

Other (Income) and Expense

(\$ in millions)

For the year ended December 31:	2019	2018	Yr.-to-Yr. Percent Change
Other (income) and expense			
Foreign currency transaction losses/(gains)	\$ (279)	\$ (427)	(34.6)%
(Gains)/losses on derivative instruments	15	434	(96.6)
Interest income	(349)	(264)	32.2
Net (gains)/losses from securities and investment assets	(32)	(101)	(67.9)
Retirement-related costs/(income)	615	1,572	(60.9)
Other	(937)	(63)	NM
Total consolidated other (income) and expense	\$ (968)	\$ 1,152	NM
Non-operating adjustments			
Amortization of acquired intangible assets	(2)	(2)	50.0%
Acquisition-related charges	154	0	NM
Non-operating retirement-related costs/(income)	(615)	(1,572)	(60.9)%
Operating (non-GAAP) other (income) and expense	\$ (1,431)	\$ (422)	239.4%

NM—Not meaningful

Total consolidated other (income) and expense was income of \$968 million in 2019 compared to expense of \$1,152 million in 2018. The year-to-year change was primarily driven by:

- Lower non-operating retirement-related costs (\$957 million). Refer to “Retirement-Related Plans” for additional information.
- Higher gains from divestitures (\$833 million) reflected in Other; and
- Higher net exchange gains (including derivative instruments) (\$272 million). The company’s hedging programs help mitigate currency impacts in the Consolidated Income Statement.

Operating (non-GAAP) other (income) and expense was \$1,431 million of income in 2019 and increased \$1,010 million compared to the prior-year period. The year-to-year change was primarily driven by the same factors excluding lower non-operating retirement-related costs.

Interest Expense

(\$ in millions)

For the year ended December 31:	2019	2018	Yr.-to-Yr. Percent Change
Interest expense			
\$1,344	\$723	85.9%	
Non-operating adjustment			
Acquisition-related charges	(228)	—	NM
Operating (non-GAAP) interest expense	\$1,116	\$723	54.4%

NM—Not meaningful

Interest expense increased \$621 million compared to 2018. Interest expense is presented in cost of financing in the Consolidated Income Statement only if the related external borrowings are to support the Global Financing external business. Overall interest expense (excluding capitalized interest) in 2019 was \$1,952 million, an increase of \$473 million year to year, driven by a higher average debt balance and higher interest rates as we issued debt to finance the Red Hat acquisition.

Operating (non-GAAP) interest expense increased \$393 million compared to the prior-year period. It excludes the Red Hat pre-closing debt financing costs.

Stock-Based Compensation

Pre-tax stock-based compensation cost of \$679 million increased \$169 million compared to 2018. This was primarily due to increases related to the issuances and conversions of stock-based compensation for Red Hat (\$150 million) and issuance of restricted stock units (\$27 million). Stock-based compensation cost, and the year-to-year change, was reflected in the following categories: Cost: \$100 million, up \$18 million; SG&A expense: \$453 million, up \$91 million; and RD&E expense: \$126 million, up \$60 million.

Retirement-Related Plans

The following table provides the total pre-tax cost for all retirement-related plans. Total operating costs/(income) are included in the Consolidated Income Statement within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants.

(\$ in millions)

For the year ended December 31:	2019	2018	Yr.-to-Yr. Percent Change
Retirement-related plans—cost			
Service cost	\$ 385	\$ 431	(10.7)%
Multi-employer plans	32	38	(16.9)
Cost of defined contribution plans	1,040	1,024	1.5
Total operating costs/(income)	\$ 1,457	\$ 1,494	(2.5)%
Interest cost	\$ 2,929	\$ 2,726	7.4%
Expected return on plan assets	(4,192)	(4,049)	3.5
Recognized actuarial losses	1,819	2,941	(38.2)
Amortization of prior service costs/(credits)	(9)	(73)	(87.6)
Curtailments/settlements	41	11	262.2
Other costs	28	16	76.2
Total non-operating costs/(income)	\$ 615	\$ 1,572	(60.9)%
Total retirement-related plans—cost	\$ 2,072	\$ 3,066	(32.4)%

Total pre-tax retirement-related plan cost decreased by \$994 million compared to 2018, primarily driven by a decrease in recognized actuarial losses (\$1,123 million), primarily due to the change in the amortization period in the U.S. Qualified Personal Pension Plan and higher expected return on plan assets (\$143 million), partially offset by higher interest costs (\$203 million).