

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
April 20, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 8-K**

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report: **April 20, 2015**

(Date of earliest event reported)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

(Exact name of registrant as specified in its charter)

**New York**  
(State of Incorporation)

**1-2360**  
(Commission File Number)

**13-0871985**  
(IRS employer Identification No.)

**ARMONK, NEW YORK**  
(Address of principal executive offices)

**10504**  
(Zip Code)

**914-499-1900**

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

The registrant's press release dated April 20, 2015, regarding its financial results for the period ended March 31, 2015, including consolidated financial statements for the period ended March 31, 2015, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Martin Schroeter's first quarter earnings presentation on April 20, 2015, as well as certain reconciliation and other information ( Non-GAAP Supplemental Materials ) for information in Attachment I (press release), Attachment II (slides) and in Mr.Schroeter's presentation. All of the information in Attachment I and II is hereby filed.

IBM's web site ([www.ibm.com](http://www.ibm.com)) contains a significant amount of information about IBM, including financial and other information for investors ([www.ibm.com/investor/](http://www.ibm.com/investor/)). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

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, hereunto duly authorized.

Date: April 20, 2015

By:

*/s/ Stanley J. Sutula III*

Stanley J. Sutula III  
Vice President and Controller

**IBM REPORTS 2015 FIRST-QUARTER RESULTS**

- **Diluted EPS from continuing operations:**
- **Operating (non-GAAP): \$2.91, up 9 percent;**
- **GAAP: \$2.44, flat year-to-year;**
- **Net income from continuing operations:**
- **Operating (non-GAAP): \$2.9 billion, up 4 percent;**
- **GAAP: \$2.4 billion, down 5 percent;**
- **Gross profit margin from continuing operations:**
- **Operating (non-GAAP): 49.3 percent, up 80 basis points;**
- **GAAP: 48.2 percent, up 50 basis points;**
- **Revenue from continuing operations: \$19.6 billion:**
- **Flat year-to-year adjusting for currency and divested businesses (8 percent and 4 percent, respectively); down 12 percent as reported;**
- **System z mainframe more than doubled;**
- **Strategic imperatives revenue up more than 30 percent adjusting for currency and divested businesses; up more than 20 percent, as reported:**
- **Cloud revenue up more than 75 percent adjusting for currency and divested businesses; up more than 60 percent as reported;**
- **For cloud delivered as a service, annual run rate of \$3.8 billion compared to \$2.3 billion in the first quarter of 2014;**
- **Business analytics revenue up more than 20 percent adjusting for currency and divested businesses; up 12 percent as reported;**
- **Services backlog of \$121 billion, flat year-to-year adjusting for currency and divested businesses;**
- **Total shareholder return of \$2.3 billion: dividends of \$1.1 billion and gross share repurchases of \$1.2 billion;**
- **Maintain full-year expectations:**
- **Operating (non-GAAP) EPS of \$15.75 to \$16.50;**
- **Free cash flow flat year-to-year.**

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ARMONK, N.Y., April 20, 2015 . . . IBM (NYSE: IBM) today announced first-quarter 2015 diluted earnings from continuing operations of \$2.44 per share, flat year-to-year. Operating (non-GAAP) diluted earnings from continuing operations were \$2.91 per share, compared with operating diluted earnings of \$2.68 per share in the first quarter of 2014, an increase of 9 percent.

First-quarter net income from continuing operations was \$2.4 billion, down 5 percent year-to-year, including the impact of \$0.2 billion in pension-related pre-tax charges for IBM Spain in the first quarter of 2015, resulting from a court ruling in Spain. Operating (non-GAAP) net income from continuing operations was \$2.9 billion compared with \$2.8 billion in the first quarter of 2014, an increase of 4 percent. GAAP and Operating (non-GAAP) results include workforce rebalancing charges of \$0.3 billion in the first quarter of 2015 and \$0.9 billion in the year-ago period.

For the first-quarter of 2015, IBM reported consolidated net income of \$2.3 billion or \$2.35 of diluted earnings per share, including operating net losses in discontinued operations related to the Microelectronics business.

Total revenues from continuing operations for the first quarter of 2015 of \$19.6 billion were down 12 percent, flat year-to-year adjusting for currency and divested businesses, from the first quarter of 2014.

In the first quarter we had a strong start to the year. Our strategic imperatives growth rate accelerated, demonstrating the power of our offerings in these new opportunities and contributing to improved revenue performance. Our focus on higher value through portfolio transformation and investment in key areas of the business drove continued margin expansion, said Ginni Rometty, IBM chairman, president and chief executive officer.

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### **First-Quarter GAAP Operating (non-GAAP) Reconciliation**

First-quarter operating (non-GAAP) diluted earnings from continuing operations exclude \$0.47 per share of charges: \$0.14 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.33 per share for retirement-related charges, which includes the Spain pension-related charges.

### **Full-Year 2015 Expectations**

IBM expects full-year 2015 GAAP diluted earnings per share of \$14.17 to \$14.92, and operating (non-GAAP) diluted earnings per share of \$15.75 to \$16.50. At this level of profit, IBM continues to expect free cash flow to be flat year-to-year. The 2015 operating (non-GAAP) earnings expectation excludes \$1.58 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges.

### **Geographic Regions**

The Americas first-quarter revenues were \$9.3 billion, a decrease of 3 percent (up 2 percent adjusting for currency and divested businesses) from the 2014 period. Revenues from Europe/Middle East/Africa were \$6.1 billion, down 19 percent (down 2 percent adjusting for currency and divested businesses). Asia-Pacific revenues decreased 18 percent (down 2 percent adjusting for currency and divested businesses) to \$4.1 billion.

### **Growth Markets and Major Markets**

Revenues from the company's growth markets decreased 16 percent (down 1 percent adjusting for currency and divested businesses). Revenues from the company's major markets were down 11 percent (flat year-to-year adjusting for currency and divested businesses).

### **Services**

Global Services revenues decreased 12 percent (down 2 percent adjusting for currency and divested businesses) to \$12.2 billion. Global Technology Services segment revenues were down 11 percent (down 1 percent adjusting for currency and divested businesses) to \$7.9 billion. Global Business Services segment revenues were down 13 percent (down 4 percent adjusting for currency and divested businesses) to \$4.3 billion.

Pre-tax income from Global Technology Services was down 18 percent and pre-tax margin decreased to 12.3 percent. Global Business Services pre-tax income decreased 21 percent and pre-tax margin decreased to 13.4 percent.

The estimated services backlog as of March 31 was \$121 billion, flat year-to-year adjusting for currency and divested businesses.

### **Software**

Revenues from the Software segment were down 8 percent to \$5.2 billion (down 2 percent adjusting for currency) compared with the first quarter of 2014. Software pre-tax income increased 1 percent and pre-tax margin increased to 31.4 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$3.5 billion, down 5 percent (up 1 percent adjusting for currency) versus the first quarter of 2014. Operating systems revenues of \$0.4 billion were down 15 percent (down 9 percent adjusting for currency) compared with the prior-year quarter.

### **Hardware**

Revenues for the Systems Hardware segment totaled \$1.7 billion for the quarter, down 23 percent (up 30 percent adjusting for currency and the impact of the divested System x business) from the first quarter of 2014. Systems Hardware pre-tax income increased \$0.5 billion.

Revenues from System z mainframe server products increased 118 percent compared with the year-ago period (up 130 percent adjusting for currency). Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 95 percent. Revenues from Power Systems were down 3 percent compared with

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the 2014 period (up 1 percent adjusting for currency). Revenues from System Storage decreased 8 percent (down 2 percent adjusting for currency).

### **Financing**

Global Financing segment revenues were down 10 percent (down 1 percent adjusting for currency) in the first quarter to \$0.5 billion. Pre-tax income for the segment decreased 14 percent to \$0.5 billion.

### **Gross Profit**

The company's total gross profit margin from continuing operations was 48.2 percent in the 2015 first quarter compared with 47.8 percent in the 2014 first-quarter period. Total operating (non-GAAP) gross profit margin from continuing operations was 49.3 percent in the 2015 first quarter compared with 48.5 percent in the 2014 first-quarter period, with an increase in Hardware and an improving segment mix partially offset by a decline in Services.

### **Expense**

Total expense and other income from continuing operations decreased to \$6.5 billion, down 13 percent compared to the prior-year period. Year-to-year results include the impact of currency and the divested System x business, as well as lower workforce rebalancing charges, partially offset by the Spain pension-related charges and prior year gain for the divestiture of the customer care outsourcing business. S,G&A expense of \$5.4 billion decreased 15 percent year over year. R,D&E expense of \$1.3 billion decreased 7 percent year-to-year; the related expense-to-revenue ratio increased to 6.6 percent compared with 6.3 percent in the year-ago period. Intellectual property and custom development income decreased to \$173 million compared with \$207 million a year ago. Other (income) and expense was income of \$143 million compared with prior-year income of \$127 million. Interest expense increased to \$108 million compared with \$105 million in the prior year.

Total operating (non-GAAP) expense and other income from continuing operations decreased to \$6.1 billion, down 17 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.0 billion decreased 18 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.3 billion decreased 9 percent year-to-year, reflecting the impact of currency and divested businesses; the related expense-to-revenue ratio increased to 6.6 percent compared with 6.4 percent in the year-ago period.

### **Pre-Tax Income**

Pre-tax income from continuing operations decreased 6 percent to \$3.0 billion. Pre-tax margin from continuing operations increased 1.0 points to 15.3 percent. Operating (non-GAAP) pre-tax income from continuing operations increased 3 percent to \$3.6 billion and pre-tax margin was 18.4 percent, up 2.7 points.

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IBM's tax rate from continuing operations was 19.5 percent, down 1.0 points year over year; the operating (non-GAAP) tax rate was 20.0 percent, down 0.5 points compared to the year-ago period.

Net income margin from continuing operations increased 0.9 points to 12.3 percent. Total operating (non-GAAP) net income margin from continuing operations increased 2.2 points to 14.8 percent.

The weighted-average number of diluted common shares outstanding in the first-quarter 2015 was 992 million compared with 1.04 billion shares in the same period of 2014. As of March 31, 2015, there were 985 million basic common shares outstanding.

Debt, including Global Financing, totaled \$38.8 billion, compared with \$40.8 billion at year-end 2014. From a management segment view, Global Financing debt totaled \$26.2 billion versus \$29.1 billion at year-end 2014, resulting in a debt-to-equity ratio of 7.0 to 1. Core (non-global financing) debt totaled \$12.6 billion, an increase of \$0.9 billion since year-end 2014 and a decrease of \$3.1 billion from the first quarter of 2014.

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IBM ended the first-quarter 2015 with \$8.8 billion of cash on hand and generated free cash flow of \$1.1 billion, excluding Global Financing receivables, up \$0.4 billion year over year. The company returned \$2.3 billion to shareholders through \$1.1 billion in dividends and \$1.2 billion of gross share repurchases. The balance sheet remains strong, and the company is well positioned to support the business over the long term.

### **Forward-Looking and Cautionary Statements**

Except for the historical information and discussions contained herein, statements contained in this release 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 the following: a downturn in economic environment and client spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; 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; cybersecurity and data privacy considerations; fluctuations in financial results, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions, alliances and dispositions; risks from legal proceedings; 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 (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

### **Presentation of Information in this Press Release**

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

#### **IBM results and expectations**

- presenting operating (non-GAAP) earnings per share from continuing operations amounts and related income statement items;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- adjusting for the divestiture of the System x and the customer care outsourcing businesses.

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the first-quarter earnings materials. These materials are available via a link on the IBM investor relations Web site at [www.ibm.com/investor](http://www.ibm.com/investor) and are being included in Attachment II ( Non-GAAP Supplemental Materials ) to the Form 8-K that includes this press release and is being submitted today to the SEC.

**Conference Call and Webcast**

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. The Webcast may be accessed via a link at

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<http://www.ibm.com/investor/events/earnings/1q15.html>. Presentation charts will be available shortly before the Webcast.

**Financial Results Below** (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

|   | Three Months Ended<br>March 31, |               | Percent<br>Change |
|---|---------------------------------|---------------|-------------------|
|   | 2015                            | 2014*         |                   |
| <b>REVENUE</b>                                      |                                 |               |                   |
| Global Technology Services **                       | \$ 7,886                        | \$ 8,849      | -10.9%            |
| Gross profit margin                                 | 37.4%                           | 38.8%         |                   |
| Global Business Services **                         | 4,318                           | 4,964         | -13.0%            |
| Gross profit margin                                 | 27.4%                           | 29.2%         |                   |
| Software  | 5,199                           | 5,661         | -8.2%             |
| Gross profit margin                                 | 86.6%                           | 87.5%         |                   |
| Systems Hardware *                                  | 1,659                           | 2,143         | -22.6%            |
| Gross profit margin                                 | 44.5%                           | 34.0%         |                   |
| Global Financing                                    | 461                             | 512           | -9.9%             |
| Gross profit margin                                 | 49.6%                           | 46.1%         |                   |
| Other   | 67                              | 107           | -37.5%            |
| Gross profit margin                                 | -224.6%                         | -163.7%       |                   |
| <b>TOTAL REVENUE</b>                                | <b>19,590</b>                   | <b>22,236</b> | <b>-11.9%</b>     |
| <b>GROSS PROFIT</b>                                 |                                 |               |                   |
| Gross profit margin                                 | 48.2%                           | 47.8%         |                   |
| <b>EXPENSE AND OTHER INCOME</b>                     |                                 |               |                   |
| S,G&A   | 5,362                           | 6,272         | -14.5%            |
| Expense to revenue                                  | 27.4%                           | 28.2%         |                   |
| R,D&E   | 1,298                           | 1,402         | -7.4%             |
| Expense to revenue                                  | 6.6%                            | 6.3%          |                   |
| Intellectual property and custom development income | (173)                           | (207)         | -16.5%            |
| Other (income) and expense                          | (143)                           | (127)         | 12.5%             |
| Interest expense                                    | 108                             | 105           | 2.7%              |
| <b>TOTAL EXPENSE AND OTHER INCOME</b>               | <b>6,451</b>                    | <b>7,444</b>  | <b>-13.3%</b>     |
| Expense to revenue                                  | 32.9%                           | 33.5%         |                   |
|   | 3,001                           | 3,183         | -5.7%             |

**INCOME FROM CONTINUING OPERATIONS BEFORE  
INCOME TAXES**

|  |    |       |    |       |        |
|--|----|-------|----|-------|--------|
| Pre-tax margin                           |    | 15.3% |    | 14.3% |        |
| Provision for income taxes               |    | 585   |    | 653   | -10.3% |
| Effective tax rate                       |    | 19.5% |    | 20.5% |        |
| <b>INCOME FROM CONTINUING OPERATIONS</b> | \$ | 2,415 | \$ | 2,530 | -4.6%  |
| Net margin                               |    | 12.3% |    | 11.4% |        |

**DISCONTINUED OPERATIONS**

|   |    |       |    |       |       |
|---|----|-------|----|-------|-------|
| Loss from discontinued operations, net of taxes |    | (88)  |    | (146) |       |
| <b>NET INCOME</b>                               | \$ | 2,328 | \$ | 2,384 | -2.4% |

**EARNINGS PER SHARE OF COMMON STOCK:**

|                         |    |        |    |        |      |
|-------------------------|----|--------|----|--------|------|
| Assuming dilution       |    |        |    |        |      |
| Continuing operations   | \$ | 2.44   | \$ | 2.43   | 0.4% |
| Discontinued operations | \$ | (0.09) | \$ | (0.14) |      |
| <b>TOTAL</b>            | \$ | 2.35   | \$ | 2.29   | 2.6% |
| Basic                   |    |        |    |        |      |
| Continuing operations   | \$ | 2.45   | \$ | 2.44   | 0.4% |
| Discontinued operations | \$ | (0.09) | \$ | (0.14) |      |
| <b>TOTAL</b>            | \$ | 2.36   | \$ | 2.30   | 2.6% |

**WEIGHTED-AVERAGE NUMBER OF COMMON SHARES****OUT- STANDING (M s):**

|                   |  |       |  |         |  |
|-------------------|--|-------|--|---------|--|
| Assuming dilution |  | 992.3 |  | 1,041.8 |  |
| Basic             |  | 988.1 |  | 1,035.2 |  |

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\* Reclassified to reflect discontinued operations presentation.

\*\*Reclassified to conform with 2015 presentation.

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions)   | At<br>March 31,<br>2015 | At<br>December 31,<br>2014 |
|---|-------------------------|----------------------------|
| <b>ASSETS:</b>  |                         |                            |
| <b>Current Assets:</b>  |                         |                            |
| Cash and cash equivalents   | \$ 8,796                | \$ 8,476                   |
| Marketable securities   | 8                       | 0                          |
| Notes and accounts receivable - trade<br>(net of allowances of \$354 in 2015 and \$336 in 2014) | 8,806                   | 9,090                      |
| Short-term financing receivables<br>(net of allowances of \$484 in 2015 and \$452 in 2014)      | 16,303                  | 19,835                     |
| Other accounts receivable<br>(net of allowances of \$41 in 2015 and \$40 in 2014)               | 2,740                   | 2,906                      |
| Inventories, at lower of average cost or market:  |                         |                            |
| Finished goods  | 371                     | 430                        |
| Work in process and raw materials   | 1,599                   | 1,674                      |
| Total inventories   | 1,970                   | 2,103                      |
| Deferred taxes  | 1,805                   | 2,044                      |
| Prepaid expenses and other current assets   | 5,890                   | 4,967                      |
| <b>Total Current Assets</b>   | <b>46,316</b>           | <b>49,422</b>              |
| Property, plant and equipment   | 38,303                  | 39,034                     |
| Less: Accumulated depreciation  | 27,793                  | 28,263                     |
| Property, plant and equipment - net   | 10,509                  | 10,771                     |
| Long-term financing receivables<br>(net of allowances of \$125 in 2015 and \$126 in 2014)       | 9,820                   | 11,109                     |
| Prepaid pension assets  | 2,690                   | 2,160                      |
| Deferred taxes  | 4,374                   | 4,808                      |
| Goodwill  | 29,871                  | 30,556                     |
| Intangible assets - net   | 2,991                   | 3,104                      |
| Investments and sundry assets   | 5,466                   | 5,603                      |
| <b>Total Assets</b>   | <b>\$ 112,037</b>       | <b>\$ 117,532</b>          |
| <b>LIABILITIES:</b>   |                         |                            |
| <b>Current Liabilities:</b>   |                         |                            |
| Taxes   | \$ 3,539                | \$ 5,084                   |
| Short-term debt   | 4,532                   | 5,731                      |
| Accounts payable  | 6,314                   | 6,864                      |
| Compensation and benefits   | 3,328                   | 4,031                      |
| Deferred income   | 12,162                  | 11,877                     |
| Other accrued expenses and liabilities  | 5,765                   | 6,013                      |
| <b>Total Current Liabilities</b>  | <b>35,640</b>           | <b>39,600</b>              |
| Long-term debt  | 34,295                  | 35,073                     |
| Retirement and nonpension postretirement benefit obligations                                    | 17,211                  | 18,261                     |



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|   |                   |                   |
|---|-------------------|-------------------|
| Deferred income                               | 3,811             | 3,691             |
| Other liabilities                             | 8,791             | 8,892             |
| <b>Total Liabilities</b>                      | <b>99,747</b>     | <b>105,518</b>    |
| <b>EQUITY:</b>                                |                   |                   |
| <b>IBM Stockholders Equity:</b>               |                   |                   |
| Common stock                                  | 52,928            | 52,666            |
| Retained earnings                             | 139,030           | 137,793           |
| Treasury stock at cost                        | (151,975)         | (150,715)         |
| Accumulated other comprehensive income/(loss) | (27,842)          | (27,875)          |
| <b>Total IBM stockholders equity</b>          | <b>12,141</b>     | <b>11,868</b>     |
| Noncontrolling interests                      | 148               | 146               |
| <b>Total Equity</b>                           | <b>12,289</b>     | <b>12,014</b>     |
| <b>Total Liabilities and Equity</b>           | <b>\$ 112,037</b> | <b>\$ 117,532</b> |

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions)  | Three Months Ended |                |    |                |
|--|--------------------|----------------|----|----------------|
|  | 2015               | March 31, 2014 |    |                |
| <b>Net Cash from Operating Activities per GAAP:</b>                          | \$                 | <b>3,610</b>   | \$ | <b>3,326</b>   |
| Less: the change in Global Financing (GF) Receivables                        |                    | 1,605          |    | 1,807          |
| <b>Net Cash from Operating Activities</b>                                    |                    | <b>2,004</b>   |    | <b>1,518</b>   |
| (Excluding GF Receivables)   |                    | <b>2,004</b>   |    | <b>1,518</b>   |
| Capital Expenditures, Net  |                    | (923)          |    | (887)          |
| <b>Free Cash Flow</b>  |                    | <b>1,081</b>   |    | <b>631</b>     |
| (Excluding GF Receivables)   |                    | <b>1,081</b>   |    | <b>631</b>     |
| Acquisitions   |                    | (148)          |    | (264)          |
| Divestitures   |                    | 19             |    | 391            |
| Dividends  |                    | (1,088)        |    | (990)          |
| Share Repurchase   |                    | (1,165)        |    | (8,166)        |
| Non-GF Debt  |                    | 361            |    | 3,634          |
| Other (includes GF Receivables, and GF Debt)                                 |                    | 1,266          |    | 3,402          |
| <b>Change in Cash, Cash Equivalents and Short-term Marketable Securities</b> | \$                 | <b>327</b>     | \$ | <b>(1,361)</b> |

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## SEGMENT DATA

(Unaudited)

## FIRST-QUARTER 2015

| (Dollars in Millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income /<br>(Loss)<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|---|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |   |                   |
| Global Technology Services       | \$ 7,886         | \$ 195              | \$ 8,081         | \$ 994  | 12.3%             |
| Y-T-Y change                     | -10.9%           | -18.8%              | -11.1%           | -18.2%  |                   |
| Global Business Services         | 4,318            | 131                 | 4,449            | 597   | 13.4%             |
| Y-T-Y change                     | -13.0%           | -7.3%               | -12.8%           | -21.3%  |                   |
| Software                         | 5,199            | 964                 | 6,162            | 1,936   | 31.4%             |
| Y-T-Y change                     | -8.2%            | 3.3%                | -6.5%            | 0.9%  |                   |
| Systems Hardware                 | 1,659            | 92                  | 1,751            | 24  | 1.4%              |
| Y-T-Y change                     | -22.6%           | -45.3%              | -24.2%           | NM  |                   |
| Global Financing                 | 461              | 586                 | 1,048            | 515   | 49.2%             |
| Y-T-Y change                     | -9.9%            | -5.0%               | -7.2%            | -13.6%  |                   |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>\$ 19,523</b> | <b>\$ 1,968</b>     | <b>\$ 21,491</b> | <b>\$ 4,066</b>   | <b>18.9%</b>      |
| Y-T-Y change                     | -11.8%           | -6.3%               | -11.3%           | 0.9%  |                   |
| Eliminations / Other             | 67               | (1,968)             | (1,901)          | (1,065)   |                   |
| <b>TOTAL IBM CONSOLIDATED</b>    | <b>\$ 19,590</b> | <b>\$ 0</b>         | <b>\$ 19,590</b> | <b>\$ 3,001</b>   | <b>15.3%</b>      |
| Y-T-Y change                     | -11.9%           |                     | -11.9%           | -5.7%   |                   |

## FIRST-QUARTER 2014\*

| (Dollars in Millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income /<br>(Loss)<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|---|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |   |                   |
| Global Technology Services **    | \$ 8,849         | \$ 241              | \$ 9,089         | \$ 1,215  | 13.4%             |
| Global Business Services **      | 4,964            | 141                 | 5,105            | 759   | 14.9%             |
| Software                         | 5,661            | 932                 | 6,593            | 1,918   | 29.1%             |
| Systems Hardware *               | 2,143            | 168                 | 2,311            | (457)   | -19.8%            |
| Global Financing                 | 512              | 617                 | 1,129            | 596   | 52.8%             |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>\$ 22,128</b> | <b>\$ 2,099</b>     | <b>\$ 24,228</b> | <b>\$ 4,031</b>   | <b>16.6%</b>      |
| Eliminations / Other             | 107              | (2,099)             | (1,992)          | (848)   |                   |
| <b>TOTAL IBM CONSOLIDATED</b>    | <b>\$ 22,236</b> | <b>\$ 0</b>         | <b>\$ 22,236</b> | <b>\$ 3,183</b>   | <b>14.3%</b>      |

\* Reclassified to reflect discontinued operations presentation.

\*\* Reclassified to conform with 2015 presentation.

NM - Not Meaningful

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

|  | FIRST-QUARTER 2015<br>CONTINUING OPERATIONS |   |   |                         |
|--|---|---|---|-------------------------|
|  | GAAP  | Acquisition-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(Non-GAAP) |
| Gross Profit   | \$ 9,452                                    | \$ 91                                   | \$ 121                                  | \$ 9,664                |
| Gross Profit Margin                                  | 48.2%                                       | 0.5Pts                                  | 0.6Pts                                  | 49.3%                   |
| S,G&A  | 5,362                                       | (79)                                    | (308)                                   | 4,975                   |
| R,D&E  | 1,298                                       |   | (13)                                    | 1,285                   |
| Other (Income) & Expense                             | (143)                                       | 0                                       |   | (143)                   |
| Total Expense & Other (Income)                       | 6,451                                       | (79)                                    | (321)                                   | 6,051                   |
| Pre-tax Income from Continuing Operations            | 3,001                                       | 170                                     | 442                                     | 3,612                   |
| Pre-tax Income Margin from Continuing<br>Operations  | 15.3%                                       | 0.9Pts                                  | 2.3Pts                                  | 18.4%                   |
| Provision for Income Taxes***                        | 585   | 28                                      | 109                                     | 722                     |
| Effective Tax Rate                                   | 19.5%                                       | -0.2Pts                                 | 0.7Pts                                  | 20.0%                   |
| Income from Continuing Operations                    | 2,415                                       | 142                                     | 333                                     | 2,890                   |
| Income Margin from Continuing Operations             | 12.3%                                       | 0.7Pts                                  | 1.7Pts                                  | 14.8%                   |
| Diluted Earnings Per Share: Continuing<br>Operations | \$ 2.44                                     | \$ 0.14                                 | \$ 0.33                                 | \$ 2.91                 |

|  | FIRST-QUARTER 2014****<br>CONTINUING OPERATIONS |   |   |                         |
|--|---|---|---|-------------------------|
|  | GAAP  | Acquisition-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(Non-GAAP) |
| Gross Profit   | \$ 10,627                                       | \$ 104                                  | \$ 52                                   | \$ 10,783               |
| Gross Profit Margin                                  | 47.8%   | 0.5Pts                                  | 0.2Pts                                  | 48.5%                   |
| S,G&A  | 6,272   | (97)                                    | (87)                                    | 6,087                   |
| R,D&E  | 1,402   |   | 17                                      | 1,419                   |
| Other (Income) & Expense                             | (127)   | 0                                       |   | (128)                   |
| Total Expense & Other (Income)                       | 7,444   | (98)                                    | (70)                                    | 7,276                   |
| Pre-tax Income from Continuing Operations            | 3,183   | 201                                     | 123                                     | 3,507                   |
| Pre-tax Income Margin from Continuing<br>Operations  | 14.3%   | 0.9Pts                                  | 0.6Pts                                  | 15.8%                   |
| Provision for Income Taxes***                        | 653   | 40                                      | 25                                      | 717                     |
| Effective Tax Rate                                   | 20.5%   | 0.0Pts                                  | 0.0Pts                                  | 20.5%                   |
| Income from Continuing Operations                    | 2,530   | 161                                     | 98                                      | 2,790                   |
| Income Margin from<br>Continuing Operations          | 11.4%   | 0.7Pts                                  | 0.4Pts                                  | 12.5%                   |
| Diluted Earnings Per Share: Continuing<br>Operations | \$ 2.43   | \$ 0.16                                 | \$ 0.09                                 | \$ 2.68                 |

\* Includes amortization of acquired intangible assets and other acquisition-related charges.

\*\* Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

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\*\*\* 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 which employs an annual effective tax rate method to the results.

\*\*\*\* Reclassified to reflect discontinued operations presentation.

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