

IBM REPORTS 2014 SECOND-QUARTER RESULTS

- o Diluted EPS:
 - GAAP: \$4.12, up 42 percent;
 - Operating (non-GAAP): \$4.32, up 34 percent;
- o Net income:
 - GAAP: \$4.1 billion, up 28 percent;
 - Operating (non-GAAP): \$4.3 billion, up 21 percent;
- o Gross profit margin:
 - GAAP: 49.1 percent, up 50 basis points;
 - Operating (non-GAAP): 49.8 percent, up 10 basis points;
- o Revenue: \$24.4 billion:
 - Down 2 percent; down 1 percent adjusting for divested customer care outsourcing business;
 - Software, Services adjusting for divested customer care outsourcing business and Global Financing grew; Systems and Technology declined;
- o Services backlog of \$136 billion, down 1 percent adjusting for divested customer care outsourcing business;
- o Strategic growth initiatives grew double digits:
 - Cloud revenue up more than 50 percent year-to-date;
 - For cloud delivered as a service, second-quarter annual run rate up nearly 100 percent to \$2.8 billion year-to-year;
 - Business analytics revenue up 7 percent year-to-date;
 - Mobile revenue up more than 100 percent year-to-date;
 - Security revenue up more than 20 percent year-to-date;
- o Continue to expect full-year operating (non-GAAP) EPS of at least \$18.00.

ARMONK, N.Y., July 17, 2014 . . . IBM (NYSE: IBM) today announced second-quarter 2014 diluted earnings of \$4.12 per share, compared with diluted earnings of \$2.91 per share in the second quarter of 2013, an increase of 42 percent. Operating (non-GAAP) diluted earnings were \$4.32 per share, compared with operating diluted earnings of \$3.22 per share in the second quarter of 2013, an increase of 34 percent.

Second-quarter net income was \$4.1 billion compared with \$3.2 billion in the second quarter of 2013, an increase of 28 percent. Operating (non-GAAP) net income was \$4.3 billion compared with \$3.6 billion in the second quarter of 2013, an increase of 21 percent. The year-to-year results include the impact of a charge in the prior year period of \$1 billion for workforce rebalancing.

Total revenues for the second quarter of 2014 of \$24.4 billion were down 2 percent (down 1 percent, as reported and adjusting for currency, adjusting for the divested customer care outsourcing business) from the second quarter of 2013.

"In the second quarter, we made further progress on our transformation. We performed well in our strategic imperatives around cloud, big data and analytics, security and mobile," said Ginni Rometty, IBM chairman, president and chief executive officer. "We will continue to extend and leverage our unique strengths to address the emerging trends in enterprise IT and transform our business, positioning ourselves for growth over the long term."

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

Second-quarter operating (non-GAAP) diluted earnings exclude \$0.20 per share of charges: \$0.16 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.04 per share for non-operating retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

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' second-quarter revenues were \$10.6 billion, a decrease of 1 percent (up 1 percent, adjusting for currency) from the 2013 period. Revenues from Europe/Middle East/Africa were up 1 percent at \$7.9 billion (down 3 percent adjusting for currency). Asia-Pacific revenues decreased 9 percent (down 6 percent adjusting for currency) to \$5.3 billion. OEM revenues were \$433 million, down 19 percent (down 19 percent adjusting for currency) compared with the 2013 second quarter.

Growth Markets

Revenues from the company's growth markets were down 7 percent (down 4 percent, adjusting for currency). Revenues in the BRIC countries – Brazil, Russia, India and China – were down 2 percent (up 1 percent, adjusting for currency).

Services

Global Services segment revenues decreased 1 percent (down 1 percent, adjusting for currency) to \$13.9 billion. Revenues increased 1 percent adjusting for the impact of the divested customer care outsourcing business. Global Technology Services segment revenues decreased 1 percent (down 1 percent, adjusting for currency) to \$9.4 billion. Adjusting for the impact of the divested customer care outsourcing business, revenues were up 2 percent (up 2 percent adjusting for currency). Global Business Services segment revenues were down 2 percent (down 2 percent, adjusting for currency) to \$4.5 billion.

Pre-tax income from Global Technology Services increased 22 percent and pre-tax margin increased to 19.2 percent, including the impact of a \$0.4 billion workforce rebalancing charge in the prior year. Global Business Services pre-tax income increased 34 percent and pre-tax margin increased to 17.8 percent, including the impact of a \$0.2 billion workforce rebalancing charge in the prior year.

The estimated services backlog at June 30 was \$136 billion, down 1 percent adjusting for the divested customer care outsourcing business (down 3 percent adjusting for currency).

Software

Revenues from the Software segment were \$6.5 billion, up 1 percent (flat adjusting for currency) compared with the second quarter of 2013. Software pre-tax income increased 10 percent and pre-tax margin increased to 36.5 percent, including the impact of a \$0.2 billion workforce rebalancing charge in the prior year.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$4.3 billion, up 1 percent (flat adjusting for currency) versus the second quarter of 2013. Operating systems revenues of \$530 million were down 13 percent (down 13 percent, adjusting for currency) compared with the prior-year quarter.

Financing

Global Financing segment revenues increased 4 percent (up 4 percent, adjusting for currency) in the second quarter at \$504 million. Pre-tax income for the segment increased 8 percent to \$593 million.

Hardware

Revenues from the Systems and Technology segment totaled \$3.3 billion for the quarter, down 11 percent (down 12 percent, adjusting for currency) from the second quarter of 2013. Systems and Technology segment pre-tax income increased \$0.2 billion, including the impact of a \$0.2 billion workforce rebalancing charge in the prior year.

Total systems revenues decreased 11 percent (down 11 percent, adjusting for currency). Revenues from System z mainframe server products, in the seventh quarter

since they were announced, decreased 1 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), was flat. Revenues from Power Systems were down 28 percent compared with the 2013 period. Revenues from System x were down 3 percent. Revenues from System Storage decreased 12 percent and within this business area, flash storage grew more than 100 percent. Revenues from Microelectronics OEM decreased 18 percent.

Gross Profit

The company's total gross profit margin was 49.1 percent in the 2014 second quarter compared with 48.7 percent in the 2013 second-quarter period. Total operating (non-GAAP) gross profit margin was 49.8 percent in the 2014 second quarter compared with 49.7 percent in the 2013 second-quarter period, with increases in Global Technology Services and Global Financing.

Expense

Total expense and other income decreased to \$6.8 billion or 15 percent, including a gain of \$121 million from the divestiture of the customer care outsourcing business and the impact of a \$1.0 billion workforce rebalancing charge in the prior year period. S,G&A expense of \$5.6 billion decreased 16 percent year over year. R,D&E expense of \$1.5 billion decreased 6 percent compared with the year-ago period, and was 6 percent of revenue, consistent with the second-quarter of 2013. Intellectual property and custom development income decreased to \$191 million compared with \$247 million a year ago. Other (income) and expense was income of \$201 million compared with prior-year income of \$91 million. Interest expense increased to \$136 million compared with \$98 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 14 percent to \$6.7 billion compared with the prior-year period, including the impact of a \$1.0 billion workforce rebalancing charge in the prior year period. Operating (non-GAAP) S,G&A expense decreased 16 percent to \$5.5 billion compared with the prior-year period. Operating (non-GAAP) R,D&E expense of \$1.5 billion was down 4 percent compared with the year-ago period.

Pre-Tax Income

Pre-tax income increased 25 percent to \$5.2 billion and pre-tax margin of 21.2 percent was up 4.6 points compared with the prior-year period. Operating (non-GAAP) pre-tax income increased 18 percent to \$5.4 billion and pre-tax margin was 22.3 percent, up 3.9 points.

IBM's tax rate was 20.0 percent, down 2.1 points year over year; operating (non-GAAP) tax rate was 20.0 percent, down 2.0 points compared to the year-ago period.

Net income margin increased 4.0 points to 17.0 percent. Total operating (non-GAAP) net income margin increased 3.5 points to 17.8 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2014 was 1.01 billion compared with 1.11 billion shares in the same period of 2013. As of June 30, 2014, there were 998 million basic common shares outstanding.

Debt, including Global Financing, totaled \$46.5 billion, compared with \$39.7 billion at year-end 2013. From a management segment view, Global Financing debt totaled \$29.4 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 \$17.1 billion, an increase of \$4.9 billion since year-end 2013, resulting in a debt-to-capitalization ratio of 56.1, essentially flat quarter-to-quarter and higher than the ratio at year-end 2013.

IBM ended the second-quarter 2014 with \$9.7 billion of cash on hand and generated free cash flow of \$3.0 billion, excluding Global Financing receivables, up \$0.3 billion year over year. The company returned \$4.8 billion to shareholders through \$1.1 billion in dividends and \$3.7 billion of gross share repurchases.

Year-To-Date 2014 Results

Net income for the six months ended June 30, 2014 was \$6.5 billion compared with \$6.3 billion in the year-ago period, an increase of 4 percent. Diluted earnings per share were \$6.37 compared with \$5.60 per diluted share for the 2013 period, an

increase of 14 percent. Revenues for the six-month period totaled \$46.8 billion, a decrease of 3 percent (down 2 percent, adjusting for currency) compared with \$48.3 billion for the first six months of 2013.

Operating (non-GAAP) net income for the six months ended June 30, 2014 was \$7.0 billion, flat year to year. Operating (non-GAAP) diluted earnings per share were \$6.82 compared with \$6.23 per diluted share for the 2013 period, an increase of 9.5 percent.

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 second-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/earnings/2q14.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).

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Percent Change	2014	2013	Percent Change
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REVENUE						
Global Technology Services	\$9,414	\$9,536	-1.3%	\$18,744	\$19,140	-2.1%
Gross profit margin	38.4%	37.8%		38.2%	37.3%	
Global Business Services	4,534	4,606	-1.6%	9,017	9,091	-0.8%
Gross profit margin	30.0%	31.2%		30.0%	29.9%	
Software	6,488	6,423	1.0%	12,149	11,995	1.3%
Gross profit margin	88.8%	88.8%		88.2%	88.1%	
Systems and Technology	3,331	3,758	-11.4%	5,722	6,864	-16.6%
Gross profit margin	33.9%	36.7%		31.0%	34.7%	
Global Financing	504	487	3.5%	1,016	985	3.1%
Gross profit margin	54.8%	46.3%		50.4%	46.0%	
Other	93	115	-19.1%	200	257	-22.0%
Gross profit margin	-179.7%	-190.5%		-171.1%	-172.8%	
TOTAL REVENUE	24,364	24,924	-2.2%	46,848	48,332	-3.1%
GROSS PROFIT	11,975	12,132	-1.3%	22,518	22,810	-1.3%
Gross margin	49.1%	48.7%		48.1%	47.2%	
EXPENSE AND OTHER INCOME						
S,G&A	5,603	6,680	-16.1%	11,892	12,257	-3.0%
Expense to revenue	23.0%	26.8%		25.4%	25.4%	
R,D&E	1,457	1,548	-5.9%	2,958	3,193	-7.3%
Expense to revenue	6.0%	6.2%		6.3%	6.6%	
Intellectual property and custom development income	(191)	(247)	-22.7%	(398)	(430)	-7.5%
Other (income) and expense	(201)	(91)	120.7%	(326)	(151)	115.7%
Interest expense	136	98	38.3%	240	192	25.3%
TOTAL EXPENSE AND OTHER INCOME	6,804	7,988	-14.8%	14,367	15,060	-4.6%
Expense to revenue	27.9%	32.0%		30.7%	31.2%	
INCOME BEFORE INCOME TAXES	5,171	4,144	24.8%	8,151	7,750	5.2%
Pre-tax margin	21.2%	16.6%		17.4%	16.0%	
Provision for income taxes	1,034	918	12.7%	1,630	1,492	9.3%
Effective tax rate	20.0%	22.1%		20.0%	19.2%	

NET INCOME	\$4,137	\$3,226	28.2%	\$6,521	\$6,258	4.2%
	=====	=====		=====	=====	
Net income margin	17.0%	12.9%		13.9%	12.9%	

**EARNINGS PER SHARE
OF COMMON STOCK:**

ASSUMING DILUTION	\$4.12	\$2.91	41.6%	\$6.37	\$5.60	13.8%
BASIC	\$4.14	\$2.93	41.3%	\$6.41	\$5.65	13.5%

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

ASSUMING DILUTION	1,005.1	1,109.4		1,023.5	1,116.7
BASIC	999.6	1,100.9		1,017.4	1,107.3

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

(Dollars in Millions)	At June 30, 2014	At December 31, 2013
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ASSETS:		
Current Assets:		
Cash and cash equivalents	\$9,715	\$10,716
Marketable securities	5	350
Notes and accounts receivable - trade (net of allowances of \$294 in 2014 and \$291 in 2013)	9,902	10,465
Short-term financing receivables (net of allowances of \$404 in 2014 and \$308 in 2013)	18,620	19,787
Other accounts receivable (net of allowances of \$45 in 2014 and \$36 in 2013)	1,555	1,584
Inventories, at lower of average cost or market:		
Finished goods	449	444
Work in process and raw materials	1,889	1,866
	-----	-----
Total inventories	2,338	2,310
Deferred taxes	1,783	1,651
Prepaid expenses and other current assets	4,263	4,488
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Total Current Assets	48,182	51,350
Property, plant and equipment	40,936	40,475
Less: Accumulated depreciation	27,188	26,654
	-----	-----
Property, plant and equipment - net	13,748	13,821
Long-term financing receivables (net of allowances of \$68 in 2014 and \$80 in 2013)	12,140	12,755
Prepaid pension assets	6,894	5,551
Deferred taxes	2,828	3,051
Goodwill	31,568	31,184
Intangible assets - net	3,585	3,871
Investments and sundry assets	5,369	4,639
	-----	-----
Total Assets	\$124,314	\$126,223
	=====	=====
LIABILITIES:		
Current Liabilities:		
Taxes	\$2,335	\$4,633
Short-term debt	12,462	6,862
Accounts payable	6,271	7,461

Compensation and benefits	4,037	3,893
Deferred income	12,591	12,557
Other accrued expenses and liabilities	4,737	4,748
	-----	-----
Total Current Liabilities	42,433	40,154
Long-term debt	34,008	32,856
Retirement and nonpension postretirement benefit obligations	15,984	16,242
Deferred income	4,152	4,108
Other liabilities	10,224	9,934
	-----	-----
Total Liabilities	106,801	103,294
EQUITY:		
IBM Stockholders' Equity:		
Common stock	52,163	51,594
Retained earnings	134,483	130,042
Treasury stock -- at cost	(148,900)	(137,242)
Accumulated other comprehensive income/(loss)	(20,369)	(21,602)
	-----	-----
Total IBM stockholders' equity	17,377	22,792
Noncontrolling interests	136	137
	-----	-----
Total Equity	17,513	22,929
	-----	-----
Total Liabilities and Equity	\$124,314	\$126,223
	=====	=====

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	-----	-----	-----	-----
Net Cash from Operating Activities per GAAP:	\$3,579	\$3,175	\$6,905	\$7,197
Less: the change in Global Financing (GF) Receivables	(304)	(450)	1,503	1,147
	-----	-----	-----	-----
Net Cash from Operating Activities (Excluding GF Receivables)	3,883	3,625	5,402	6,051
Capital Expenditures, Net	(909)	(939)	(1,796)	(1,668)
Free Cash Flow (Excluding GF Receivables)	2,975	2,686	3,606	4,382
Acquisitions	(339)	(121)	(603)	(179)
Divestitures	17	2	408	12
Dividends	(1,096)	(1,048)	(2,086)	(1,996)
Share Repurchase	(3,662)	(3,552)	(11,828)	(6,145)
Non-GF Debt	1,385	922	5,019	205
Other (includes GF Receivables, and GF Debt)	738	(524)	4,140	2,949
Change in Cash, Cash Equivalents and Short-term Marketable Securities	\$17	(\$1,635)	(\$1,345)	(\$772)
	=====	=====	=====	=====

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

SECOND-QUARTER 2014

(Dollars in Millions)	Revenue		Total	Pre-tax Income/ (Loss)	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$9,414	\$247	\$9,661	\$1,850	19.2%
Y-T-Y change	-1.3%	-15.4%	-1.7%	22.2%	
Global Business Services	4,534	140	4,674	832	17.8%
Y-T-Y change	-1.6%	-25.6%	-2.5%	33.7%	
Software	6,488	857	7,345	2,683	36.5%
Y-T-Y change	1.0%	16.1%	2.6%	9.8%	
Systems and Technology	3,331	190	3,521	25	0.7%
Y-T-Y change	-11.4%	40.9%	-9.5%	117.9%	
Global Financing	504	685	1,189	593	49.8%
Y-T-Y change	3.5%	19.2%	12.0%	7.7%	
TOTAL REPORTABLE SEGMENTS	\$24,271	\$2,119	\$26,390	\$5,983	22.7%
Y-T-Y change	-2.2%	9.9%	-1.3%	19.9%	
Eliminations / Other	93	(2,119)	(2,026)	(812)	
TOTAL IBM CONSOLIDATED	\$24,364	\$0	\$24,364	\$5,171	21.2%
Y-T-Y change	-2.2%		-2.2%	24.8%	

SECOND-QUARTER 2013

(Dollars in Millions)	Revenue		Total	Pre-tax Income/ (Loss)	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$9,536	\$292	\$9,828	\$1,514	15.4%
Global Business Services	4,606	188	4,795	623	13.0%
Software	6,423	738	7,161	2,443	34.1%
Systems and Technology	3,758	135	3,893	(141)	-3.6%
Global Financing	487	575	1,061	550	51.8%
TOTAL REPORTABLE SEGMENTS	\$24,809	\$1,928	\$26,737	\$4,989	18.7%
Eliminations / Other	115	(1,928)	(1,813)	(846)	
TOTAL IBM CONSOLIDATED	\$24,924	\$0	\$24,924	\$4,144	16.6%

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

SIX-MONTHS 2014

(Dollars in Millions)	Revenue		Total	Pre-tax Income/ (Loss)	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$18,744	\$488	\$19,232	\$3,196	16.6%
Y-T-Y change	-2.1%	-9.7%	-2.3%	3.1%	
Global Business Services	9,017	281	9,298	1,461	15.7%
Y-T-Y change	-0.8%	-23.7%	-1.7%	10.2%	
Software	12,149	1,789	13,939	4,601	33.0%
Y-T-Y change	1.3%	14.1%	2.8%	3.2%	
Systems and Technology	5,722	358	6,080	(635)	-10.4%
Y-T-Y change	-16.6%	40.7%	-14.6%	-16.3%	
Global Financing	1,016	1,303	2,318	1,188	51.3%
Y-T-Y change	3.1%	16.7%	10.3%	9.2%	
TOTAL REPORTABLE SEGMENTS	\$46,648	\$4,218	\$50,866	\$9,812	19.3%
Y-T-Y change	-3.0%	9.7%	-2.0%	4.1%	
Eliminations / Other	200	(4,218)	(4,018)	(1,660)	
TOTAL IBM CONSOLIDATED	\$46,848	\$0	\$46,848	\$8,151	17.4%
Y-T-Y change	-3.1%		-3.1%	5.2%	

SIX-MONTHS 2013

(Dollars in Millions)	Revenue		Total	Pre-tax Income/ (Loss)	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$19,140	\$540	\$19,680	\$3,099	15.7%
Global Business Services	9,091	368	9,459	1,326	14.0%
Software	11,995	1,569	13,563	4,457	32.9%
Systems and Technology	6,864	255	7,118	(546)	-7.7%
Global Financing	985	1,116	2,101	1,088	51.8%
TOTAL REPORTABLE SEGMENTS	\$48,075	\$3,847	\$51,922	\$9,425	18.2%
Eliminations / Other	257	(3,847)	(3,590)	(1,675)	
TOTAL IBM CONSOLIDATED	\$48,332	\$0	\$48,332	\$7,750	16.0%

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

SECOND-QUARTER 2014

Acquisition- Retirement-

	GAAP	Related Adjustments*	Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$11,975	\$105	\$45	\$12,126
Gross Profit Margin	49.1%	0.4Pts	0.2Pts	49.8%
S,G&A	5,603	(98)	(27)	5,478
R,D&E	1,457	0	20	1,477
Other (Income) & Expense	(201)	0	0	(201)
Total Expense & Other (Income)	6,804	(98)	(7)	6,699
Pre-Tax Income	5,171	203	52	5,427
Pre-Tax Income Margin	21.2%	0.8Pts	0.2Pts	22.3%
Provision for Income Taxes***	1,034	41	10	1,085
Effective Tax Rate	20.0%	0.0Pts	0.0Pts	20.0%
Net Income	4,137	163	42	4,341
Net Income Margin	17.0%	0.7Pts	0.2Pts	17.8%
Diluted Earnings Per Share	\$4.12	\$0.16	\$0.04	\$4.32

SECOND-QUARTER 2013

	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$12,132	\$91	\$156	\$12,379
Gross Profit Margin	48.7%	0.4Pts	0.6Pts	49.7%
S,G&A	6,680	(91)	(93)	6,496
R,D&E	1,548	0	(13)	1,535
Other (Income) & Expense	(91)	0	0	(91)
Total Expense & Other (Income)	7,988	(91)	(106)	7,791
Pre-Tax Income	4,144	182	262	4,588
Pre-Tax Income Margin	16.6%	0.7Pts	1.1Pts	18.4%
Provision for Income Taxes***	918	9	82	1,009
Effective Tax Rate	22.1%	-0.7Pts	0.6Pts	22.0%
Net Income	3,226	173	180	3,579
Net Income Margin	12.9%	0.7Pts	0.7Pts	14.4%
Diluted Earnings Per Share	\$2.91	\$0.15	\$0.16	\$3.22

* 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.

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

	SIX-MONTHS 2014			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$22,518	\$209	\$98	\$22,825
Gross Profit Margin	48.1%	0.4Pts	0.2Pts	48.7%
S,G&A	11,892	(196)	(114)	11,583
R,D&E	2,958	0	37	2,995
Other (Income) & Expense	(326)	0	0	(326)
Total Expense & Other (Income)	14,367	(196)	(77)	14,094
Pre-Tax Income	8,151	405	175	8,731
Pre-Tax Income Margin	17.4%	0.9Pts	0.4Pts	18.6%
Provision for Income Taxes***	1,630	81	35	1,746
Effective Tax Rate	20.0%	0.0Pts	0.0Pts	20.0%
Net Income	6,521	324	140	6,985
Net Income Margin	13.9%	0.7Pts	0.3Pts	14.9%
Diluted Earnings Per Share	\$6.37	\$0.31	\$0.14	\$6.82

	SIX-MONTHS 2013			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$22,810	\$186	\$320	\$23,316
Gross Profit Margin	47.2%	0.4Pts	0.7Pts	48.2%
S,G&A	12,257	(183)	(197)	11,878
R,D&E	3,193	0	(29)	3,163
Other (Income) & Expense	(151)	(7)	0	(158)
Total Expense & Other (Income)	15,060	(190)	(226)	14,644
Pre-Tax Income	7,750	376	546	8,672

Pre-Tax Income Margin	16.0%	0.8Pts	1.1Pts	17.9%
Provision for Income Taxes***	1,492	63	162	1,717
Effective Tax Rate	19.2%	-0.1Pts	0.7Pts	19.8%
Net Income	6,258	313	384	6,955
Net Income Margin	12.9%	0.6Pts	0.8Pts	14.4%
Diluted Earnings Per Share	\$5.60	\$0.28	\$0.35	\$6.23

* 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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