

IBM REPORTS 2014 FIRST-QUARTER RESULTS

- o Diluted EPS:
 - GAAP: \$2.29, down 15 percent;
 - Operating (non-GAAP): \$2.54, down 15 percent;
- o Net income:
 - GAAP: \$2.4 billion, down 21 percent;
 - Operating (non-GAAP): \$2.6 billion, down 22 percent;
- o Results include impact of approximately \$870 million workforce rebalancing charge and nearly \$100 million gain for the divested customer care outsourcing business;
- o Gross profit margin:
 - GAAP: 46.9 percent, up 130 basis points;
 - Operating (non-GAAP): 47.6 percent, up 90 basis points;
- o Revenue: \$22.5 billion, down 4 percent; down 1 percent adjusting for currency, excluding divested customer care outsourcing business:
 - Software, Services and Global Financing each grew, adjusting for currency:
 - Software up 2 percent as reported and adjusting for currency
 - Services down 2 percent; up 2 percent adjusting for currency and excluding divested customer care outsourcing business
 - Global Financing up 3 percent, up 6 percent adjusting for currency
 - Systems and Technology down 23 percent as reported and adjusting for currency;
- o Services backlog of \$138 billion, up 1 percent adjusting for currency and excluding divested customer care outsourcing business;
- o Business analytics revenue up 5 percent, up 6 percent adjusting for currency;
- o Cloud revenue up more than 50 percent:
 - For cloud delivered as a service, first-quarter annual run rate of \$2.3 billion doubled year to year;
- o Expect full-year operating (non-GAAP) EPS of at least \$18.00.

ARMONK, N.Y., April 16, 2014 . . . IBM (NYSE: IBM) today announced first-quarter 2014 diluted earnings of \$2.29 per share, a year-to-year decrease of 15 percent. Operating (non-GAAP) diluted earnings were \$2.54 per share, compared with operating diluted earnings of \$3.00 per share in the first quarter of 2013, a decrease of 15 percent.

First-quarter net income was \$2.4 billion, down 21 percent year-to-year. Operating (non-GAAP) net income was \$2.6 billion compared with \$3.4 billion in the first quarter of 2013, a decrease of 22 percent. The results include the impact of a charge of approximately \$870 million for workforce rebalancing and a gain of nearly \$100 million for the divestiture of the customer care outsourcing business, consistent with the company's full-year guidance in January 2014.

Total revenues for the first quarter of 2014 of \$22.5 billion were down 4 percent (down 2 percent, adjusting for currency; down 1 percent, excluding the customer care outsourcing business) from the first quarter of 2013.

"In the first quarter, we continued to take actions to transform parts of the business and to shift aggressively to our strategic growth areas including cloud, big data analytics, social, mobile and security," said Ginni Rometty, IBM chairman, president and chief executive officer.

"As we move through 2014, we will begin to see the benefits from these actions. Over the long term, they will position us to drive growth and higher value for our clients."

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

First-quarter operating (non-GAAP) diluted earnings exclude \$0.25 per share of charges: \$0.16 per share for the amortization of purchased intangible assets and

other acquisition-related charges, and \$0.09 per share for retirement-related charges.

Full-Year 2014 Expectations

IBM expects full-year 2014 GAAP diluted earnings per share of at least \$17.00, and operating (non-GAAP) diluted earnings per share of at least \$18.00. The 2014 operating (non-GAAP) earnings expectations exclude \$1.00 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 \$9.6 billion, a decrease of 4 percent (down 2 percent, adjusting for currency) from the 2013 period. Revenues from Europe/Middle East/Africa were \$7.6 billion, up 4 percent (up 1 percent, adjusting for currency). Asia-Pacific revenues decreased 12 percent (down 6 percent, adjusting for currency) to \$5.0 billion. OEM revenues were \$355 million, down 17 percent compared with the 2013 first quarter.

Growth Markets

Revenues from the company's growth markets decreased 11 percent (down 5 percent, adjusting for currency). Revenues in the BRIC countries – Brazil, Russia, India and China – decreased 11 percent (down 6 percent, adjusting for currency).

Services

Global Technology Services segment revenues were down 3 percent (down 1 percent, adjusting for currency) to \$9.3 billion. Excluding the impact of the divested customer care outsourcing business, revenues were down 1 percent (up 2 percent, adjusting for currency). Global Business Services segment revenues were flat (up 2 percent, adjusting for currency) to \$4.5 billion.

Pre-tax income from Global Technology Services was down 15 percent and pre-tax margin decreased to 14.1 percent, including an impact of approximately \$0.3 billion for the workforce rebalancing charge. Global Business Services pre-tax income decreased 11 percent and pre-tax margin decreased to 13.6 percent, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

The estimated services backlog as of March 31 was \$138 billion, up 1 percent adjusting for currency and excluding the divested customer care outsourcing business.

Software

Revenues from the Software segment were up 2 percent to \$5.7 billion (up 2 percent, adjusting for currency) compared with the first quarter of 2013. Software pre-tax income decreased 5 percent and pre-tax margin decreased to 29.1 percent, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$3.7 billion, up 4 percent (up 5 percent, adjusting for currency) versus the first quarter of 2013. Operating systems revenues of \$519 million were down 10 percent (down 9 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from WebSphere increased 12 percent year over year. Information Management software revenues increased 1 percent. Revenues from Tivoli software increased 7 percent. Revenues from Workforce Solutions software decreased 4 percent, and Rational software increased 1 percent.

Financing

Global Financing segment revenues were up 3 percent (up 6 percent, adjusting for currency) in the first quarter at \$512 million. Pre-tax income for the segment increased 11 percent to \$596 million.

Hardware

Revenues from the Systems and Technology segment totaled \$2.4 billion for the quarter, down 23 percent (down 23 percent, adjusting for currency) from the first quarter of 2013. Systems and Technology pre-tax loss increased \$0.3 billion, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

Total systems revenues decreased 24 percent (down 24 percent, adjusting for currency). Revenues from System z mainframe server products decreased 40 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 19 percent. Revenues from Power Systems were down 22 percent compared with the 2013 period. Revenues from System x were down 18 percent. Revenues from System Storage decreased 23 percent. Revenues from Microelectronics OEM decreased 16 percent.

Gross Profit

The company's total gross profit margin was 46.9 percent in the 2014 first quarter compared with 45.6 percent in the 2013 first-quarter period. Total operating (non-GAAP) gross profit margin was 47.6 percent in the 2014 first quarter compared with 46.7 percent in the 2013 first-quarter period, with increases in both Services segments and a mix to Software, partially offset by a decline in the Systems and Technology margin.

Expense

Total expense and other income increased to \$7.6 billion, including a workforce rebalancing charge of approximately \$870 million and a gain of nearly \$100 million from the divestiture of the customer care outsourcing business, up 7 percent compared to the prior-year period. S,G&A expense of \$6.3 billion increased 13 percent year over year. R,D&E expense of \$1.5 billion decreased 9 percent, compared with the year-ago period. Intellectual property and custom development income increased to \$207 million compared with \$183 million a year ago. Other (income) and expense was income of \$126 million compared with prior-year income of \$60 million. Interest expense increased to \$105 million compared with \$94 million in the prior year.

Total operating (non-GAAP) expense and other income increased to \$7.4 billion, including a workforce rebalancing charge of approximately \$870 million and a gain of nearly \$100 million from the divestiture of the customer care outsourcing business, up 8 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$6.1 billion increased 13 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.5 billion decreased 7 percent compared with the year-ago period.

Pre-Tax Income

Pre-tax income decreased 17 percent to \$3.0 billion. Pre-tax margin decreased 2.1 points to 13.3 percent. Operating (non-GAAP) pre-tax income decreased 19 percent to \$3.3 billion and pre-tax margin was 14.7 percent, down 2.7 points.

IBM's tax rate was 20.0 percent, up 4.1 points year over year; operating (non-GAAP) tax rate was 20.0 percent, up 2.7 points compared to the year-ago period. Net income margin decreased 2.3 points to 10.6 percent. The company expects an annual effective tax rate of 20 percent for 2014, before any potential discrete tax items. Total operating (non-GAAP) net income margin decreased 2.7 points to 11.8 percent.

The weighted-average number of diluted common shares outstanding in the first-quarter 2014 was 1.04 billion compared with 1.12 billion shares in the same period of 2013. As of March 31, 2014, there were 1.01 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$44.0 billion, compared with \$39.7 billion at year-end 2013. From a management segment view, Global Financing debt totaled \$28.3 billion versus \$27.5 billion at year-end 2013, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$15.7 billion, an increase of \$3.5 billion since year-end 2013, resulting in a debt-to-capitalization ratio of 55.3 percent up from 39.0 percent.

IBM ended the first-quarter 2014 with \$9.7 billion of cash on hand and generated free cash flow of \$0.6 billion, excluding Global Financing receivables, down approximately \$1.1 billion year over year. The company returned \$9.2 billion to shareholders through \$1.0 billion in dividends and \$8.2 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 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 --

- o presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- o presenting non-global financing debt-to-capitalization ratio;
- o adjusting for free cash flow;
- o adjusting for currency (i.e., at constant currency);
- o adjusting for the divestiture of the customer care outsourcing business.

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 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 <http://www.ibm.com/investor/events/1q14.phtml>. 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).

INTERNATIONAL BUSINESS MACHINES CORPORATION
COMPARATIVE FINANCIAL RESULTS
(Unaudited; Dollars in millions except per share amounts)

	Three Months Ended March 31,		Percent Change
	2014	2013	
	-----	-----	-----
REVENUE			
Global Technology Services	\$9,330	\$9,605	-2.9%
Gross profit margin	37.9%	36.7%	
Global Business Services	4,483	4,484	0.0%
Gross profit margin	30.0%	28.6%	
Software	5,661	5,572	1.6%
Gross profit margin	87.5%	87.2%	
Systems and Technology	2,391	3,106	-23.0%
Gross profit margin	27.0%	32.3%	
Global Financing	512	499	2.6%
Gross profit margin	46.1%	45.8%	
Other	107	142	-24.4%
Gross profit margin	-163.7%	-158.5%	
TOTAL REVENUE	22,484	23,408	-3.9%
GROSS PROFIT	10,543	10,678	-1.3%
Gross profit margin	46.9%	45.6%	
EXPENSE AND OTHER INCOME			
S,G&A	6,289	5,577	12.8%
Expense to revenue	28.0%	23.8%	
R,D&E	1,501	1,644	-8.7%
Expense to revenue	6.7%	7.0%	
Intellectual property and custom development income	(207)	(183)	13.1%
Other (income) and expense	(126)	(60)	108.2%
Interest expense	105	94	11.7%
TOTAL EXPENSE AND OTHER INCOME	7,563	7,072	6.9%
Expense to revenue	33.6%	30.2%	
INCOME BEFORE INCOME TAXES	2,980	3,606	-17.3%
Pre-tax margin	13.3%	15.4%	
Provision for income taxes	596	574	3.8%

Effective tax rate	20.0%	15.9%	
NET INCOME	\$2,384	\$3,032	-21.4%
	=====	=====	
Net income margin	10.6%	13.0%	
EARNINGS PER SHARE			
OF COMMON STOCK:			
ASSUMING DILUTION	\$2.29	\$2.70	-15.2%
BASIC	\$2.30	\$2.72	-15.4%
WEIGHTED-AVERAGE NUMBER			
OF COMMON SHARES OUT-			
STANDING (M's):			
ASSUMING DILUTION	1,041.8	1,124.0	
BASIC	1,035.2	1,113.7	

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

(Dollars in Millions)	At March 31, 2014	At December 31, 2013
	-----	-----
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$9,409	\$10,716
Marketable securities	295	350
Notes and accounts receivable - trade (net of allowances of \$305 in 2014 and \$291 in 2013)	9,682	10,465
Short-term financing receivables (net of allowances of \$317 in 2014 and \$308 in 2013)	18,329	19,787
Other accounts receivable (net of allowances of \$36 in 2014 and \$36 in 2013)	1,650	1,584
Inventories, at lower of average cost or market:		
Finished goods	472	444
Work in process and raw materials	1,984	1,866
	-----	-----
Total inventories	2,456	2,310
Deferred taxes	1,708	1,651
Prepaid expenses and other current assets	4,430	4,488
	-----	-----
Total Current Assets	47,959	51,350
Property, plant and equipment	40,478	40,475
Less: Accumulated depreciation	26,795	26,654
	-----	-----
Property, plant and equipment - net	13,683	13,821
Long-term financing receivables (net of allowances of \$93 in 2014 and \$80 in 2013)	11,918	12,755
Prepaid pension assets	6,110	5,551
Deferred taxes	3,034	3,051
Goodwill	31,214	31,184
Intangible assets - net	3,698	3,871
Investments and sundry assets	5,030	4,639
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Total Assets	\$122,646	\$126,223
	=====	=====
LIABILITIES:		
Current Liabilities:		
Taxes	\$2,245	\$4,633
Short-term debt	9,312	6,862
Accounts payable	6,865	7,461
Compensation and benefits	3,664	3,893
Deferred income	13,681	12,557
Other accrued expenses and liabilities	5,292	4,748
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Total Current Liabilities	41,058	40,154
Long-term debt	34,668	32,856
Retirement and nonpension postretirement benefit obligations	16,031	16,242
Deferred income	4,042	4,108
Other liabilities	10,106	9,934
	-----	-----
Total Liabilities	105,906	103,294
EQUITY:		
IBM Stockholders' Equity:		
Common stock	51,943	51,594
Retained earnings	131,431	130,042
Treasury stock -- at cost	(145,612)	(137,242)
Accumulated other comprehensive income/(loss)	(21,156)	(21,602)
	-----	-----
Total IBM stockholders' equity	16,607	22,792
Noncontrolling interests	133	137
	-----	-----
Total Equity	16,740	22,929
	-----	-----
Total Liabilities and Equity	\$122,646	\$126,223
	=====	=====

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended	
	March 31,	
	2014	2013
	-----	-----
Net Cash from Operating Activities per GAAP:	\$3,326	\$4,023
Less: the change in Global Financing (GF) Receivables	1,807	1,597
	-----	-----
Net Cash from Operating Activities (Excluding GF Receivables)	1,518	2,425
Capital Expenditures, Net	(887)	(729)

Free Cash Flow		
(Excluding GF Receivables)	631	1,696
Acquisitions	(264)	(58)
Divestitures	391	10
Dividends	(990)	(948)
Share Repurchase	(8,166)	(2,593)
Non-GF Debt	3,634	(717)
Other (includes GF Receivables, and GF Debt)	3,402	3,473
Change in Cash, Cash Equivalents and Short-term Marketable Securities	(\$1,361)	\$863

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

FIRST-QUARTER 2014

(Dollars in Millions)	----- Revenue External Internal -----	----- Total -----	Pre-tax Income/ (Loss) -----	Pre-tax Margin -----	
SEGMENTS					
Global Technology Services	\$9,330	\$241	\$9,570	\$1,345	14.1%
Y-T-Y change	-2.9%	-2.8%	-2.9%	-15.1%	
Global Business Services	4,483	141	4,624	628	13.6%
Y-T-Y change	0.0%	-21.7%	-0.9%	-10.6%	
Software	5,661	932	6,593	1,918	29.1%
Y-T-Y change	1.6%	12.2%	3.0%	-4.7%	
Systems and Technology	2,391	168	2,559	(660)	-25.8%
Y-T-Y change	-23.0%	40.4%	-20.7%	-63.1%	
Global Financing	512	617	1,129	596	52.8%
Y-T-Y change	2.6%	14.1%	8.6%	10.7%	
TOTAL REPORTABLE SEGMENTS	\$22,376	\$2,099	\$24,476	\$3,828	15.6%
Y-T-Y change	-3.8%	9.4%	-2.8%	-13.7%	
Eliminations / Other	107	(2,099)	(1,992)	(848)	
TOTAL IBM CONSOLIDATED	\$22,484	\$0	\$22,484	\$2,980	13.3%
Y-T-Y change	-3.9%		-3.9%	-17.3%	

FIRST-QUARTER 2013

(Dollars in Millions)	----- Revenue -----	Pre-tax Income/ -----	Pre-tax
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	<u>External</u>	<u>Internal</u>	<u>Total</u>	<u>(Loss)</u>	<u>Margin</u>
SEGMENTS					
Global Technology Services	\$9,605	\$248	\$9,852	\$1,585	16.1%
Global Business Services	4,484	180	4,664	703	15.1%
Software	5,572	831	6,403	2,014	31.5%
Systems and Technology	3,106	120	3,226	(405)	-12.5%
Global Financing	499	541	1,040	538	51.8%
TOTAL REPORTABLE SEGMENTS	\$23,266	\$1,919	\$25,185	\$4,435	17.6%
Eliminations / Other	142	(1,919)	(1,777)	(829)	
TOTAL IBM CONSOLIDATED	\$23,408	\$0	\$23,408	\$3,606	15.4%

INTERNATIONAL BUSINESS MACHINES CORPORATION
U.S. GAAP TO OPERATING RESULTS RECONCILIATION
(Unaudited; Dollars in millions except per share amounts)

FIRST-QUARTER 2014

	<u>GAAP</u>	<u>Acquisition- Related Adjustments*</u>	<u>Retirement- Related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$10,543	\$104	\$52	\$10,699
Gross Profit Margin	46.9%	0.5Pts	0.2Pts	47.6%
S,G&A	6,289	(97)	(87)	6,104
R,D&E	1,501	0	17	1,518
Other (Income) & Expense	(126)	0	0	(126)
Total Expense & Other (Income)	7,563	(98)	(70)	7,395
Pre-Tax Income	2,980	201	123	3,304
Pre-Tax Income Margin	13.3%	0.9Pts	0.5Pts	14.7%
Provision for Income Taxes***	596	40	25	661
Effective Tax Rate	20.0%	0.0Pts	0.0Pts	20.0%
Net Income	2,384	161	98	2,643
Net Income Margin	10.6%	0.7Pts	0.4Pts	11.8%
Diluted Earnings Per Share	\$2.29	\$0.16	\$0.09	\$2.54

FIRST-QUARTER 2013

	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$10,678	\$95	\$164	\$10,937
Gross Profit Margin	45.6%	0.4Pts	0.7Pts	46.7%
S,G&A	5,577	(92)	(104)	5,381
R,D&E	1,644	0	(16)	1,628
Other (Income) & Expense	(60)	(7)	0	(67)
Total Expense & Other (Income)	7,072	(99)	(120)	6,853
Pre-Tax Income	3,606	194	283	4,084
Pre-Tax Income Margin	15.4%	0.8Pts	1.2Pts	17.4%
Provision for Income Taxes***	574	54	79	708
Effective Tax Rate	15.9%	0.6Pts	0.9Pts	17.3%
Net Income	3,032	140	204	3,376
Net Income Margin	13.0%	0.6Pts	0.9Pts	14.4%
Diluted Earnings Per Share	\$2.70	\$0.12	\$0.18	\$3.00

* 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.

*** Tax impact on operating (non-GAAP) pre-tax income 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.

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