful indicators of the company's potential liability. Further, the company is unable to provide such an estimate due to a number of other factors with respect to these claims, suits, investigations and proceedings, including considerations of the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters.

The company reviews claims, suits, investigations and proceedings at least quarterly, and decisions are made with respect to recording or adjusting provisions and disclosing reasonably possible losses or range of losses (individually or in the aggregate), to reflect the impact and status of settlement discussions, discovery, procedural and substantive rulings, reviews by counsel and other information pertinent to a particular matter.

Whether any losses, damages or remedies finally determined in any claim, suit, investigation or proceeding could reasonably have a material effect on the company's business, financial condition, results of operations or cash flows will depend on a number of variables, including: the timing and amount of such losses or damages; the structure and type of any such remedies; the significance of the impact any such losses, damages or remedies may have in the Consolidated Financial Statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors. While the company will continue to defend itself vigorously, it is possible that the company's business, financial condition, results of operations or cash flows could be affected in any particular period by the resolution of one or more of these matters.

The company is party to, or otherwise involved in, proceedings brought by U.S. federal or state environmental agencies under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), known as "Superfund," or laws similar to CERCLA. Such statutes require potentially responsible parties to participate in remediation activities regardless of fault or ownership of sites. The company is also conducting environmental investigations, assessments or remediations at or in the vicinity of several current or former operating sites globally pursuant to permits, administrative orders or agreements with country, state or local environmental agencies, and is involved in lawsuits and claims concerning certain current or former operating sites.

## 15. Equity Activity:

### Reclassifications and Taxes Related to Items of Other Comprehensive Income

| ($ in millions)<br>For the three months ended September 30, 2026: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|---|---|---|
| **Other comprehensive income/(loss):** | | | |
| **Foreign currency translation adjustments** | $ 79 | $ (19) | $ 60 |
| **Net unrealized gains/(losses) on available-for-sale securities** | $ 0 | $ 0 | $ 0 |
| **Unrealized gains/(losses) on cash flow hedges:** | | | |
| Unrealized gains/(losses) arising during the period | $ (66) | $ 18 | $ (48) |
| Reclassification of (gains)/losses to: | | | |
| Cost of services | 20 | (5) | 15 |
| Cost of sales | (10) | 3 | (7) |
| Cost of financing | 1 | 0 | 1 |
| SG&A expense | (4) | 1 | (3) |
| Other (income) and expense | (7) | 2 | (5) |
| Interest expense | 5 | (1) | 4 |
| **Total unrealized gains/(losses) on cash flow hedges** | $ (61) | $ 18 | $ (43) |
| **Retirement-related benefit plans:** [(1)] | | | |
| Prior service costs/(credits) | $ — | $ — | $ — |
| Net gains/(losses) arising during the period | (2) | 0 | (2) |
| Curtailments and settlements | 2 | 0 | 2 |
| Amortization of prior service costs/(credits) | 9 | (2) | 6 |
| Amortization of net (gains)/losses | 196 | (52) | 144 |
| **Total retirement-related benefit plans** | $ 205 | $ (55) | $ 150 |
| **Other comprehensive income/(loss)** | $ 222 | $ (56) | $ 166 |

(1) These accumulated other comprehensive income (AOCI) components are included in the computation of net periodic pension cost. Refer to note 18, "Retirement-Related Benefits," for additional information.

**Reclassifications and Taxes Related to Items of Other Comprehensive Income**

| ($ in millions)<br>For the three months ended September 30, 2025: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|---|---|---|
| **Other comprehensive income/(loss):** | | | |
| **Foreign currency translation adjustments** | $ (100) | $ (40) | $ (140) |
| **Net unrealized gains/(losses) on available-for-sale securities** | $ (2) | $ 0 | $ (1) |
| **Unrealized gains/(losses) on cash flow hedges:** | | | |
| Unrealized gains/(losses) arising during the period | $ 20 | $ (6) | $ 14 |
| Reclassification of (gains)/losses to: | | | |
| Cost of services | 7 | (2) | 5 |
| Cost of sales | 0 | 0 | 0 |
| Cost of financing | 1 | 0 | 1 |
| SG&A expense | 1 | 0 | 1 |
| Other (income) and expense | 79 | (20) | 59 |
| Interest expense | 6 | (1) | 4 |
| **Total unrealized gains/(losses) on cash flow hedges** | $ 113 | $ (30) | $ 84 |
| **Retirement-related benefit plans:** [(1)] | | | |
| Prior service costs/(credits) | $ 0 | $ 0 | $ 0 |
| Net gains/(losses) arising during the period | 0 | 0 | 0 |
| Curtailments and settlements | 2 | 0 | 1 |
| Amortization of prior service costs/(credits) | (2) | 1 | (1) |
| Amortization of net (gains)/losses | 158 | (43) | 115 |
| **Total retirement-related benefit plans** | $ 158 | $ (43) | $ 115 |
| **Other comprehensive income/(loss)** | $ 170 | $ (112) | $ 58 |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 18, “Retirement-Related Benefits,” for additional information.

**Reclassifications and Taxes Related to Items of Other Comprehensive Income**

| ($ in millions) For the nine months ended September 30, 2026: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|---|---|---|
| **Other comprehensive income/(loss):** | | | |
| **Foreign currency translation adjustments** | $ 206 | $ (177) | $ 28 |
| **Net unrealized gains/(losses) on available-for-sale securities** | $ 0 | $ 0 | $ 0 |
| **Unrealized gains/(losses) on cash flow hedges:** | | | |
| Unrealized gains/(losses) arising during the period | $ (123) | $ 28 | $ (94) |
| Reclassification of (gains)/losses to: | | | |
| Cost of services | 57 | (14) | 43 |
| Cost of sales | (19) | 7 | (12) |
| Cost of financing | 3 | (1) | 3 |
| SG&A expense | (7) | 2 | (5) |
| Other (income) and expense | 393 | (98) | 295 |
| Interest expense | 16 | (4) | 12 |
| **Total unrealized gains/(losses) on cash flow hedges** | $ 321 | $ (79) | $ 241 |
| **Retirement-related benefit plans: (1)** | | | |
| Prior service costs/(credits) | $ — | $ — | $ — |
| Net gains/(losses) arising during the period | (1) | (1) | (2) |
| Curtailments and settlements | 7 | (2) | 5 |
| Amortization of prior service costs/(credits) | 26 | (6) | 20 |
| Amortization of net (gains)/losses | 590 | (155) | 436 |
| **Total retirement-related benefit plans** | $ 622 | $ (163) | $ 459 |
| **Other comprehensive income/(loss)** | $ 1,148 | $ (420) | $ 728 |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 18, "Retirement-Related Benefits," for additional information.

**Reclassifications and Taxes Related to Items of Other Comprehensive Income**

| ($ in millions)<br>For the nine months ended September 30, 2025: | Before Tax Amount | Tax (Expense)/ Benefit | Net of Tax Amount |
|---|---|---|---|
| **Other comprehensive income/(loss):** | | | |
| **Foreign currency translation adjustments** | $ (1,056) | $ 562 | $ (494) |
| **Net unrealized gains/(losses) on available-for-sale securities** | $ 1 | $ 0 | $ 0 |
| **Unrealized gains/(losses) on cash flow hedges:** | | | |
| Unrealized gains/(losses) arising during the period | $ (121) | $ 34 | $ (87) |
| Reclassification of (gains)/losses to: | | | |
| Cost of services | 12 | (3) | 9 |
| Cost of sales | (2) | 1 | (1) |
| Cost of financing | 3 | (1) | 2 |
| SG&A expense | (1) | 0 | (1) |
| Other (income) and expense | (679) | 171 | (508) |
| Interest expense | 18 | (5) | 13 |
| **Total unrealized gains/(losses) on cash flow hedges** | $ (769) | $ 197 | $ (572) |
| **Retirement-related benefit plans:** [(1)] | | | |
| Prior service costs/(credits) | $ 0 | $ 0 | $ 0 |
| Net gains/(losses) arising during the period | 0 | 8 | 8 |
| Curtailments and settlements | 8 | (2) | 6 |
| Amortization of prior service costs/(credits) | (5) | 2 | (3) |
| Amortization of net (gains)/losses | 466 | (126) | 341 |
| **Total retirement-related benefit plans** | $ 469 | $ (118) | $ 351 |
| **Other comprehensive income/(loss)** | $ (1,355) | $ 641 | $ (715) |

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 18, “Retirement-Related Benefits,” for additional information.

**Accumulated Other Comprehensive Income/(Loss) (net of tax)**

| ($ in millions) | Foreign Currency Translation Adjustments [1] | Net Unrealized Gains/(Losses) on Available-For-Sale Securities | Net Unrealized Gains/(Losses) on Cash Flow Hedges | Net Change Retirement-Related Benefit Plans | Accumulated Other Comprehensive Income/(Loss) |
|---|---|---|---|---|---|
| January 1, 2026 | $ (3,956) | $ 0 | $ (157) | $ (11,600) | $ (15,713) |
| Other comprehensive income before reclassifications | 28 | 0 | (94) | (2) | (68) |
| Amount reclassified from accumulated other comprehensive income | — | — | 336 | 461 | 796 |
| Total change for the period | $ 28 | $ 0 | $ 241 | $ 459 | $ 728 |
| September 30, 2026 | $ (3,928) | $ (1) | $ 85 | $ (11,141) | $ (14,985) |

| ($ in millions) | Foreign Currency Translation Adjustments [1] | Net Unrealized Gains/(Losses) on Available-For-Sale Securities | Net Unrealized Gains/(Losses) on Cash Flow Hedges | Net Change Retirement-Related Benefit Plans | Accumulated Other Comprehensive Income/(Loss) |
|---|---|---|---|---|---|
| January 1, 2025 | $ (3,512) | $ 0 | $ 237 | $ (11,994) | $ (15,269) |
| Other comprehensive income before reclassifications | (494) | 0 | (87) | 8 | (572) |
| Amount reclassified from accumulated other comprehensive income | — | — | (485) | 343 | (142) |
| Total change for the period | $ (494) | $ 0 | $ (572) | $ 351 | $ (715) |
| September 30, 2025 | $ (4,005) | $ 1 | $ (335) | $ (11,643) | $ (15,983) |

(1) Foreign currency translation adjustments are presented gross except for any associated hedges which are presented net of tax.

## 16. Derivative Financial Instruments:

The company operates in multiple functional currencies and is a significant lender and borrower in the global markets. In the normal course of business, the company is exposed to the impact of interest rate changes and foreign currency fluctuations and, to a lesser extent, equity risk. The company limits these risks by following established risk management policies and procedures, including the use of derivatives, and, where cost effective, financing with debt in the currencies in which assets are denominated. For interest rate exposures, derivatives are used to better align rate movements between the interest rates associated with the company's lease and other financial assets and the interest rates associated with its debt. Derivatives are also used to manage the related cost of debt. For foreign currency exposures, derivatives are used to better manage the cash flow volatility arising from foreign exchange rate fluctuations.

The company does not offset derivative assets against liabilities in master netting arrangements. If derivative exposures covered by a qualifying master netting agreement had been netted in the Consolidated Balance Sheet at September 30, 2026 and December 31, 2025, the total derivative asset and liability positions each would have been reduced by $423 million and $285 million, respectively. The company restricts the use of cash collateral received to rehypothecation, and therefore reports it in restricted cash. Receivables and payables recognized upon payment or receipt of cash collateral against the fair values of the related derivative instruments, including the amount rehypothecated, are recognized on a gross basis in the Consolidated Balance Sheet and were not material for all periods presented.

In its hedging programs, the company may use forward contracts, futures contracts, interest-rate swaps, cross-currency swaps, equity swaps, and options depending upon the underlying exposure. The company is not a party to leveraged derivative instruments.

A brief description of the major hedging programs, categorized by underlying risk, follows.

**Interest Rate Risk**

**Fixed and Variable Rate Borrowings**

The company issues debt in the global capital markets to fund its operations and financing business. Access to cost-effective financing can result in interest rate mismatches with the underlying assets. To manage these mismatches and to reduce overall interest cost, the company uses interest-rate swaps to convert specific fixed-rate debt issuances into variable-rate debt. At both September 30, 2026 and December 31, 2025, the total notional amount of the company's interest-rate swaps was $6.7 billion. The weighted-average remaining maturity of these instruments at September 30, 2026 and December 31, 2025 was approximately 2.7 years and 3.5 years, respectively. These interest-rate contracts were accounted for as fair value hedges.

**Foreign Exchange Risk**

**Long-Term Investments in Foreign Subsidiaries (Net Investment)**

A large portion of the company's foreign currency-denominated debt portfolio is designated as a hedge of net investment in major foreign subsidiaries to reduce the volatility in stockholders' equity caused by changes in foreign currency exchange rates in the subsidiaries' functional currency with respect to the U.S. dollar. At September 30, 2026 and December 31, 2025, the carrying value of debt designated as hedging instruments was $18.3 billion and $16.4 billion, respectively. The company also uses foreign currency derivatives, which may include forward contracts, long-term cross currency swaps, and options, for this risk management purpose. At September 30, 2026 and December 31, 2025, the total notional amount of derivative instruments designated as net investment hedges was $7.7 billion and $6.9 billion, respectively. At both September 30, 2026 and December 31, 2025, the weighted-average remaining maturity of these instruments was less than one year.

**Anticipated Royalties and Cost Transactions**

The company's operations generate significant nonfunctional currency, third-party vendor payments and intercompany payments for royalties and goods and services among the company's non-U.S. subsidiaries and with the company. In anticipation of these foreign currency cash flows and in view of the volatility of the currency markets, the company selectively employs forward contracts to manage its currency risk. These forward contracts are accounted for as cash flow hedges. At September 30, 2026, the maximum remaining length of time over which the company hedged its exposure is approximately two years. At September 30, 2026 and December 31, 2025, the total notional amount of forward contracts designated as cash flow hedges of forecasted royalty and cost transactions was $11.1 billion and $10.8 billion, respectively. At both September 30, 2026 and December 31, 2025, the weighted-average remaining maturity of these instruments was less than one year.

At September 30, 2026 and December 31, 2025, in connection with cash flow hedges of anticipated royalties and cost transactions, there were unrealized net gains (before taxes) of $220 million and $4 million, respectively, deferred in AOCI. The company estimates that $166 million of the deferred net gains (before taxes) on derivatives in AOCI at September 30, 2026 will be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

**Foreign Currency-Denominated Borrowings**

The company is exposed to exchange rate volatility on foreign currency-denominated debt. To manage this risk, the company may employ forward contracts or cross-currency swaps to convert the principal, or principal and interest payments of foreign currency-denominated debt, to debt denominated in the functional currency of the borrowing entity. These derivatives are accounted for as cash flow hedges.

At September 30, 2026, the maximum length of time remaining over which the company hedged its exposure was approximately four years. At September 30, 2026 and December 31, 2025, the total notional amount of derivative instruments designated as cash flow hedges of foreign currency-denominated debt was $9.2 billion and $4.8 billion, respectively.

At September 30, 2026 and December 31, 2025, in connection with forward contracts, there were unrealized net gains (before taxes) of $38 million and unrealized net losses of $48 million, respectively, deferred in AOCI. Approximately $120 million of losses (before taxes) related to the initial forward points excluded from the assessment of hedge effectiveness is expected to be amortized to other (income) and expense in the Consolidated Income Statement within the next 12 months.

**Subsidiary Cash and Foreign Currency Asset/Liability Management**

The company uses its Global Treasury Centers to manage the cash of its subsidiaries. These centers principally use currency swaps to convert cash flows in a cost-effective manner. In addition, the company uses forward contracts to economically hedge, on a net basis, the foreign currency exposure of a portion of the company’s nonfunctional currency assets and liabilities. The terms of these forward and swap contracts are generally less than one year. The changes in the fair values of these contracts and of the underlying hedged exposures are generally offsetting and are recorded in other (income) and expense in the Consolidated Income Statement. At September 30, 2026 and December 31, 2025, the total notional amount of derivative instruments in economic hedges of foreign currency exposure was $6.2 billion and $6.4 billion, respectively.

**Equity Risk Management**

The company is exposed to market price changes in certain broad market indices and in the company’s own stock primarily related to certain obligations to employees. Changes in the overall value of these employee compensation obligations are recorded in SG&A expense in the Consolidated Income Statement. Although not designated as accounting hedges, the company utilizes derivatives, including equity swaps and futures, to economically hedge the exposures related to its employee compensation obligations. The derivatives are linked to the total return on certain broad market indices or the total return on the company’s common stock, and are recorded at fair value with gains or losses also reported in SG&A expense in the Consolidated Income Statement. At both September 30, 2026 and December 31, 2025, the total notional amount of derivative instruments in economic hedges of these compensation obligations was $1.5 billion.

**Cumulative Basis Adjustments for Fair Value Hedges**

At September 30, 2026 and December 31, 2025, the following amounts were recorded in the Consolidated Balance Sheet related to cumulative basis adjustments for fair value hedges:

| ($ in millions) | September 30, 2026 | December 31, 2025 |
|---|---|---|
| Short-term debt: | | |
| Carrying amount of the hedged item | $ (1,226) | $ — |
| Cumulative hedging adjustments included in the carrying amount — assets/(liabilities) | (2) | — |
| Long-term debt: | | |
| Carrying amount of the hedged item | (5,261) | (6,656) |
| Cumulative hedging adjustments included in the carrying amount — assets/(liabilities) [1] | 211 | 36 |

(1) Includes $(93) million and $(114) million of hedging adjustments on discontinued hedging relationships at September 30, 2026 and December 31, 2025, respectively.

**Effect of Derivatives in the Consolidated Income Statement and Other Comprehensive Income (OCI)**

The total effect of fair value hedges, cash flow hedges, net investment hedges and derivatives not designated as hedging instruments are summarized by income and expense line items as follows:

| | (Gains)/Losses of Total Hedge Activity | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| ($ in millions) | 2026 | 2025 | 2026 | 2025 |
| Cost of services | $ 20 | $ 7 | $ 57 | $ 12 |
| Cost of sales | (10) | 0 | (19) | (2) |
| Cost of financing | 0 | (1) | (2) | (2) |
| SG&A expense | 37 | (74) | (60) | (157) |
| Other (income) and expense | 21 | 162 | 560 | (881) |
| Interest expense | (1) | (4) | (9) | (9) |

| ($ in millions) | | (Gains)/Losses Recognized in Consolidated Income Statement | | | |
|---|---|---|---|---|---|
| | Consolidated Income Statement Line Item | Recognized on Derivatives | | Attributable to Risk Being Hedged [1] | |
| For the three months ended September 30: | | 2026 | 2025 | 2026 | 2025 |
| **Derivative instruments in fair value hedges:** [2] | | | | | |
| Interest rate contracts | Cost of financing | $ 22 | $ (1) | $ (20) | $ 4 |
| | Interest expense | 103 | (6) | (94) | 22 |
| **Derivative instruments not designated as hedging instruments:** | | | | | |
| Foreign exchange contracts | Other (income) and expense | 28 | 83 | N/A | N/A |
| Equity contracts | SG&A expense | 42 | (75) | N/A | N/A |
| Total | | $ 194 | $ 0 | $ (114) | $ 27 |

| ($ in millions) | Effects of Derivatives Recognized in Consolidated Income Statement and OCI | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gains/(Losses) Recognized in OCI | | Consolidated Income Statement Line Item | (Gains)/Losses Reclassified from AOCI | | Amounts Excluded from Effectiveness Testing [3] | |
| For the three months ended September 30: | 2026 | 2025 | | 2026 | 2025 | 2026 | 2025 |
| **Derivative instruments in cash flow hedges:** | | | | | | | |
| Interest rate contracts | $ — | $ — | Cost of financing | $ 0 | $ 1 | N/A | N/A |
| | | | Interest expense | 2 | 3 | N/A | N/A |
| Foreign exchange contracts | | | | | | | |
| Amount included in the assessment of effectiveness | (42) | 70 | Cost of services | 20 | 7 | N/A | N/A |
| | | | Cost of sales | (10) | 0 | N/A | N/A |
| | | | Cost of financing | 1 | 1 | N/A | N/A |
| | | | SG&A expense | (4) | 1 | N/A | N/A |
| | | | Other (income) and expense | (44) | 51 | N/A | N/A |
| | | | Interest expense | 3 | 3 | N/A | N/A |
| Amount excluded from the assessment of effectiveness | (24) | (50) | Other (income) and expense | N/A | N/A | 37 | 28 |
| **Instruments in net investment hedges:** [4] | | | | | | | |
| Foreign exchange contracts | | | | | | | |
| Amount included in the assessment of effectiveness | 83 | 154 | | | | | |
| Amount excluded from the assessment of effectiveness | (6) | 6 | Cost of financing | N/A | N/A | (3) | (5) |
| | | | Interest expense | N/A | N/A | (15) | (26) |
| Total | $ 11 | $ 179 | | $ (32) | $ 66 | $ 19 | $ (4) |

(1) The amount includes basis adjustments to the carrying value of the hedged item recorded during the period and amortization of basis adjustments recorded on de-designated hedging relationships during the period.

(2) The amount includes changes in clean fair values of the derivative instruments in fair value hedging relationships and the periodic accrual for coupon payments required under these derivative contracts.

(3) Amounts excluded from effectiveness testing for both net investment hedges and cash flow hedges of foreign currency debt are amortized to net income on a straight line basis over the life of the relevant hedging instrument.

(4) Instruments in net investment hedges include derivative and non-derivative instruments with the amounts recognized in OCI providing an offset to the translation of foreign subsidiaries.

N/A - not applicable

| ($ in millions) | | (Gains)/Losses Recognized in Consolidated Income Statement | | | |
|---|---|---|---|---|---|
| | Consolidated Income Statement Line Item | Recognized on Derivatives | | Attributable to Risk Being Hedged [1] | |
| For the nine months ended September 30: | | 2026 | 2025 | 2026 | 2025 |
| **Derivative instruments in fair value hedges:** [2] | | | | | |
| Interest rate contracts | Cost of financing | $ 36 | $ (14) | $ (31) | $ 23 |
| | Interest expense | 165 | (79) | (142) | 123 |
| **Derivative instruments not designated as hedging instruments:** | | | | | |
| Foreign exchange contracts | Other (income) and expense | 167 | (202) | N/A | N/A |
| Equity contracts | SG&A expense | (53) | (156) | N/A | N/A |
| Total | | $ 316 | $ (451) | $ (173) | $ 146 |

| ($ in millions) | Effects of Derivatives Recognized in Consolidated Income Statement and OCI | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gains/(Losses) Recognized in OCI | | Consolidated Income Statement Line Item | (Gains)/Losses Reclassified from AOCI | | Amounts Excluded from Effectiveness Testing [3] | |
| For the nine months ended September 30: | 2026 | 2025 | | 2026 | 2025 | 2026 | 2025 |
| **Derivative instruments in cash flow hedges:** | | | | | | | |
| Interest rate contracts | $ — | $ — | Cost of financing | $ 2 | $ 2 | N/A | N/A |
| | | | Interest expense | 7 | 9 | N/A | N/A |
| Foreign exchange contracts | | | | | | | |
| Amount included in the assessment of effectiveness | (103) | 87 | Cost of services | 57 | 12 | N/A | N/A |
| | | | Cost of sales | (19) | (2) | N/A | N/A |
| | | | Cost of financing | 2 | 2 | N/A | N/A |
| | | | SG&A expense | (7) | (1) | N/A | N/A |
| | | | Other (income) and expense | 288 | (763) | N/A | N/A |
| | | | Interest expense | 9 | 9 | N/A | N/A |
| Amount excluded from the assessment of effectiveness | (20) | (207) | Other (income) and expense | N/A | N/A | 105 | 84 |
| **Instruments in net investment hedges:** [4] | | | | | | | |
| Foreign exchange contracts | | | | | | | |
| Amount included in the assessment of effectiveness | 733 | (2,252) | | | | | |
| Amount excluded from the assessment of effectiveness | (22) | 17 | Cost of financing | N/A | N/A | (11) | (13) |
| | | | Interest expense | N/A | N/A | (48) | (72) |
| Total | $ 588 | $(2,356) | | $ 338 | $ (732) | $ 47 | $ (1) |

(1) The amount includes basis adjustments to the carrying value of the hedged item recorded during the period and amortization of basis adjustments recorded on de-designated hedging relationships during the period.

(2) The amount includes changes in clean fair values of the derivative instruments in fair value hedging relationships and the periodic accrual for coupon payments required under these derivative contracts.

(3) Amounts excluded from effectiveness testing for both net investment hedges and cash flow hedges of foreign currency debt are amortized to net income on a straight line basis over the life of the relevant hedging instrument.

(4) Instruments in net investment hedges include derivative and non-derivative instruments with the amounts recognized in OCI providing an offset to the translation of foreign subsidiaries.

N/A - not applicable

## 17. Stock-Based Compensation:

Stock-based compensation cost for stock awards and stock options is measured at grant date, based on the fair value of the award, and is recognized over the employee requisite service period. The following table presents total stock-based compensation cost included in income from continuing operations.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in millions) | 2026 | 2025 | 2026 | 2025 |
| Cost | $ 59 | $ 67 | $ 208 | $ 199 |
| SG&A expense | 278 | 233 | 776 | 694 |
| R&D expense | 197 | 144 | 555 | 393 |
| Pre-tax stock-based compensation cost | 535 | 444 | 1,539 | 1,285 |
| Income tax benefits | (205) | (228) | (558) | (578) |
| Net stock-based compensation cost | $ 330 | $ 215 | $ 981 | $ 707 |

Pre-tax stock-based compensation cost for the three months ended September 30, 2026 increased $91 million compared to the corresponding period in the prior year primarily due to increases in restricted stock units ($80 million) and performance share units ($12 million). For the nine months ended September 30, 2026 pre-tax stock-based compensation cost increased $253 million compared to the corresponding period in the prior year primarily due to increases in restricted stock units ($210 million) and performance share units ($37 million). For both the three and nine months ended September 30, 2026, the increases are driven by the issuance and assumption of stock-based compensation awards in connection with recent acquisitions, adjustments related to targets for performance share units and the company's annual cycle for employees.

Total unrecognized compensation cost related to non-vested awards at September 30, 2026 was $2.5 billion and is expected to be recognized over a weighted-average period of approximately 2.5 years.

## 18. Retirement-Related Benefits:

The company offers defined benefit (DB) pension plans, defined contribution (DC) plans, as well as nonpension postretirement plans primarily consisting of retiree medical benefits.

### Cost/(Income) of Retirement Plans

The following tables provides the components of the cost/(income) for the company’s retirement-related benefit plans.

| ($ in millions) | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| For the three months ended September 30: | 2026 | 2025 | 2026 | 2025 |
| Service cost | $ 87 | $ 88 | $ 43 | $ 45 |
| Interest cost [1] | 180 | 187 | 286 | 273 |
| Expected return on plan assets [1] | (266) | (268) | (359) | (376) |
| Amortization of prior service costs/(credits) [1] | — | — | 16 | 6 |
| Recognized actuarial losses [1] | 122 | 70 | 74 | 88 |
| Curtailments and settlements [1] | — | — | 2 | 2 |
| Multi-employer plans | — | — | 3 | 3 |
| Other costs/(credits) [1] | — | — | 6 | 0 |
| Total net periodic pension (income)/cost of defined benefit plans | $ 122 | $ 77 | $ 71 | $ 40 |
| Cost of defined contribution plans | 15 | 16 | 98 | 100 |
| Total defined benefit pension and defined contribution plans cost recognized in the Consolidated Income Statement | $ 136 | $ 93 | $ 169 | $ 140 |

(1) These components of net periodic pension cost are included in other (income) and expense in the Consolidated Income Statement.

| ($ in millions) | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| For the nine months ended September 30: | 2026 | 2025 | 2026 | 2025 |
| Service cost | $ 259 | $ 264 | $ 132 | $ 130 |
| Interest cost [1] | 539 | 561 | 865 | 790 |
| Expected return on plan assets [1] | (798) | (804) | (1,083) | (1,091) |
| Amortization of prior service costs/(credits) [1] | — | — | 48 | 17 |
| Recognized actuarial losses [1] | 365 | 210 | 225 | 257 |
| Curtailments and settlements [1] | — | — | 7 | 8 |
| Multi-employer plans | — | — | 10 | 10 |
| Other costs/(credits) [1] | — | — | 26 | 18 |
| Total net periodic pension (income)/cost of defined benefit plans | $ 366 | $ 230 | $ 229 | $ 139 |
| Cost of defined contribution plans | 45 | 46 | 310 | 299 |
| Total defined benefit pension and defined contribution plans cost recognized in the Consolidated Income Statement | $ 411 | $ 276 | $ 538 | $ 438 |

(1) These components of net periodic pension cost are included in other (income) and expense in the Consolidated Income Statement.

## Cost of Nonpension Postretirement Plans

The following tables provides the components of the cost for the company's nonpension postretirement plans.

| ($ in millions) | U.S. Plan | | Non-U.S. Plans | |
|---|---|---|---|---|
| For the three months ended September 30: | 2026 | 2025 | 2026 | 2025 |
| Service cost | $ 0 | $ 0 | $ 0 | $ 1 |
| Interest cost [1] | 25 | 28 | 12 | 11 |
| Expected return on plan assets [1] | — | — | 0 | 0 |
| Amortization of prior service costs/(credits) [1] | (7) | (7) | 0 | 0 |
| Recognized actuarial losses [1] | 1 | — | 0 | 0 |
| Total nonpension postretirement plans cost recognized in the Consolidated Income Statement | $ 19 | $ 22 | $ 12 | $ 11 |

| ($ in millions) | U.S. Plan | | Non-U.S. Plans | |
|---|---|---|---|---|
| For the nine months ended September 30: | 2026 | 2025 | 2026 | 2025 |
| Service cost | $ 1 | $ 1 | $ 1 | $ 1 |
| Interest cost [1] | 75 | 85 | 35 | 31 |
| Expected return on plan assets [1] | — | — | 0 | (1) |
| Amortization of prior service costs/(credits) [1] | (22) | (22) | 0 | 0 |
| Recognized actuarial losses [1] | 2 | — | 0 | 1 |
| Total nonpension postretirement plans cost recognized in the Consolidated Income Statement | $ 56 | $ 65 | $ 36 | $ 33 |

(1) These components of net periodic pension cost are included in other (income) and expense in the Consolidated Income Statement.

**Plan Contributions**

The company does not anticipate any significant changes to the expected plan contributions in 2026 from the amounts disclosed in the 2025 Annual Report. The table below includes contributions to the following plans:

| ($ in millions) | Plan Contributions | |
|---|---|---|
| For the nine months ended September 30: | 2026 | 2025 |
| U.S. nonpension postretirement benefit plan | $ 187 | $ 159 |
| Non-U.S. DB and multi-employer plans [1] | 22 | 21 |
| Total plan contributions | $ 209 | $ 179 |

(1) Amounts reported net of refunds.

The U.S. nonpension postretirement benefit plan contributions in the table above were made in U.S. Treasury securities. Additionally, during the nine months ended September 30, 2026 and 2025, contributions of $648 million and $580 million, respectively, were made to the Active Medical Trust in U.S. Treasury securities. Contributions made with U.S. Treasury securities are considered a non-cash transaction.

**19. Subsequent Events**:

On October 21, 2026, the company announced that the Board of Directors approved a quarterly dividend of $1.69 per common share. The dividend is payable December 10, 2026 to stockholders of record on November 10, 2026.

**Item 2.**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2026

### Snapshot

Organization of Information:

The Management Discussion is designed to provide readers with an overview of the business and a narrative on our financial results and certain factors that may affect our future prospects from the perspective of management.

Within the tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts. Certain prior-period amounts have been reclassified to conform to the current-period presentation. This is annotated where applicable.

Currency:

The references to "adjusted for currency" or "at constant currency" in the Management Discussion do not include operational impacts that could result from fluctuations in foreign currency rates. When we refer to growth rates at constant currency or adjust such growth rates for currency, it is done so that certain financial results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of business performance. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior-year period's currency conversion rate. This approach is used for countries where the functional currency is the local currency. Generally, when the dollar either strengthens or weakens against other currencies, the growth at constant currency rates or adjusting for currency will be higher or lower than growth reported at actual exchange rates. Refer to "Currency Rate Fluctuations" on page 70 for additional information.

Operating (non-GAAP) Earnings:

In an effort to provide better transparency into the operational results of the business, supplementally, management separates business results into operating and non-operating categories. Operating earnings from continuing operations is a non-GAAP measure that excludes the effects of certain acquisition-related charges and intangible asset amortization, expense resulting from basis differences on equity method investments, retirement-related costs and their related tax impacts. Due to the unique, non-recurring nature of the enactment of the U.S. Tax Cuts and Jobs Act (TCJA or U.S. tax reform), management characterizes the one-time provisional charge recorded in the fourth quarter of 2017, and adjustments to that charge, as non-operating. Adjustments include the tax effect of true-ups, audit adjustments, accounting elections and new regulations, or laws (e.g., H.R. 1 in July of 2025) that impact the TCJA provisions which resulted in the one-time provisional charge. For acquisitions, operating (non-GAAP) earnings exclude the amortization of acquired intangible assets and acquisition-related charges such as in-process research and development, transaction costs, applicable retention, restructuring and related expenses, tax charges related to acquisition integration, and pre-closing charges, such as financing costs. These charges are excluded as they may be inconsistent in amount and timing from period to period and are significantly impacted by the size, type and frequency of our acquisitions. All other spending for acquired companies is included in both earnings from continuing operations and in operating (non-GAAP) earnings. For retirement-related costs, management characterizes certain items as operating and others as non-operating, consistent with GAAP. We include defined benefit plan and nonpension postretirement benefit plan service costs, multi-employer plan costs and the cost of defined contribution plans in operating earnings. Non-operating retirement-related costs include defined benefit plan and nonpension postretirement benefit plan amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements and pension insolvency costs and other costs. Non-operating retirement-related costs are primarily related to changes in pension plan assets and liabilities which are tied to financial market performance, and we consider these costs to be outside of the operational performance of the business.

Overall, management believes that supplementally providing investors with a view of operating earnings as described above provides increased transparency and clarity into both the operational results of the business and the performance of our pension plans; improves visibility to management decisions and their impacts on operational performance; enables better comparison to peer companies; and allows us to provide a long-term strategic view of the business going forward. In addition, these non-GAAP measures provide a perspective consistent with areas of interest we routinely receive from investors and analysts.

Financial Results Summary — Three Months Ended September 30:

| ($ and shares in millions, except per share amounts)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Revenue [1] | $ 17,103 | $ 16,331 | 4.7 % |
| Gross profit margin | 56.8 % | 57.3 % | (0.5)pts. |
| Total expense and other (income) | $ 7,217 | $ 6,931 | 4.1 % |
| Income from continuing operations before income taxes | $ 2,497 | $ 2,430 | 2.8 % |
| Provision for/(benefit from) income taxes from continuing operations | $ 298 | $ 686 | (56.6)% |
| Income from continuing operations | $ 2,199 | $ 1,744 | 26.1 % |
| Income from continuing operations margin | 12.9 % | 10.7 % | 2.2 pts. |
| Income/(loss) from discontinued operations, net of tax | $ (10) | $ 0 | nm |
| Net income | $ 2,190 | $ 1,744 | 25.6 % |
| Earnings per share from continuing operations - assuming dilution | $ 2.31 | $ 1.84 | 25.5 % |
| Consolidated earnings per share - assuming dilution | $ 2.30 | $ 1.84 | 25.0 % |
| Weighted-average shares outstanding - assuming dilution | 953.5 | 948.9 | 0.5 % |

(1) Year-to-year revenue growth of 6 percent adjusted for currency.

nm - not meaningful

The following table provides the company's operating (non-GAAP) earnings for the third quarter of 2026 and 2025.

| ($ in millions, except per share amounts)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Net income as reported | $ 2,190 | $ 1,744 | 25.6 % |
| Income/(loss) from discontinued operations, net of tax | (10) | 0 | nm |
| Income from continuing operations | $ 2,199 | $ 1,744 | 26.1 % |
| Non-operating adjustments (net of tax): | | | |
| Acquisition-related charges | 542 | 454 | 19.3 |
| Non-operating retirement-related costs/(income) | 71 | 10 | nm |
| U.S. tax reform impacts | — | 309 | (100) |
| Operating (non-GAAP) earnings [1] | $ 2,812 | $ 2,517 | 11.7 % |
| Diluted operating (non-GAAP) earnings per share [1] | $ 2.95 | $ 2.65 | 11.3 % |

(1) Refer to the quarter-to-date "GAAP Reconciliation" on page 65 for additional information.

nm - not meaningful

Financial Performance Summary — Three Months Ended September 30:

In the third quarter of 2026, we reported $17.1 billion in revenue, income from continuing operations of $2.2 billion, and operating (non-GAAP) earnings of $2.8 billion. Diluted earnings per share from continuing operations was $2.31 as reported and $2.95 on an operating (non-GAAP) basis. We generated $4.0 billion in cash from operations and $3.0 billion in free cash flow, and returned $1.6 billion to shareholders in dividends. Our third-quarter performance demonstrates the strength of our portfolio, disciplined execution against our priorities and the continued value clients place on our mission-critical platforms. We believe our strategic investments over the past several years continue to strengthen IBM's position as a software-led Hybrid Cloud and AI platform company and advance our quantum capabilities, a strategic area of differentiation and long-term opportunity.

Total revenue grew 4.7 percent as reported and 5.6 percent adjusted for currency compared to the prior-year period. Software delivered revenue growth of 8.2 percent as reported (8.7 percent adjusted for currency). Consulting revenue was

flat as reported and increased 1.8 percent adjusted for currency. Infrastructure revenue increased 4.2 percent as reported (4.9 percent adjusted for currency).

From a geographic perspective, Americas revenue increased 5.3 percent as reported (5.1 percent adjusted for currency). Europe/Middle East/Africa (EMEA) increased 3.3 percent as reported (4.3 percent adjusted for currency). Asia Pacific increased 5.6 percent as reported (9.6 percent adjusted for currency).

Gross margin of 56.8 percent decreased 0.5 points year to year and operating (non-GAAP) gross margin of 58.5 percent decreased 0.2 points compared to the prior-year period.

Total expense and other (income) increased 4.1 percent in the third quarter of 2026 compared to the third quarter of 2025, driven by our investments in portfolio innovation, and higher non-operating retirement-related costs, partially offset by savings from productivity actions and the effects of currency. Total operating (non-GAAP) expense and other (income) increased 2.3 percent year to year, driven primarily by the same factors as described above, excluding higher non-operating retirement-related costs.

Pre-tax income from continuing operations of $2.5 billion increased 2.8 percent compared to the prior-year period and pre-tax margin declined 0.3 points year to year to 14.6 percent. The continuing operations provision for income taxes was $0.3 billion in the third quarter of 2026, compared to $0.7 billion in the third quarter of 2025, which included a one-time, non-cash income tax charge resulting from the enactment of H.R. 1. Net income from continuing operations of $2.2 billion increased 26.1 percent and net income from continuing operations margin of 12.9 percent increased 2.2 points year to year.

Operating (non-GAAP) pre-tax income from continuing operations of $3.3 billion increased 8.7 percent compared to the third quarter of 2025 and the operating (non-GAAP) pre-tax margin from continuing operations increased 0.7 points to 19.3 percent. The operating (non-GAAP) provision for income taxes was $0.5 billion in both the third quarter of 2026 and the third quarter of 2025. Operating (non-GAAP) income from continuing operations of $2.8 billion increased 11.7 percent and the operating (non-GAAP) income margin from continuing operations of 16.4 percent increased 1.0 point year to year.

Diluted earnings per share from continuing operations of $2.31 increased 25.5 percent and operating (non-GAAP) diluted earnings per share of $2.95 increased 11.3 percent compared to the third quarter of 2025.

Cash provided by operating activities was $4.0 billion in the third quarter of 2026, an increase of $0.9 billion compared to the third quarter of 2025, which includes an increase in cash provided by financing receivables of $0.2 billion. Free cash flow was $3.0 billion, an increase of $0.7 billion versus the prior-year period. Net cash used in investing activities increased $2.1 billion to $2.6 billion compared with the prior-year period. Net cash provided by financing activities was $0.6 billion in the third quarter of 2026, compared to net cash used in financing activities of $3.0 billion in the third quarter of 2025.

Financial Results Summary — Nine Months Ended September 30:

| ($ and shares in millions, except per share amounts)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Revenue [1] | $ 50,182 | $ 47,849 | 4.9 % |
| Gross profit margin | 56.9 % | 57.2 % | (0.3)pts. |
| Total expense and other (income) | $ 22,208 | $ 21,184 | 4.8 % |
| Income from continuing operations before income taxes | $ 6,363 | $ 6,185 | 2.9 % |
| Provision for/(benefit from) income taxes from continuing operations | $ 782 | $ 1,193 | (34.4)% |
| Income from continuing operations | $ 5,581 | $ 4,992 | 11.8 % |
| Income from continuing operations margin | 11.1 % | 10.4 % | 0.7 pts. |
| Income/(loss) from discontinued operations, net of tax | $ (10) | $ 1 | nm |
| Net income | $ 5,571 | $ 4,993 | 11.6 % |
| Earnings per share from continuing operations - assuming dilution | $ 5.86 | $ 5.27 | 11.2 % |
| Consolidated earnings per share - assuming dilution | $ 5.85 | $ 5.27 | 11.0 % |
| Weighted-average shares outstanding - assuming dilution | 953.0 | 947.4 | 0.6 % |

| | At 9/30/2026 | At 12/31/2025 | |
|---|---|---|---|
| Assets | $ 155,011 | $ 151,880 | 2.1 % |
| Liabilities | $ 118,805 | $ 119,139 | (0.3)% |
| Equity | $ 36,206 | $ 32,740 | 10.6 % |

(1) Year-to-year revenue growth of 4 percent adjusted for currency.

nm - not meaningful

The following table provides the company's operating (non-GAAP) earnings for the first nine months of 2026 and 2025.

| ($ in millions, except per share amounts)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Net income as reported | $ 5,571 | $ 4,993 | 11.6 % |
| Income/(loss) from discontinued operations, net of tax | (10) | 1 | nm |
| Income from continuing operations | $ 5,581 | $ 4,992 | 11.8 % |
| Non-operating adjustments (net of tax): | | | |
| Acquisition-related charges | 1,598 | 1,326 | 20.5 |
| Non-operating retirement-related costs/(income) | 240 | 61 | 295.0 |
| U.S. tax reform impacts | 6 | 307 | (98.1) |
| Operating (non-GAAP) earnings [1] | $ 7,425 | $ 6,686 | 11.1 % |
| Diluted operating (non-GAAP) earnings per share [1] | $ 7.79 | $ 7.06 | 10.3 % |

(1) Refer to the year-to-date "GAAP Reconciliation" on page 66 for additional information.

nm - not meaningful

Financial Performance Summary — Nine Months Ended September 30:

In the first nine months of 2026, we reported $50.2 billion in revenue, net income from continuing operations of $5.6 billion, and operating (non-GAAP) earnings of $7.4 billion. Diluted earnings per share from continuing operations was $5.86 as reported and $7.79 on an operating (non-GAAP) basis. We generated $11.8 billion in cash from operations and $7.8 billion in free cash flow, and delivered shareholder returns of $4.8 billion in dividends. Our year-to-date performance reflects the benefits of our productivity initiatives and continued operational discipline. We continue to

maintain a strong liquidity position and a solid investment grade balance sheet, which enable us to invest in our business and return value to shareholders through dividends.

Total revenue grew 4.9 percent as reported and 4.2 percent adjusted for currency compared to the prior-year period. Software grew 8.1 percent as reported (7.0 percent adjusted for currency). Consulting revenue increased 1.5 percent as reported (1.2 percent adjusted for currency). Infrastructure revenue increased 2.7 percent as reported (1.9 percent adjusted for currency).

From a geographic perspective, Americas revenue increased 4.4 percent year to year as reported (3.8 percent adjusted for currency). EMEA increased 7.1 percent (3.9 percent adjusted for currency). Asia Pacific increased 2.3 percent (5.6 percent adjusted for currency).

Gross margin of 56.9 percent decreased 0.3 points and operating (non-GAAP) gross margin of 58.6 percent was essentially flat compared to the prior-year period.

Total expense and other (income) increased 4.8 percent in the first nine months of 2026 versus the prior-year period primarily driven by our investments in portfolio innovation, and higher non-operating retirement-related costs, partially offset by savings from productivity actions and the effects of currency. Total operating (non-GAAP) expense and other (income) increased 3.0 percent year to year, driven primarily by the same factors as described above, excluding the higher non-operating retirement-related costs.

Pre-tax income from continuing operations of $6.4 billion increased 2.9 percent and pre-tax margin was 12.7 percent, a decline of 0.2 points as compared to the first nine months of 2025. The continuing operations provision for income taxes was $0.8 billion in the first nine months of 2026, compared to $1.2 billion in the first nine months of 2025. Net income from continuing operations of $5.6 billion increased 11.8 percent and the net income from continuing operations margin was 11.1 percent, which increased 0.7 points year to year.

Operating (non-GAAP) pre-tax income from continuing operations of $8.7 billion increased 9.4 percent compared to the prior-year period and the operating (non-GAAP) pre-tax margin from continuing operations increased 0.7 points to 17.4 percent. The operating (non-GAAP) provision for income taxes in both the first nine months of 2026 and the first nine months of 2025 was $1.3 billion. Operating (non-GAAP) income from continuing operations of $7.4 billion increased 11.1 percent and the operating (non-GAAP) income margin from continuing operations of 14.8 percent increased 0.8 points year to year.

Diluted earnings per share from continuing operations of $5.86 in the first nine months of 2026 increased 11.2 percent and operating (non-GAAP) diluted earnings per share of $7.79 increased 10.4 percent compared to the first nine months of 2025.

At September 30, 2026, the balance sheet remained strong with financial flexibility to support and invest in the business. Cash and cash equivalents, restricted cash and marketable securities at September 30, 2026 of $11.1 billion decreased $3.4 billion from December 31, 2025 and debt of $63.8 billion at September 30, 2026 increased $2.6 billion. The company continues to make investments in innovation both organically and through acquisitions, including the Confluent acquisition in the first quarter of 2026.

Total assets increased $3.1 billion ($4.3 billion adjusted for currency) from December 31, 2025. Total liabilities decreased $0.3 billion ($0.9 billion adjusted for currency) from December 31, 2025. Total equity of $36.2 billion increased $3.5 billion from December 31, 2025.

Cash provided by operating activities was $11.8 billion in the first nine months of 2026, an increase of $2.6 billion compared to the first nine months of 2025, which includes an increase in cash provided by financing receivables of $1.9 billion. Free cash flow of $7.8 billion increased $0.6 billion versus the prior-year period. Refer to page 72 for additional information on free cash flow. Net cash used in investing activities of $13.5 billion, which includes our investment in the acquisition of Confluent, increased $1.8 billion compared to the prior-year period. Net cash used in financing activities of $2.4 billion increased $2.0 billion compared to the first nine months of 2025.

## Third Quarter in Review

*Results of Continuing Operations*

Segment Details

The following tables present each reportable segment's revenue and gross margin results, followed by an analysis of the third quarter and the first nine months of 2026 versus the third quarter and first nine months of 2025 reportable segments results.

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Revenue: | | | | |
| Software | $ 7,804 | $ 7,209 | 8.2 % | 8.7 % |
| Gross margin | 82.5 % | 83.1 % | (0.6)pts. | |
| Consulting | 5,335 | 5,324 | 0.2 % | 1.8 % |
| Gross margin | 27.4 % | 29.3 % | (1.9)pts. | |
| Infrastructure | 3,707 | 3,559 | 4.2 % | 4.9 % |
| Gross margin | 56.7 % | 57.2 % | (0.4)pts. | |
| Financing | 192 | 200 | (3.9)% | (3.3)% |
| Gross margin | 40.7 % | 45.6 % | (4.9)pts. | |
| Other [1] | 66 | 38 | 72.1 % | 75.6 % |
| Gross margin | nm | nm | nm | |
| Total revenue | $ 17,103 | $ 16,331 | 4.7 % | 5.6 % |
| Total gross profit | $ 9,714 | $ 9,360 | 3.8 % | |
| Total gross margin | 56.8 % | 57.3 % | (0.5)pts. | |
| Non-operating adjustments: | | | | |
| Amortization of acquired intangible assets | 289 | 231 | 25.5 % | |
| Operating (non-GAAP) gross profit | $ 10,004 | $ 9,591 | 4.3 % | |
| Operating (non-GAAP) gross margin | 58.5 % | 58.7 % | (0.2)pts. | |

(1) Includes reductions in revenue for estimated residual value less related unearned income on sales-type leases, which reflects the z17 launch in June 2025. Refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report for additional information.

nm - not meaningful

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Revenue: | | | | |
| Software | $ 22,617 | $ 20,932 | 8.1 % | 7.0 % |
| Gross margin | 82.6 % | 83.5 % | (0.9)pts. | |
| Consulting | 15,934 | 15,706 | 1.5 % | 1.2 % |
| Gross margin | 27.9 % | 28.0 % | (0.1)pts. | |
| Infrastructure | 10,868 | 10,586 | 2.7 % | 1.9 % |
| Gross margin | 57.4 % | 57.7 % | (0.3)pts. | |
| Financing | 598 | 557 | 7.3 % | 5.7 % |
| Gross margin | 42.2 % | 45.7 % | (3.5)pts. | |
| Other [1] | 165 | 68 | 143.7 % | 128.5 % |
| Gross margin | nm | nm | nm | |
| Total revenue | $ 50,182 | $ 47,849 | 4.9 % | 4.2 % |
| Total gross profit | $ 28,571 | $ 27,369 | 4.4 % | |
| Total gross margin | 56.9 % | 57.2 % | (0.3)pts. | |
| Non-operating adjustments: | | | | |
| Amortization of acquired intangible assets | 813 | 656 | 23.9 % | |
| Operating (non-GAAP) gross profit | $ 29,384 | $ 28,025 | 4.8 % | |
| Operating (non-GAAP) gross margin | 58.6 % | 58.6 % | 0.0 pts. | |

(1) Includes reductions in revenue for estimated residual value less related unearned income on sales-type leases, which reflects the z17 launch in June 2025. Refer to note A, "Significant Accounting Policies," in the company's 2025 Annual Report for additional information.

nm - not meaningful

Software

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Software revenue: | $ 7,804 | $ 7,209 | 8.2 % | 8.7 % |
| Hybrid Cloud | $ 2,086 | $ 1,886 | 10.6 % | 11.1 % |
| Automation | 1,870 | 1,934 | (3.3) | (2.9) |
| Data | 1,738 | 1,459 | 19.1 | 19.6 |
| Transaction Processing | 2,111 | 1,930 | 9.3 | 9.9 |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Software revenue: | $ 22,617 | $ 20,932 | 8.1 % | 7.0 % |
| Hybrid Cloud | $ 5,988 | $ 5,369 | 11.5 % | 10.7 % |
| Automation | 5,562 | 5,401 | 3.0 | 2.0 |
| Data | 4,994 | 4,194 | 19.1 | 18.1 |
| Transaction Processing | 6,073 | 5,967 | 1.8 | 0.6 |

For the third quarter of 2026, Software revenue of $7,804 million increased 8.2 percent as reported (8.7 percent adjusted for currency) compared to the prior-year period led by the combination of strong new business performance, including Confluent, and pipeline closure rates as we completed a significant portion of large deals that failed to close within the expected timelines from the second quarter. Our high-value recurring revenue base, which is approximately 80 percent of Software revenue, continues to deliver solid growth reflecting demand for our offerings. The remaining 20 percent of Software revenue is transactional in nature, which grew in the current period. This performance reinforces our confidence in the strength of the software portfolio.

Revenue performance by line of business in the third quarter compared to the prior-year period was as follows:

Hybrid Cloud (Red Hat) revenue increased 10.6 percent as reported (11.1 percent adjusted for currency) with accelerated bookings growth. OpenShift annual recurring revenue continues to grow and is approximately $2.4 billion. Automation revenue decreased 3.3 percent as reported (2.9 percent adjusted for currency) reflecting a strong prior-year performance, partially offset by growth from HashiCorp. Data revenue increased 19.1 percent as reported (19.6 percent adjusted for currency) driven by the strong performance from Confluent. Transaction Processing revenue increased 9.3 percent as reported (9.9 percent adjusted for currency) driven by demand for this mission-critical software and strong execution against our pipeline, including certain large deals that failed to close from the second quarter.

Across Software, our annual recurring revenue (ARR) was solid at $24.9 billion, and increased approximately $2 billion as reported year to year. This increase reflects the acquisition of Confluent and growth across other areas of our recurring revenue base. ARR is a key performance metric management uses to assess the health and growth trajectory of our Software segment, and is calculated by using the current quarter's recurring revenue and then multiplying that value by four. This value includes the following consumption models: (1) software subscription agreements, including committed term licenses, (2) as-a-service arrangements such as SaaS and PaaS, and (3) maintenance and support contracts. ARR should be viewed independently of software revenue as this performance metric and its inputs may not represent revenue that will be recognized in future periods.

Revenue performance in the first nine months of 2026 compared to the prior-year period was as follows:

Software revenue of $22,617 million increased 8.1 percent as reported (7.0 percent adjusted for currency) with growth in all lines of business. Hybrid Cloud and Data both grew at double-digit rates, and Automation and Transaction Processing both grew at low-single digit rates. The revenue performance in Software for the first nine months of 2026 reflects contributions from Hybrid Cloud and recent acquisitions, including Confluent and HashiCorp, as well as the investments we have made in organic software innovation.

| **($ in millions)**<br>**For the three months ended September 30:** | **2026** | **2025** | **Yr.-to-Yr. Percent/ Margin Change** |
|---|---|---|---|
| Software: | | | |
| Gross profit | $ 6,436 | $ 5,989 | 7.5 % |
| Gross profit margin | 82.5 % | 83.1 % | (0.6)pts. |
| Segment profit | $ 2,734 | $ 2,374 | 15.2 % |
| Segment profit margin | 35.0 % | 32.9 % | 2.1 pts. |

| **($ in millions)**<br>**For the nine months ended September 30:** | **2026** | **2025** | **Yr.-to-Yr. Percent/ Margin Change** |
|---|---|---|---|
| Software: | | | |
| Gross profit | $ 18,683 | $ 17,480 | 6.9 % |
| Gross profit margin | 82.6 % | 83.5 % | (0.9) pts. |
| Segment profit | $ 7,335 | $ 6,517 | 12.5 % |
| Segment profit margin | 32.4 % | 31.1 % | 1.3 pts. |

For the third quarter of 2026, Software gross profit margin decreased 0.6 points to 82.5 percent, on a year-to-year basis. Segment profit of $2,734 million increased 15.2 percent and segment profit margin of 35.0 percent increased 2.1 points compared to the prior-year period.

For the first nine months of 2026, Software gross profit margin decreased 0.9 points to 82.6 percent on a year-to-year basis. Segment profit of $7,335 million increased 12.5 percent and segment profit margin of 32.4 percent increased 1.3 points compared to the prior-year period.

Software gross profit margin decline for the third quarter and the first nine months of 2026 compared to the prior-year periods was primarily driven by investments in innovation, and product mix. Segment profit and margin performance for both periods reflect the benefits of our ongoing productivity actions and currency, partially offset by investments in innovation.

Consulting

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Consulting revenue: | $ 5,335 | $ 5,324 | 0.2 % | 1.8 % |
| Strategy and Technology | $ 2,965 | $ 2,905 | 2.1 % | 3.6 % |
| Intelligent Operations | 2,370 | 2,419 | (2.0) | (0.4) |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Consulting revenue: | $ 15,934 | $ 15,706 | 1.5 % | 1.2 % |
| Strategy and Technology | $ 8,794 | $ 8,607 | 2.2 % | 2.0 % |
| Intelligent Operations | 7,140 | 7,100 | 0.6 | 0.4 |

For the third quarter of 2026, Consulting revenue of $5,335 million was essentially flat as reported (increased 1.8 percent adjusted for currency) on a year-to-year basis. Strategy and Technology revenue increased 2.1 percent as reported (3.6 percent adjusted for currency) and Intelligent Operations revenue decreased 2.0 percent as reported (0.4 percent adjusted for currency) compared to the prior-year period. Across Consulting, we continue to see growth driven by demand for application modernization, data and AI transformation, and cybersecurity services as clients deploy AI securely and at scale.

For the first nine months of 2026, Consulting revenue of $15,934 million increased 1.5 percent as reported (1.2 percent adjusted for currency) on a year-to-year basis. Strategy and Technology revenue increased 2.2 percent as reported (2.0 percent adjusted for currency) and Intelligent Operations revenue increased 0.6 percent as reported (0.4 percent adjusted for currency) compared to the prior-year period. Our integrated model, combining deep domain expertise, technology and reusable assets, positions us to help clients capture business value from AI while accelerating time to value.

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Consulting: | | | |
| Gross profit | $ 1,462 | $ 1,558 | (6.2)% |
| Gross profit margin | 27.4 % | 29.3 % | (1.9)pts. |
| Segment profit | $ 653 | $ 686 | (4.8)% |
| Segment profit margin | 12.2 % | 12.9 % | (0.6)pts. |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Consulting: | | | |
| Gross profit | $ 4,450 | $ 4,400 | 1.1 % |
| Gross profit margin | 27.9 % | 28.0 % | (0.1)pts. |
| Segment profit | $ 1,858 | $ 1,807 | 2.8 % |
| Segment profit margin | 11.7 % | 11.5 % | 0.2 pts. |

For the third quarter of 2026, Consulting gross profit margin of 27.4 percent decreased 1.9 points on a year-to-year basis. Segment profit of $653 million decreased 4.8 percent and segment profit margin of 12.2 percent decreased 0.6 points compared to the prior-year period. This performance primarily reflects investments we have made in the business, including our digital assets to capture the growing AI opportunity, partially offset by the benefits of our ongoing productivity actions.

For the first nine months of 2026, Consulting gross profit margin of 27.9 percent was essentially flat on a year-to-year basis. Segment profit of $1,858 million increased 2.8 percent and segment profit margin of 11.7 percent was essentially flat compared to the prior-year period. Segment profit performance primarily reflects the benefits of our ongoing productivity actions, partially offset by investments in the business.

Consulting Signings, Book-to-Bill and Backlog

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Total Consulting signings | $ 5,030 | $ 5,223 | (3.7)% | (2.0)% |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Total Consulting signings | $ 15,418 | $ 14,950 | 3.1 % | 3.2 % |

For the three and nine months ended September 30, 2026 compared to the prior-year periods, Consulting signings decreased 3.7 percent as reported (2.0 percent adjusted for currency), but increased 3.1 percent as reported (3.2 percent adjusted for currency), respectively. Although signings declined in the third quarter on a year-to-year basis, there was client investment in cybersecurity and data transformation initiatives. Our book-to-bill ratio for the trailing twelve-months was approximately 1.04. Book-to-bill represents the ratio of IBM Consulting signings to its revenue over the same period. The metric is a useful indicator of the demand of our business over time. At September 30, 2026, backlog was $30.2 billion.

Signings are management's initial estimate of the value of a client's commitment under a services contract within IBM Consulting. There are no third-party standards or requirements governing the calculation of signings. The calculation used by management involves estimates and judgments to gauge the extent of a client's commitment, including the type and duration of the agreement, and the presence of termination charges or wind-down costs.

Contract extensions and increases in scope are treated as signings only to the extent of the incremental new value. Total signings can vary over time due to a variety of factors including, but not limited to, the timing of signing a small number of larger contracts. Signings associated with an acquisition will be recognized on a prospective basis.

Management believes the estimated values of signings disclosed provide an indication of our forward-looking revenue. Signings are used to monitor the performance of the business and viewed as useful information for management and shareholders. The conversion of signings into revenue may vary based on the types of services and solutions, contract duration, customer decisions, and other factors, which may include, but are not limited to, the macroeconomic environment.

Infrastructure

| ($ in millions) For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Infrastructure revenue: | $ 3,707 | $ 3,559 | 4.2 % | 4.9 % |
| Hybrid Infrastructure | $ 2,452 | $ 2,263 | 8.3 % | 9.0 % |
| IBM Z | | | (19.6) | (19.3) |
| Distributed Infrastructure | | | 31.3 | 32.3 |
| Infrastructure Support | 1,255 | 1,296 | (3.1) | (2.4) |

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Infrastructure revenue: | $ 10,868 | $ 10,586 | 2.7 % | 1.9 % |
| Hybrid Infrastructure | $ 7,130 | $ 6,775 | 5.2 % | 4.7 % |
| IBM Z | | | (19.6) | (19.8) |
| Distributed Infrastructure | | | 28.7 | 28.0 |
| Infrastructure Support | 3,738 | 3,811 | (1.9) | (3.0) |

For the third quarter of 2026 as compared to the prior-year period, Infrastructure revenue of $3,707 million increased 4.2 percent as reported (4.9 percent adjusted for currency) with an increase in Hybrid Infrastructure of 8.3 percent as reported (9.0 percent adjusted for currency), partially offset by a decline in Infrastructure Support of 3.1 percent as reported (2.4 percent adjusted for currency). Within Hybrid Infrastructure, IBM Z decreased 19.6 percent as reported (19.3 percent adjusted for currency) reflecting product cycle dynamics, and Distributed Infrastructure revenue increased 31.3 percent as reported (32.3 percent adjusted for currency) with continued strong performance in both Storage and Power. The growth in Storage and Power reflects the importance of differentiated infrastructure as clients modernize their environments, address data growth, and support AI at scale.

For the first nine months of 2026 as compared to the prior-year period, Infrastructure revenue of $10,868 million increased 2.7 percent as reported (1.9 percent adjusted for currency) reflecting growth in Distributed Infrastructure, led by double-digit growth in both Power and Storage. IBM Z and Infrastructure Support revenue performance reflects product cycle dynamics from the z17 launch in the second quarter of 2025. The z17 remains our strongest program on record reflecting the security, reliability, scalability and compelling economics of the platform.

| ($ in millions) For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Infrastructure: | | | |
| Gross profit | $ 2,103 | $ 2,034 | 3.4 % |
| Gross profit margin | 56.7 % | 57.2 % | (0.4)pts. |
| Segment profit | $ 715 | $ 644 | 10.9 % |
| Segment profit margin | 19.3 % | 18.1 % | 1.2 pts. |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent/ Margin Change |
|---|---|---|---|
| Infrastructure: | | | |
| Gross profit | $ 6,234 | $ 6,105 | 2.1 % |
| Gross profit margin | 57.4 % | 57.7 % | (0.3)pts. |
| Segment profit | $ 2,074 | $ 1,857 | 11.7 % |
| Segment profit margin | 19.1 % | 17.5 % | 1.5 pts. |

For the third quarter of 2026, Infrastructure gross profit margin of 56.7 percent decreased 0.4 points on a year-to-year basis. Infrastructure segment profit of $715 million increased 10.9 percent and segment profit margin of 19.3 percent increased 1.2 points compared to the prior-year period.

For the first nine months of 2026, gross profit margin of 57.4 percent decreased 0.3 points on a year-to-year basis. Infrastructure segment profit of $2,074 million increased 11.7 percent and segment profit margin of 19.1 percent increased 1.5 points compared to the prior-year period.

The Infrastructure gross profit margin declines for the third quarter and first nine months of 2026 compared to prior-year period reflect product mix, partially offset by improvement in Distributed Infrastructure margins. Segment profit and margin performance was driven by our ongoing productivity actions, partially offset by product mix and investment in innovation.

Financing

Refer to pages 73 through 74 for a discussion of Financing's segment results.

Geographic Revenue

In addition to the revenue presentation by reportable segment, we also measure revenue performance on a geographic basis.

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Total Revenue | $ 17,103 | $ 16,331 | 4.7 % | 5.6 % |
| Americas | $ 8,576 | $ 8,143 | 5.3 % | 5.1 % |
| Europe/Middle East/Africa (EMEA) | 5,426 | 5,251 | 3.3 | 4.3 |
| Asia Pacific | 3,101 | 2,936 | 5.6 | 9.6 |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Total Revenue | $ 50,182 | $ 47,849 | 4.9 % | 4.2 % |
| Americas | $ 24,854 | $ 23,811 | 4.4 % | 3.8 % |
| Europe/Middle East/Africa (EMEA) | 16,302 | 15,216 | 7.1 | 3.9 |
| Asia Pacific | 9,027 | 8,822 | 2.3 | 5.6 |

Geographic revenue performance for the three months ended September 30, 2026 compared to the prior-year period:

Americas revenue of $8,576 million increased 5.3 percent as reported and 5.1 percent adjusted for currency. The U.S. increased 6.6 percent as reported. Canada decreased 3.7 percent as reported and 2.3 percent adjusted for currency. Latin America decreased 1.2 percent as reported and 4.3 percent adjusted for currency, with Brazil decreasing 15.7 percent as reported and 19.0 percent adjusted for currency.

EMEA revenue of $5,426 million increased 3.3 percent as reported and 4.3 percent adjusted for currency. Italy, Germany and the U.K. increased 22.7 percent, 7.8 percent and 1.1 percent, respectively, as reported and 24.7 percent, 9.5 percent and 1.4 percent, respectively, adjusted for currency. France decreased 13.9 percent as reported and 12.5 percent adjusted for currency. The Middle East and Africa region increased 14.3 percent as reported and 12.8 percent adjusted for currency.

Asia Pacific revenue of $3,101 million increased 5.6 percent as reported and 9.6 percent adjusted for currency. Australia and India increased 32.4 percent and 4.2 percent, respectively, as reported and 22.7 percent and 13.8 percent, respectively, adjusted for currency. Japan decreased 3.3 percent as reported, but increased 4.2 percent adjusted for currency.

Geographic revenue performance for the nine months ended September 30, 2026 compared to the prior-year period:

Americas revenue of $24,854 million increased 4.4 percent as reported and 3.8 percent adjusted for currency. The U.S. increased 3.7 percent as reported. Canada decreased 4.4 percent as reported and 5.3 percent adjusted for currency. Latin America increased 14.1 percent as reported and 9.6 percent adjusted for currency, with Brazil increasing 18.2 percent as reported and 12.4 percent adjusted for currency.

EMEA revenue of $16,302 million increased 7.1 percent as reported and 3.9 percent adjusted for currency. The U.K., Italy and Germany increased 10.2 percent, 9.5 percent and 5.8 percent, respectively, as reported and 8.1 percent, 6.0 percent and 2.2 percent, respectively, adjusted for currency. France decreased 0.7 percent as reported and 4.3 percent adjusted for currency. The Middle East and Africa region increased 17.8 percent as reported and 15.8 percent adjusted for currency and represents less than 3 percent of IBM total revenue.

Asia Pacific revenue of $9,027 million increased 2.3 percent as reported and 5.6 percent adjusted for currency. Australia and India increased 18.4 percent and 7.4 percent, respectively, as reported and 8.2 percent and 16.7 percent, respectively, adjusted for currency. Japan decreased 5.7 percent as reported, but increased 1.0 percent adjusted for currency.

Expense

Total Expense and Other (Income)

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Total expense and other (income) | $ 7,217 | $ 6,931 | 4.1 % |
| Non-operating adjustments: | | | |
| Amortization of acquired intangible assets | $ (381) | $ (330) | 15.4 % |
| Acquisition-related charges | (37) | (29) | 26.3 |
| Non-operating retirement-related (costs)/income | (91) | (13) | nm |
| Operating (non-GAAP) expense and other (income) | $ 6,708 | $ 6,559 | 2.3 % |
| Total expense-to-revenue ratio | 42.2 % | 42.4 % | (0.2)pts. |
| Operating (non-GAAP) expense-to-revenue ratio | 39.2 % | 40.2 % | (0.9)pts. |

nm - not meaningful

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Total expense and other (income) | $ 22,208 | $ 21,184 | 4.8 % |
| Non-operating adjustments: | | | |
| Amortization of acquired intangible assets | $ (1,092) | $ (948) | 15.2 % |
| Acquisition-related charges | (163) | (118) | 39.0 |
| Non-operating retirement-related (costs)/income | (283) | (61) | nm |
| Operating (non-GAAP) expense and other (income) | $ 20,669 | $ 20,058 | 3.0 % |
| Total expense-to-revenue ratio | 44.3 % | 44.3 % | 0.0 pts. |
| Operating (non-GAAP) expense-to-revenue ratio | 41.2 % | 41.9 % | (0.7)pts. |

nm - not meaningful

For additional information regarding total expense and other (income) for both expense presentations, refer to the following analyses by category.

Selling, General and Administrative Expense

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Selling, general and administrative expense: | | | |
| Selling, general and administrative — other | $ 3,704 | $ 3,873 | (4.3)% |
| Advertising and promotional expense | 234 | 270 | (13.4) |
| Workforce rebalancing charges | 15 | 43 | (65.4) |
| Amortization of acquired intangible assets | 381 | 330 | 15.4 |
| Stock-based compensation [(1)] | 278 | 233 | 19.6 |
| Provision for/(benefit from) expected credit loss expense | 8 | (1) | nm |
| Total selling, general and administrative expense | $ 4,620 | $ 4,748 | (2.7)% |
| Non-operating adjustments: | | | |
| Amortization of acquired intangible assets | $ (381) | $ (330) | 15.4 % |
| Acquisition-related charges [(1)] | (47) | (24) | 95.9 |
| Operating (non-GAAP) selling, general and administrative expense | $ 4,193 | $ 4,394 | (4.6)% |

(1) 2026 includes $73 million for awards in connection with acquisitions (including a non-operating adjustment in acquisition related charges of $22 million). 2025 includes $29 million for awards in connection with acquisitions (including a non-operating adjustment in acquisition-related charges of $14 million).

nm - not meaningful

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Selling, general and administrative expense: | | | |
| Selling, general and administrative — other | $ 11,524 | $ 11,757 | (2.0)% |
| Advertising and promotional expense | 847 | 858 | (1.3) |
| Workforce rebalancing charges | 439 | 377 | 16.4 |
| Amortization of acquired intangible assets | 1,092 | 948 | 15.2 |
| Stock-based compensation [1] | 776 | 694 | 11.8 |
| Provision for/(benefit from) expected credit loss expense | 14 | 27 | (50.2) |
| Total selling, general and administrative expense | $ 14,691 | $ 14,661 | 0.2 % |
| Non-operating adjustments: | | | |
| Amortization of acquired intangible assets | $ (1,092) | $ (948) | 15.2 % |
| Acquisition-related charges [1] | (164) | (107) | 54.2 |
| Operating (non-GAAP) selling, general and administrative expense | $ 13,435 | $ 13,606 | (1.3)% |

(1) 2026 includes $143 million for awards in connection with acquisitions (including a non-operating adjustment in acquisition related charges of $28 million). 2025 includes $74 million for awards in connection with acquisitions (including a non-operating adjustment in acquisition-related charges of $31 million).

Total selling, general and administrative (SG&A) expense decreased 2.7 percent in the third quarter of 2026 versus the prior-year period driven primarily by the following factors:

- Lower spending reflecting the benefits from productivity and the actions taken to transform our operations (8 points); partially offset by
- Higher operating expenses from acquired businesses, as a result of our continued investment to drive our hybrid cloud and AI strategy (4 points); and
- Higher amortization of acquired intangible assets and acquisition-related charges (2 points).

Operating (non-GAAP) SG&A expense decreased 4.6 percent year to year primarily driven by the same factors above, excluding the higher amortization of acquired intangible assets and acquisition-related charges.

Total SG&A expense increased 0.2 percent in the first nine months of 2026 versus the prior-year period driven primarily by the following factors:

- Higher operating expenses from acquired businesses, as a result of our continued investment to drive our hybrid cloud and AI strategy (3 points);
- Higher amortization of acquired intangible assets and acquisition-related charges (1 point);
- The effects of currency (1 points); partially offset by
- Lower spending reflecting the benefits from productivity and the actions taken to transform our operations (5 points).

Operating (non-GAAP) SG&A expense decreased 1.3 percent year to year primarily driven by lower spending reflecting the benefits from productivity initiatives and actions taken to transform our operations, partially offset by higher operating expenses from acquired businesses and the effects of currency.

Expected credit loss expense was a provision of $14 million in the first nine months of 2026 compared to $27 million in the prior-year period. The year-to-year change was primarily driven by a higher release of general reserves partially offset by higher specific reserves in the current year. Refer to "Receivables and Allowances" section on page 67 for additional information.

Research and Development

| ($ in millions) For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Research and development expense | $ 2,378 | $ 2,082 | 14.2 % |

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Research and development expense | $ 6,863 | $ 6,129 | 12.0 % |

Research and development (R&D) expense increased 14.2 percent and 12.0 percent in the third quarter and the first nine months of 2026, respectively, driven by continued organic and inorganic investments to drive innovation in AI, hybrid cloud and quantum.

Intellectual Property and Custom Development Income

| ($ in millions) For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Intellectual property and custom development income: | | | |
| Intellectual property income [1] | $ 50 | $ 39 | 28.8 % |
| Custom development income | 114 | 180 | (36.9) |
| Total | $ 164 | $ 219 | (25.3)% |

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Intellectual property and custom development income: | | | |
| Intellectual property income [1] | $ 151 | $ 145 | 4.6 % |
| Custom development income | 350 | 542 | (35.5) |
| Total | $ 501 | $ 687 | (27.0)% |

(1) Includes licensing, royalty-based fees and sales.

Total intellectual property and custom development income decreased 25.3 percent and 27.0 percent year to year in the third quarter and first nine months of 2026, respectively. The timing and amount of licensing and sales of IP may vary significantly from period to period depending upon the timing of licensing agreements, economic conditions, industry consolidation and the timing of new patents and know-how development.

Other (Income) and Expense

| ($ in millions) For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Other (income) and expense: | | | |
| (Gains)/losses on foreign currency transactions | $ (52) | $ (84) | (38.2)% |
| (Gains)/losses on derivative instruments | 21 | 162 | (87.2) |
| Interest income | (87) | (150) | (41.9) |
| Net (gains)/losses from securities and investment assets [1] | 18 | (3) | nm |
| Retirement-related costs/(income) | 91 | 13 | nm |
| Other [2] | (100) | (110) | (9.6) |
| Total other (income) and expense | $ (109) | $ (173) | (36.9)% |
| Non-operating adjustments: | | | |
| Acquisition-related charges | $ 0 | $ (6) | (100.0)% |
| Non-operating retirement-related (costs)/income | (91) | (13) | nm |
| Operating (non-GAAP) other (income) and expense | $ (200) | $ (191) | 4.8% |

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Other (income) and expense: | | | |
| (Gains)/losses on foreign currency transactions | $ (487) | $ 1,131 | nm |
| (Gains)/losses on derivative instruments | 560 | (881) | nm |
| Interest income | (325) | (513) | (36.6)% |
| Net (gains)/losses from securities and investment assets [1] | (97) | 8 | nm |
| Retirement-related costs/(income) | 283 | 61 | nm |
| Other [2] | (230) | (181) | 26.7 |
| Total other (income) and expense | $ (296) | $ (376) | (21.5)% |
| Non-operating adjustments: | | | |
| Acquisition-related charges | $ 1 | $ (7) | nm |
| Non-operating retirement-related (costs)/income | (283) | (61) | nm |
| Operating (non-GAAP) other (income) and expense | $ (578) | $ (444) | 30.3% |

(1) Includes realized and unrealized net (gains)/losses from equity investments.

(2) Includes net (gains)/losses from divestitures and asset sales.

nm - not meaningful

Total other (income) and expense was income of $109 million in the third quarter of 2026, a decrease of $64 million compared to the prior-year period. The year-to-year change was primarily driven by:

- Higher non-operating retirement-related costs of $78 million. Refer to "Retirement-Related Plans" on page 63 for additional information; and
- Lower interest income of $63 million primarily driven by a lower average cash balance in the current year, as well as lower average interest rates; partially offset by
- Net exchange gains (including derivative instruments) in the current year of $32 million versus net exchange losses in the prior year of $77 million.

Operating (non-GAAP) other (income) and expense was income of $200 million in the third quarter of 2026, an increase of $9 million compared to the prior-year period. The year-to-year change was primarily driven by net exchange gains in the current year, including derivative instruments, versus net exchange losses in the prior year, partially offset by lower interest income.

Total other (income) and expense was income of $296 million in the first nine months of 2026, a decrease of $81 million compared to the prior-year period. The year-to-year change was primarily driven by:

- Higher non-operating retirement-related costs of $223 million. Refer to "Retirement-Related Plans" on page 63 for additional information; and
- Lower interest income of $188 million primarily driven by lower average cash balances in the current year, as well as lower average interest rates; partially offset by
- Lower net exchange losses (including derivative instruments) of $177 million; and
- Higher net gains from securities and investment assets of $105 million.

Operating (non-GAAP) other (income) and expense was income of $578 million in the first nine months of 2026, an increase of $134 million compared to the prior-year period. The year-to-year change was primarily driven by lower net exchange losses, including derivative instruments, and higher net gains from securities and investment assets, partially offset by lower interest income.

Interest Expense

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Interest expense | $ 491 | $ 492 | (0.2)% |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Interest expense | $ 1,451 | $ 1,457 | (0.4)% |

Interest expense decreased $1 million and $6 million year to year in the third quarter and first nine months of 2026, respectively. In addition, when external borrowings support the Financing business, interest expense is reported in cost of financing on the Consolidated Income Statement. For the third quarter and first nine months of 2026, interest reported in cost of financing was $104 million and $320 million, with year-to-year increases of $9 million and $52 million, respectively.

Retirement-Related Plans

The following tables provide the total pre-tax cost for all retirement-related plans. The operating cost amounts are included in the Consolidated Income Statement within the caption (e.g., Cost, SG&A, R&D) relating to the job function of the plan participants. The non-operating cost amounts are included in other (income) and expense.

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Retirement-related plans — cost: | | | |
| Service cost | $ 130 | $ 134 | (2.8)% |
| Multi-employer plans | 3 | 3 | (9.1) |
| Cost of defined contribution plans | 113 | 116 | (2.8) |
| Total operating costs | $ 245 | $ 253 | (2.9)% |
| Interest cost | $ 503 | $ 498 | 0.9 % |
| Expected return on plan assets | (625) | (645) | (3.1) |
| Recognized actuarial losses | 196 | 158 | 23.8 |
| Amortization of prior service costs/(credits) | 9 | (2) | nm |
| Curtailments/settlements | 2 | 2 | 40.4 |
| Other costs | 6 | 0 | nm |
| Total non-operating costs/(income) | $ 91 | $ 13 | nm |
| Total retirement-related plans — cost | $ 336 | $ 265 | 26.8 % |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change |
|---|---|---|---|
| Retirement-related plans — cost: | | | |
| Service cost | $ 394 | $ 397 | (0.7)% |
| Multi-employer plans | 10 | 10 | (0.9) |
| Cost of defined contribution plans | 355 | 345 | 2.9 |
| Total operating costs | $ 758 | $ 751 | 0.9 % |
| Interest cost | $ 1,514 | $ 1,468 | 3.2 % |
| Expected return on plan assets | (1,881) | (1,896) | (0.8) |
| Recognized actuarial losses | 591 | 467 | 26.4 |
| Amortization of prior service costs/(credits) | 26 | (5) | nm |
| Curtailments/settlements | 7 | 8 | (17.9) |
| Other costs | 26 | 18 | 40.4 |
| Total non-operating costs/(income) | $ 283 | $ 61 | nm |
| Total retirement-related plans — cost | $ 1,041 | $ 812 | 28.3 % |

nm - not meaningful

Total pre-tax retirement-related plan cost in the third quarter of 2026 increased by $71 million compared to the third quarter of 2025, primarily driven by an increase in recognized actuarial losses ($38 million), lower expected return on plan assets ($20 million), and an increase in amortization of prior service costs ($10 million). Total cost for the first nine months of 2026 increased by $230 million compared to the first nine months of 2025, primarily driven by an increase in recognized actuarial losses ($124 million), interest cost ($46 million), and amortization of prior service costs ($31 million).

As described in the "Operating (non-GAAP) Earnings" section on page 45, management characterizes certain retirement-related costs as operating and others as non-operating. Utilizing this characterization, operating retirement-related costs in the third quarter of 2026 were $245 million, a decrease of $7 million compared to the third quarter of 2025. For the first nine months of 2026, operating retirement-related costs were $758 million, an increase of $7 million compared

to the prior-year period. Non-operating costs were $91 million in the third quarter of 2026 compared to $13 million in the prior-year period and $283 million for the first nine months of 2026 compared to $61 million in the prior-year period. The year-to-year increases in non-operating costs for the periods presented were driven by the same factors as described in the total pre-tax retirement plan cost above.

Taxes

The continuing operations provision for income taxes was $298 million in the third quarter of 2026, compared to $686 million in the third quarter of 2025. The year-to-year change is primarily driven by the one-time, non-cash income tax charge recorded in the third quarter of 2025 resulting from the enactment of H.R. 1. This charge did not impact our operating (non-GAAP) tax expense. The operating (non-GAAP) provision for income taxes was $483 million in the third quarter of 2026, compared to $516 million in the third quarter of 2025.

The continuing operations provision for income taxes for the first nine months of 2026 was $782 million, compared to $1,193 million for the first nine months of 2025. The year-to-year change is primarily driven by the same factor as described above. The operating (non-GAAP) provision for income taxes in the first nine months of 2026 was $1,290 million, compared to $1,282 million in the first nine months of 2025.

IBM's tax provision and effective tax rate are impacted by recurring and discrete factors including the geographical mix of income before taxes, changes in business operations, incentives, specific transactions, changes in unrecognized tax benefits, settlement of income tax audits, and changes in tax laws or regulations. The GAAP tax provision and effective tax rate could also be affected by adjustments to the previously recorded charges for U.S. tax reform attributable to changes in law, new regulations and guidance, and audit adjustments, among others.

The U.S. Internal Revenue Service (IRS) has proposed adjustments related to certain cross-border transactions with respect to the company's 2013-2014 and 2015-2016 U.S. income tax returns. The company strongly disagrees with the IRS' proposed adjustments, has filed IRS Appeals protests, and will pursue resolution at court, if necessary. In the fourth quarter of 2025, the IRS concluded its audit of the company's 2017-2018 U.S. income tax returns. The company strongly disagrees with certain adjustments proposed by the IRS and continues to evaluate its options to contest them. With respect to major U.S. state and foreign taxing jurisdictions, the company is generally no longer subject to tax examinations for years prior to 2016. The company is no longer subject to income tax examination of its U.S. federal tax return for years prior to 2013. Although the outcome of tax audits is always uncertain, the company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result for these years.

## GAAP Reconciliation

The tables below provide a reconciliation of our income statement results as reported under GAAP to our operating earnings presentation which is a non-GAAP measure. Management's calculation of operating (non-GAAP) earnings, as presented, may differ from similarly titled measures reported by other companies. Refer to the "Operating (non-GAAP) Earnings" section on page 45 for management's rationale for presenting operating earnings information.

| ($ in millions, except per share amounts)<br>For the three months ended September 30, 2026: | GAAP | Acquisition-Related Adjustments | Retirement-Related Adjustments | U.S. Tax Reform Impacts | Operating (non-GAAP) |
|---|---|---|---|---|---|
| Gross profit | $ 9,714 | $ 289 | $ — | $ — | $ 10,004 |
| Gross profit margin | 56.8 % | 1.7 pts. | — pts. | — pts. | 58.5 % |
| SG&A | $ 4,620 | $ (428) | $ — | $ — | $ 4,193 |
| Other (income) and expense | (109) | 0 | (91) | — | (200) |
| Total expense and other (income) | 7,217 | (418) | (91) | — | 6,708 |
| Pre-tax income from continuing operations | 2,497 | 707 | 91 | — | 3,295 |
| Pre-tax margin from continuing operations | 14.6 % | 4.1 pts. | 0.5 pts. | — pts. | 19.3 % |
| Provision for/(benefit from) income taxes [1] | $ 298 | $ 166 | $ 20 | $ — | $ 483 |
| Effective tax rate | 11.9 % | 2.5 pts. | 0.3 pts. | — pts. | 14.7 % |
| Income from continuing operations | $ 2,199 | $ 542 | $ 71 | $ — | $ 2,812 |
| Income margin from continuing operations | 12.9 % | 3.2 pts. | 0.4 pts. | — pts. | 16.4 % |
| Diluted earnings per share from continuing operations | $ 2.31 | $ 0.57 | $ 0.07 | $ — | $ 2.95 |

| ($ in millions, except per share amounts)<br>For the three months ended September 30, 2025: | GAAP | Acquisition-Related Adjustments | Retirement-Related Adjustments | U.S. Tax Reform Impacts | Operating (non-GAAP) |
|---|---|---|---|---|---|
| Gross profit | $ 9,360 | $ 231 | $ — | $ — | $ 9,591 |
| Gross profit margin | 57.3 % | 1.4 pts. | — pts. | — pts. | 58.7 % |
| SG&A | $ 4,748 | $ (354) | $ — | $ — | $ 4,394 |
| Other (income) and expense | (173) | (6) | (13) | — | (191) |
| Total expense and other (income) | 6,931 | (359) | (13) | — | 6,559 |
| Pre-tax income from continuing operations | 2,430 | 590 | 13 | — | 3,033 |
| Pre-tax margin from continuing operations | 14.9 % | 3.6 pts. | 0.1 pts. | — pts. | 18.6 % |
| Provision for/(benefit from) income taxes [1] | $ 686 | $ 136 | $ 3 | $ (309) | $ 516 |
| Effective tax rate | 28.2 % | (1.0)pts. | 0.0 pts. | (10.2)pts. | 17.0 % |
| Income from continuing operations | $ 1,744 | $ 454 | $ 10 | $ 309 | $ 2,517 |
| Income margin from continuing operations | 10.7 % | 2.8 pts. | 0.1 pts. | 1.9 pts. | 15.4 % |
| Diluted earnings per share from continuing operations | $ 1.84 | $ 0.48 | $ 0.01 | $ 0.33 | $ 2.65 |

(1) The tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income.

| ($ in millions, except per share amounts)<br>For the nine months ended September 30, 2026: | GAAP | Acquisition-Related Adjustments | Retirement-Related Adjustments | U.S. Tax Reform Impacts | Operating (non-GAAP) |
|---|---|---|---|---|---|
| Gross profit | $ 28,571 | $ 813 | $ — | $ — | $ 29,384 |
| Gross profit margin | 56.9 % | 1.6 pts. | — pts. | — pts. | 58.6 % |
| SG&A | $ 14,691 | $ (1,257) | $ — | $ — | $ 13,435 |
| Other (income) and expense | (296) | 1 | (283) | — | (578) |
| Total expense and other (income) | 22,208 | (1,256) | (283) | — | 20,669 |
| Pre-tax income from continuing operations | 6,363 | 2,069 | 283 | — | 8,715 |
| Pre-tax margin from continuing operations | 12.7 % | 4.1 pts. | 0.6 pts. | — pts. | 17.4 % |
| Provision for/(benefit from) income taxes [1] | $ 782 | $ 470 | $ 43 | $ (6) | $ 1,290 |
| Effective tax rate | 12.3 % | 2.5 pts. | 0.1 pts. | (0.1)pts. | 14.8 % |
| Income from continuing operations | $ 5,581 | $ 1,598 | $ 240 | $ 6 | $ 7,425 |
| Income margin from continuing operations | 11.1 % | 3.2 pts. | 0.5 pts. | 0.0 pts. | 14.8 % |
| Diluted earnings per share from continuing operations | $ 5.86 | $ 1.68 | $ 0.25 | $ 0.01 | $ 7.79 |

| ($ in millions, except per share amounts)<br>For the nine months ended September 30, 2025: | GAAP | Acquisition-Related Adjustments | Retirement-Related Adjustments | U.S. Tax Reform Impacts | Operating (non-GAAP) |
|---|---|---|---|---|---|
| Gross profit | $ 27,369 | $ 657 | $ — | $ — | $ 28,025 |
| Gross profit margin | 57.2 % | 1.4 pts. | — pts. | — pts. | 58.6 % |
| SG&A | $ 14,661 | $ (1,055) | $ — | $ — | $ 13,606 |
| Other (income) and expense | (376) | (7) | (61) | — | (444) |
| Total expense and other (income) | 21,184 | (1,066) | (61) | — | 20,058 |
| Pre-tax income from continuing operations | 6,185 | 1,723 | 61 | — | 7,968 |
| Pre-tax margin from continuing operations | 12.9 % | 3.6 pts. | 0.1 pts. | — pts. | 16.7 % |
| Provision for/(benefit from) income taxes [1] | $ 1,193 | $ 396 | $ 0 | $ (307) | $ 1,282 |
| Effective tax rate | 19.3 % | 0.8 pts. | (0.2)pts. | (3.9)pts. | 16.1 % |
| Income from continuing operations | $ 4,992 | $ 1,326 | $ 61 | $ 307 | $ 6,686 |
| Income margin from continuing operations | 10.4 % | 2.8 pts. | 0.1 pts. | 0.6 pts. | 14.0 % |
| Diluted earnings per share from continuing operations | $ 5.27 | $ 1.40 | $ 0.06 | $ 0.32 | $ 7.06 |

(1) The tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income.

*Financial Position*

Dynamics

Our balance sheet at September 30, 2026 continues to provide us with financial flexibility to support and invest in the business.

Cash and cash equivalents, restricted cash and marketable securities at September 30, 2026 were $11,106 million, a decrease of $3,364 million compared to December 31, 2025. Total debt of $63,817 million at September 30, 2026 increased $2,557 million compared to December 31, 2025. We continue to manage our debt levels while being acquisitive and without sacrificing investments in our business.

In the first nine months of 2026, we generated $11,791 million in cash from operating activities, an increase of $2,639 million compared to the first nine months of 2025. Our free cash flow for the nine months ended September 30, 2026 was $7,787 million, an increase of $606 million versus the prior-year period. Refer to pages 71 through 72 for additional information on free cash flow. We returned $4,762 million to shareholders through dividends in the first nine months of 2026 and invested $11,364 million in acquisitions, including Confluent, which completed in the first quarter.

Our pension plans were well funded at the end of 2025, with worldwide qualified plans funded at 116 percent. Overall pension funded status as of the end of September 2026 was fairly consistent with year-end 2025. Refer to "Retirement-Related Plans" on page 30 in our 2025 Annual Report for additional information.

IBM Working Capital

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Current assets | $ 31,192 | $ 36,944 |
| Current liabilities | 36,485 | 38,658 |
| Working capital | $ (5,293) | $ (1,714) |
| Current ratio | 0.85:1 | 0.96:1 |

Working capital decreased $3,579 million from the year-end 2025 position. Current assets decreased $5,752 million ($5,285 million adjusted for currency) primarily due to the decline in cash and cash equivalents, restricted cash and marketable securities, which included the reductions for the acquisition of Confluent in the first quarter, along with decreases in receivables related to collections of seasonally higher year-end balances, partially offset by an increase in inventory to support anticipated customer demand. Current liabilities decreased $2,173 million ($1,933 million adjusted for currency) primarily driven by a decrease in deferred income due to seasonality and lower taxes payable.

Receivables and Allowances

Roll Forward of Total IBM Receivables Allowance for Credit Losses

**($ in millions)**

| January 1, 2026 | Additions / (Releases) [1] | Write-offs [2] | Foreign currency and other | September 30, 2026 |
|---|---|---|---|---|
| $276 | $16 | $(36) | $8 | $264 |

(1) Additions/(Releases) for allowance for credit losses are recorded in expense.

(2) Refer to note A, "Significant Accounting Policies," in our 2025 Annual Report for additional information regarding allowance for credit loss write-offs.

Excluding receivables classified as held for sale, the total IBM receivables provision coverage was 1.3 percent at September 30, 2026, an increase of 20 basis points compared to December 31, 2025. The increase in coverage is primarily driven by a decrease in total receivables. The majority of the write-offs during the nine months ended September 30, 2026 were related to receivables which had been previously reserved. Refer to Financing's "Balance Sheet and Return on Equity Highlights" on page 74 for additional details regarding the Financing segment receivables and allowances.

Noncurrent Assets and Liabilities

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Noncurrent assets | $ 123,820 | $ 114,936 |
| Long-term debt | $ 56,804 | $ 54,836 |
| Noncurrent liabilities (excluding debt) | $ 25,516 | $ 25,645 |

Noncurrent assets increased $8,884 million ($9,594 million adjusted for currency) primarily due to an increase in goodwill and intangible assets from the Confluent acquisition.

Long-term debt increased $1,969 million ($2,546 million adjusted for currency) primarily driven by our 2026 debt issuances, partially offset by reclassifications to short-term debt to reflect upcoming maturities within the next twelve months.

Noncurrent liabilities (excluding debt) decreased $130 million (increased $260 million adjusted for currency).

Debt

Our funding requirements are continually monitored as we execute our strategies to manage the overall asset and liability profile. Additionally, we maintain sufficient flexibility to access global funding sources as needed.

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Total debt | $ 63,817 | $ 61,260 |
| Financing segment debt (1) | $ 12,652 | $ 15,093 |
| Non-Financing debt | $ 51,166 | $ 46,167 |

(1) Refer to Financing's "Balance Sheet and Return on Equity Highlights" on page 74 for additional details.

Total debt of $63,817 million increased $2,557 million ($3,132 million adjusted for currency) from December 31, 2025, primarily driven by proceeds from issuances of $9,415 million, partially offset by maturities of $7,261 million.

Non-Financing debt of $51,166 million increased $4,999 million ($5,504 million adjusted for currency) from December 31, 2025, primarily driven by the same dynamics as described above.

Financing segment debt of $12,652 million decreased $2,442 million ($2,372 million adjusted for currency) from December 31, 2025, primarily due to lower funding requirements associated with financing receivables.

Financing provides financing solutions predominantly for IBM's external client assets, and the debt used to fund Financing assets is primarily comprised of intercompany loans. Total debt changes generally correspond with the level of client and commercial financing receivables, the level of cash and cash equivalents, the change in intercompany and external payables, and the change in intercompany investment from IBM. The terms of the intercompany loans are set by the company to substantially match the term, currency and interest rate variability underlying the financing receivable. The Financing debt-to-equity ratio remained at 9.0 to 1 at September 30, 2026.

In the Consolidated Income Statement, when external borrowings support the Financing business, interest expense is presented in cost of financing. Refer to note 12, "Borrowings," for additional information.

Equity

Total equity increased $3,466 million from December 31, 2025, primarily driven by net income of $5,571 million and an increase in common stock issuances of $1,821 million, partially offset by dividends paid of $4,762 million.

Cash Flow

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows on page 7, are summarized in the table below. These amounts also include the cash flows associated with the Financing business.

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 |
|---|---|---|
| Net cash provided by/(used in): | | |
| Operating activities | $ 11,791 | $ 9,153 |
| Investing activities | (13,539) | (11,719) |
| Financing activities | (2,402) | (423) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (209) | 429 |
| Net change in cash, cash equivalents and restricted cash | $ (4,359) | $ (2,561) |

Net cash provided by operating activities increased $2,639 million as compared to the first nine months of 2025. This was due to an increase in cash provided by total receivables, primarily driven by financing receivables, and an increase in performance-related improvements within net income, partially offset by higher cash taxes and net interest expense.

Net cash used in investing activities increased $1,820 million primarily due to higher cash used for acquisitions, reflecting the impact of the Confluent acquisition compared with the HashiCorp acquisition in the prior-year period. This increase was partially offset by lower net cash used in purchases of marketable securities and other investments, including proceeds from the sale of marketable securities acquired in the Confluent acquisition.

Net cash used in financing activities increased $1,979 million driven by lower net proceeds from debt in the current-year period, partially offset by cash provided by noncontrolling interest transactions (refer to "Other Transactions" in note 5, "Acquisition, Divestitures and Other Transactions," for additional information).

**Looking Forward**

Hybrid cloud and Super Intelligence remain the two most consequential technologies for enterprise performance. These technologies are no longer viewed as incremental tools, but as platforms that are fundamentally transforming how businesses scale, compete, and operate.

AI is changing the economics of enterprise operations, and is entering its next phase. To capture this opportunity and build a competitive advantage, businesses must go beyond deploying more models or building more agents, the advantage will belong to companies that can operate AI securely, efficiently and sustainably across the enterprise with infrastructure that secures and optimizes operations, and the hybrid cloud foundation that provides flexibility without lock-in. The portfolio of AI offerings we have built, including cost efficient, fit-for-purpose open-source models deployed in hybrid environments, is focused on helping businesses scale AI and generate return through productivity improvements and automation. In Software, IBM watsonx provides a robust portfolio of AI products for developing AI apps, managing data, and governing the entire lifecycle of AI models and AI agents, with full control over cost, security, sovereignty, and performance. Our watsonx platform and watsonx Orchestrate help enterprises deploy AI by connecting agents, models, and workflows with governance and security. As more agents are deployed, enterprises need to know who each agent is, what authority it has and what it can access. HashiCorp Vault allows clients to register, authorize, audit and revoke agents. We continue to see Infrastructure play a critical role with IBM Z delivering enhanced AI acceleration through multi-model AI capabilities, low unit cost architecture at scale for workloads that require end-to-end encryption, continued availability, and ultra-high throughput. In July, we introduced a smaller LinuxONE system that allows clients to address data center space and costs constraints while offering the security, resiliency and real time inferencing the IBM Z platform can deliver. In Consulting, AI is both a growth driver and a productivity engine. Our experts are helping clients design and execute AI strategies by leveraging the IBM Consulting Advantage platform, an AI delivery platform designed to implement solutions at scale, transforming how our consultants work. As agents take on more work, delivery becomes faster, more software driven, and more scalable.

AI is a powerful productivity driver for our clients and for IBM. We are transforming our enterprise operations, driving efficiency and cost savings with our Client Zero approach, leveraging technology and embedding AI in our own

workflows. Our developer workforce is using IBM Bob, our AI-based software development system that automates the full software lifecycle, driving developer productivity and predictable enterprise costs. IBM Bob, which became generally available in March, is helping clients build enterprise-ready AI applications and agents while creating a natural pathway to adoption of watsonx Orchestrate and IBM's broader AI platform.

We remain focused on accelerating the speed and scale of our innovation. In the second quarter, we launched Lightwell, an investment to establish a trusted enterprise clearinghouse, combined with a global workforce of engineers, to address open-source software vulnerabilities at scale, which became generally available in July. We also continue to invest in emerging technologies, including quantum, which remains an area of strategic differentiation for IBM and a significant long-term opportunity. In the second quarter, we announced our plans to invest more than $10 billion in quantum over the next five years, spanning R&D, capital expenditures, manufacturing scaling, mergers and acquisitions, and ecosystem expansion. This quarter we completed the agreement with the U.S. Department of Commerce (DoC) providing a $1 billion CHIPS award to Anderon, an IBM subsidiary. The award will accelerate Anderon’s R&D efforts to advance the nation’s quantum wafer manufacturing capabilities.

To complement our portfolio, we completed four acquisitions in the first nine months of 2026, including the acquisition of Confluent in the first quarter, which enables enterprises to deploy generative and agentic AI better and faster by providing trusted communication and data flow between environments, applications and APIs.

Our performance over the first nine months of 2026 reflects the strength across our portfolio, disciplined execution against our priorities, and the continued success of our focused strategy around hybrid cloud and AI. Our productivity initiatives generate profit and cash flow growth enabling us to continue to invest in our business while returning value to shareholders. We remain confident in the growth opportunities ahead of us and our ability to capture them.

While the economic and geopolitical environment continues to remain dynamic, we believe our durable, high value portfolio and the resiliency of our business model, underpinned by our software-led hybrid cloud and AI strategy, position us well to navigate the current climate.

Currency Rate Fluctuations

Changes in the relative values of non-U.S. currencies to the U.S. dollar affect our financial results and financial position. Movements in currency, and the fact that we do not hedge 100 percent of our currency exposures, will result in a currency impact to our revenues, profit and cash flows throughout 2026. We execute a hedging program which defers, versus eliminates, the volatility of currency impacts on our financial results. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates over time.

References to “adjusted for currency” or “constant currency” reflect adjustments based upon a simple mathematical formula. However, this constant currency methodology that we utilize to disclose this information does not incorporate any operational actions that management could take to mitigate fluctuating currency rates. Based on the currency rate movements in the third quarter of 2026, revenue from continuing operations increased 4.7 percent as reported and 5.6 percent adjusted for currency compared to the prior year. In the first nine months of 2026, revenue from continuing operations increased 4.9 percent as reported and 4.2 percent at constant currency, compared to the same period in 2025.

At September 30, 2026, currency changes resulted in assets and liabilities denominated in most local currencies being translated into fewer U.S. dollars than at year-end 2025. We use financial hedging instruments to limit specific currency risks related to foreign currency-based transactions.

We translate revenue, cost and expense in our non-U.S. operations at current exchange rates in the reported period. In the third quarter and first nine months of 2026, the impacts from currency translation and hedging to year-to-year pre-tax income, operating (non-GAAP) pre-tax income and segments profit margins were not material. Hedging and certain underlying foreign currency transaction gains and losses are allocated to our segment results. Considering the operational responses mentioned above, movements of exchange rates, and the nature and timing of hedging instruments, it is difficult to predict future currency impacts in any particular period.

For non-U.S. subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, translation adjustments are reflected in results of operations. Generally, we manage currency risk in these entities by linking prices and contracts to U.S. dollars.

Liquidity and Capital Resources

In our 2025 Annual Report, on pages 31 to 33, there is a discussion of our liquidity including two tables that present three years of data. The table presented on page 31 includes net cash from operating activities, cash and cash equivalents, restricted cash and short-term marketable securities, and the size of our global credit facilities for each of the past three years. For the nine months ended, or at, as applicable, September 30, 2026, those amounts are $11.8 billion of net cash from operating activities, $11.1 billion of cash and cash equivalents, restricted cash and short-term marketable securities and $10.0 billion in global credit facilities, respectively. While we have no current plans to draw on these credit facilities, they are available as back-up liquidity.

The major rating agencies' ratings on our debt securities at September 30, 2026 appear in the following table and remain unchanged from June 30, 2026.

| IBM Ratings: | Standard and Poor's | Moody's Investors Service | Fitch Ratings |
|---|---|---|---|
| Senior long-term debt | A- | A3 | A- |
| Commercial paper | A-2 | Prime-2 | F1 |

We have financial flexibility, supported by our strong liquidity position and cash flows, to operate at a single A credit rating. Debt levels have increased $2.6 billion ($3.1 billion adjusted for currency) from December 31, 2025. During 2026, we issued $9.4 billion of debt for general corporate purposes. Refer to note 12, “Borrowings,” for additional information.

We do not have “ratings trigger” provisions in our debt covenants or documentation, which would allow the holders to declare an event of default and seek to accelerate payments thereunder in the event of a change in credit rating. Our debt covenants are well within the required levels. Our contractual agreements governing derivative instruments contain standard market clauses which can trigger the termination of the agreement if our credit rating were to fall below investment grade. At September 30, 2026, the fair value of those instruments that were in a liability position was $728 million, before any applicable netting, and this position is subject to fluctuations in fair value period to period based on the level of our outstanding instruments and market conditions. We have no other contractual arrangements that, in the event of a change in credit rating, would result in a material adverse effect on our financial position or liquidity.

We prepare our Consolidated Statement of Cash Flows in accordance with applicable accounting standards for cash flow presentation on page 7 of this Form 10-Q and highlight causes and events underlying sources and uses of cash in that format on page 69. For the purpose of running its business, IBM manages, monitors and analyzes cash flows in a different manner.

Management uses free cash flow as a measure to evaluate its operating results, strategic investments, plan shareholder return levels and assess its ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. We define free cash flow as net cash from operating activities less the change in Financing receivables and net capital expenditures, including the investment in software and other asset sales. A key objective of the Financing business is to generate strong returns on equity, and our Financing receivables are the basis for that growth. Accordingly, management considers Financing receivables as a profit-generating investment, not as working capital that should be minimized for efficiency. Therefore, management includes presentations of both free cash flow and net cash from operating activities that exclude the effect of Financing receivables.

The following is management's view of cash flows for the first nine months of 2026 and 2025 prepared in a manner consistent with the description above.

| ($ in millions) For the nine months ended September 30: | 2026 | 2025 |
|---|---|---|
| Net cash from operating activities per GAAP | $ 11,791 | $ 9,153 |
| Less: change in Financing receivables | 2,805 | 905 |
| Net cash from operating activities, excluding Financing receivables | $ 8,986 | $ 8,248 |
| Capital expenditures, net | (1,200) | (1,067) |
| Free cash flow | $ 7,787 | $ 7,181 |
| Change in Financing receivables | 2,805 | 905 |
| Acquisitions | (11,364) | (7,903) |
| Divestitures | 30 | (1) |
| Dividends | (4,762) | (4,681) |
| Change in total debt | 2,157 | 4,683 |
| Other investing and financing activities [(1)] | 193 | (531) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (209) | 429 |
| Change in cash, cash equivalents, restricted cash and short-term marketable securities | $ (3,364) | $ 81 |

(1) Includes noncontrolling interest transactions. Refer to "Other Transactions" in note 5, "Acquisition, Divestitures and Other Transactions," for additional information.

In the first nine months of 2026, we generated $7.8 billion in free cash flow, an increase of $0.6 billion versus the prior-year period driven by performance-related improvements within net income partially offset by increased investments in net capital expenditures, higher cash taxes and net interest expense. In addition, we continued to return value to shareholders with $4.8 billion in dividends, and we invested more than $11 billion in acquisitions, including Confluent which completed in the first quarter.

Events that could temporarily change the historical cash flow dynamics discussed previously and in our 2025 Annual Report include significant changes in operating results, material changes in geographic sources of cash, unexpected adverse impacts from litigation, future pension funding requirements, periods of severe downturn in the capital markets, the timing of tax payments, or the timing of certain working capital activities related to collections and payments. Whether any litigation has such an adverse impact will depend on a number of variables, which are more completely described in note 14, "Contingencies," in this Form 10-Q.

With respect to pension funding, our pension plans remain well funded as of the end of September 2026. Our expected 2026 contributions and pre-tax retirement-related plan costs remain fairly consistent with the expectations disclosed in the 2025 Annual Report. Refer to "Retirement-Related Plans" on page 30 in our 2025 Annual Report for additional information. Financial market performance could increase the legally mandated minimum contributions in certain non-U.S. countries that require more frequent remeasurement of the funded status. We are not quantifying any further impact from pension funding because it is not possible to predict future movements in the capital markets or changes in pension plan funding regulations. In 2026, we are not legally required to make any contributions to the U.S. defined benefit pension plans and our legally required contributions to certain non-U.S. defined benefit plans are not expected to be material.

Our cash flows are sufficient to fund our current operations and obligations, including investing and financing activities such as dividends and debt service. When additional requirements arise, we have several liquidity options available. These options may include the ability to borrow additional funds at reasonable interest rates and utilizing our committed global credit facilities. Our overall shareholder payout remains at a comfortable level and we remain fully committed to our long-standing dividend policy.

## Financing

Financing is a reportable segment that facilitates IBM clients' acquisition of hardware, software and services by providing financing solutions, while generating solid returns on equity.

*Results of Operations*

| ($ in millions)<br>For the three months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change/Margin Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Revenue | $ 192 | $ 200 | (3.9)% | (3.3)% |
| Segment profit [1] | $ 108 | $ 123 | (12.5)% | |
| Segment profit margin | 56.1 % | 61.6 % | (5.5)pts. | |

| ($ in millions)<br>For the nine months ended September 30: | 2026 | 2025 | Yr.-to-Yr. Percent Change/Margin Change | Yr.-to-Yr. Percent Change Adjusted For Currency |
|---|---|---|---|---|
| Revenue | $ 598 | $ 557 | 7.3 % | 5.7 % |
| Segment profit [1] | $ 334 | $ 371 | (9.9)% | |
| Segment profit margin | 55.9 % | 66.5 % | (10.7)pts. | |

(1) Intercompany financing activities are reflected in segment profit and are eliminated in IBM's consolidated financial results.

For the three months ended September 30, 2026, Financing revenue decreased 3.9 percent as reported (3.3 percent adjusted for currency) compared to the prior-year period driven by a reduction in used equipment sales. For the nine months ended September 30, 2026, Financing revenue increased 7.3 percent as reported (5.7 percent adjusted for currency) compared to the prior-year period primarily driven by an increase in client financing assets.

Segment profit decreased 12.5 percent to $108 million and segment profit margin decreased 5.5 points to 56.1 percent in the third quarter of 2026 compared to the prior-year period. The decrease in segment profit was driven by lower intercompany financing net other income for sales of returned leased equipment to Infrastructure, which is eliminated in IBM's consolidated financial results and reflects IBM Z product cycle dynamics, and by higher unallocated credit loss reserve requirements in the current period which reflects current economic conditions. For the nine months ended September 30, 2026, segment profit decreased 9.9 percent to $334 million and segment profit margin decreased 10.7 points to 55.9 percent compared to the prior-year period. The decrease in segment profit was driven by the same IBM Z product cycle dynamics above.

*Balance Sheet and Return on Equity Highlights*

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Client financing receivables [1] | $ 11,708 | $ 13,192 |
| Commercial financing receivables [1] [2] | $ 1,548 | $ 2,992 |
| Financing Segment Debt [3] | $ 12,652 | $ 15,093 |
| Equity | $ 1,406 | $ 1,678 |

(1) Refer to note 9, "Financing Receivables," for additional information.

(2) Includes both held for investment and held for sale receivables.

(3) Financing segment debt is primarily comprised of intercompany loans.

Return on equity was 25.0 percent compared to 32.0 percent for the three months ended September 30, 2026 and 2025, respectively. The decrease was primarily driven by a decrease in net income consistent with the decline in segment profit described above. Return on equity was 24.8 percent compared to 32.7 percent for the nine months ended September 30, 2026 and 2025, respectively. The decrease was primarily driven by higher average equity and a decrease in net income consistent with the decline in segment profit as described above. For the three and nine months ended September 30, 2026, return on equity is calculated as annualized after-tax segment profit divided by the average of the ending equity for Financing for the last two quarters and four quarters, respectively. Annualized after-tax segment profit is a function of IBM's provision for income taxes determined on a consolidated basis.

The following table presents Client financing and Commercial financing receivables excluding receivables classified as held for sale.

| ($ in millions) | At September 30, 2026 | At December 31, 2025 |
|---|---|---|
| Amortized cost | $ 12,602 | $ 15,193 |
| Specific allowance for credit losses | 79 | 88 |
| Unallocated allowance for credit losses | 41 | 53 |
| Total allowance for credit losses | 120 | 141 |
| Net financing receivables | $ 12,482 | $ 15,052 |
| Allowance for credit losses coverage | 1.0 % | 0.9 % |

The percentage of Financing segment receivables reserved increased from 0.9 percent at December 31, 2025 to 1.0 percent at September 30, 2026, primarily driven by the decline in amortized cost resulting from seasonally higher year-end financing receivables balances.

We continue to apply our rigorous credit policies. Approximately 78 percent of the total external portfolio was with investment grade clients, a decrease of 1 point compared to December 31, 2025. This investment grade percentage is based on the credit ratings of the companies in the portfolio and reflects certain mitigating actions taken to reduce the risk to IBM. For additional information relating to the company's credit quality and mitigation actions, including sales of receivables, refer to note 9, "Financing Receivables."

**Forward-Looking and Cautionary Statements**

Except for the historical information and discussions contained herein, statements contained in this Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including, but not limited to, the following: a downturn in economic environment and client spending budgets; a failure of the company's innovation initiatives; damage to the company's reputation; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; the company's ability to successfully manage acquisitions, alliances and divestitures, including integration challenges, failure to achieve objectives, the assumption or retention of liabilities and higher debt levels; fluctuations in financial results; impact of local legal, economic, political, health and other conditions; the company's failure to meet growth and productivity objectives; ineffective internal controls; the company's use of accounting estimates; impairment of the company's goodwill or amortizable intangible assets; the company's ability to attract and retain key employees and its reliance on critical skills; impacts of relationships with critical suppliers; product and service quality issues; the development and use of AI, including the company's increased AI solutions and use of AI technologies; impacts of business with government clients; reliance on third party distribution channels and ecosystems; cybersecurity and data protection considerations; adverse effects related to climate change and other environmental matters; tax matters; legal proceedings and investigatory risks; the company's pension plans; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Qs, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission or in materials incorporated therein by reference. Any forward-looking statement in this Form 10-Q speaks only as of the date on which it is made. Except as required by law, the company assumes no obligation to update or revise any forward-looking statements.

**Item 4. Controls and Procedures**

The company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in the company's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

## Part II — Other Information

### Item 1. Legal Proceedings

Refer to note 14, "Contingencies," in this Form 10-Q.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities

The following table provides information relating to the company's repurchase of common stock for the third quarter of 2026.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under The Program [1] |
|---|---|---|---|---|
| July 1, 2026 - July 31, 2026 | — | $ — | — | $ 2,007,611,768 |
| August 1, 2026 - August 31, 2026 | — | $ — | — | $ 2,007,611,768 |
| September 1, 2026 - September 30, 2026 | — | $ — | — | $ 2,007,611,768 |
| Total | — | $ — | — | |

(1) On October 30, 2018, the Board of Directors authorized $4.0 billion in funds for use in the company's common stock repurchase program. The company stated that it would repurchase shares on the open market or in private transactions depending on market conditions. The common stock repurchase program does not have an expiration date. This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards. The company suspended its share repurchase program at the time of the Red Hat closing in 2019.

### Item 5. Other Information

*Insider Trading Arrangements*

None.

**Item 6. Exhibits**

| Exhibit Number | |
|---|---|
| 4.1 | The instruments defining the rights of the holders of the 4.100% Notes due 2030 and the 4.750% Notes due 2034 are Exhibits 4.1 and 4.2 to Form 8-K, filed August 14, 2026, and are hereby incorporated by reference. |
| 22 | Subsidiary Issuer of Guaranteed Securities, filed as Exhibit 22 for the quarter ended March 31, 2024, is hereby incorporated by reference. |
| 31.1 | Certification by principal executive officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by principal financial officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document – the instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

International Business Machines Corporation
(Registrant)

Date: October 21, 2026

By: /s/ Nicolás A. Fehring
Nicolás A. Fehring
Vice President and Controller

**Exhibit 31.1**

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Arvind Krishna, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Business Machines Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2026

/s/ Arvind Krishna

Arvind Krishna
Chairman, President and Chief Executive Officer

**Exhibit 31.2**

CERTIFICATION PURSUANT TO RULE 13A-14(a) OR 15D-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Kavanaugh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Business Machines Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2026

/s/ James J. Kavanaugh

James J. Kavanaugh
Senior Vice President and Chief Financial Officer

**Exhibit 32.1**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of International Business Machines Corporation (the "Company") on Form 10-Q for the period ending September 30, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arvind Krishna, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Arvind Krishna

Arvind Krishna
Chairman, President and Chief Executive Officer
October 21, 2026

A signed original of this written statement required by Section 906 has been provided to IBM and will be retained by IBM and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of International Business Machines Corporation (the "Company") on Form 10-Q for the period ending September 30, 2026, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James J. Kavanaugh, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James J. Kavanaugh

James J. Kavanaugh
Senior Vice President and Chief Financial Officer
October 21, 2026

A signed original of this written statement required by Section 906 has been provided to IBM and will be retained by IBM and furnished to the Securities and Exchange Commission or its staff upon request.