

IBM REPORTS 2016 THIRD-QUARTER EARNINGS
Continued Strong Growth in Strategic Imperatives Led by IBM Cloud, Analytics

Highlights

- Diluted EPS: GAAP of \$2.98; Operating (non-GAAP) of \$3.29
- Revenue from continuing operations of \$19.2 billion
- Strategic imperatives revenue of \$31.8 billion over the last 12 months represents 40 percent of IBM revenue
 - Strategic imperatives revenue of \$8.0 billion in the quarter, up 16 percent year to year (up 15 percent adjusting for currency)
- Cloud revenue of \$12.7 billion over the last 12 months
 - Cloud as-a-Service annual run rate of \$7.5 billion in the quarter, up 66 percent year to year (up 65 percent adjusting for currency)

ARMONK, N.Y., October 17, 2016 . . . IBM (NYSE: IBM) today announced third-quarter 2016 earnings results.

"IBM's third-quarter performance, led by continued double-digit growth in our strategic imperatives, is a testament to our leadership in cognitive solutions and cloud," said Ginni Rometty, IBM chairman, president and chief executive officer. "Our ability to apply deep expertise and breakthrough technology, led by Watson and the IBM Cloud, to massive amounts of data is enabling us to build new markets and transform industries. Whether it is banks implementing IBM blockchain solutions, hospitals leveraging Watson to fight cancer, or retailers using cognitive apps built on the IBM Cloud to transform the customer experience, clients across all industries are tapping into a new kind of innovation value from IBM."

THIRD QUARTER 2016			
	Diluted EPS	Net Income	Gross Profit Margin
GAAP from Continuing Operations	\$2.98	\$2.9B	46.9%
Year/Year	-1%	-4%	-2.1Pts
Operating (Non-GAAP)	\$3.29	\$3.1B	48.0%
Year/Year	-1%	-4%	-2.1Pts
REVENUE	Total IBM	Strategic Imperatives	Cloud
As reported (US\$)	\$19.2B	\$8.0B	\$3.4B
Year/Year	0%	16%	44%
Year/Year adjusting for currency	-1%	15%	42%

"Throughout the year, we have continued to invest where we see the greatest opportunities to create new markets and strengthen our enterprise IT leadership position," said Martin Schroeter, IBM senior vice president and chief financial officer. "This has included more than \$12 billion across capital expenditures, R&D and acquisitions so far this year. At the same time, we have returned more than \$6 billion to shareholders through dividends and share repurchases."

Strategic Imperatives

Third-quarter revenues from the company's strategic imperatives --- cloud, analytics, mobility and security --- increased 16 percent year to year (up 15 percent adjusting for currency). Cloud revenues (public, private and hybrid) for the quarter increased 44 percent (up 42 percent adjusting for currency). Cloud revenue over the trailing 12 months was \$12.7 billion. The annual run rate for cloud as-a-Service revenue --- a subset of total cloud revenue --- increased to \$7.5 billion from \$4.5 billion in the third quarter of 2015. Revenues from analytics increased 15 percent (up 14 percent adjusting for currency). Revenues from mobile increased 19 percent and revenues from security increased 11 percent.

Full-Year 2016 Expectations

The company continues to expect operating (non-GAAP) diluted earnings per share of at least \$13.50 and GAAP diluted earnings per share of at least \$12.23. Operating (non-GAAP) diluted earnings per share exclude \$1.27 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges. There is no change to IBM's previously-provided free cash flow guidance.

Cash Flow and Balance Sheet

The company generated net cash from operating activities of \$4.2 billion; or \$3.3 billion excluding Global Financing receivables. IBM's free cash flow was \$2.4 billion in the third quarter. IBM returned \$1.3 billion in dividends and \$0.9 billion of gross share repurchases to shareholders. At the end of September 2016, IBM had \$3.0 billion remaining in the current share repurchase authorization.

IBM ended the third-quarter 2016 with \$10.0 billion of cash on hand. Debt, including Global Financing debt of \$26.1 billion, totaled \$42.5 billion. Core (non-Global Financing) debt totaled \$16.4 billion. The balance sheet remains strong and is well positioned to support the business over the long term.

Segment Results

- *Cognitive Solutions (includes solutions software and transaction processing software)* -- revenues of \$4.2 billion, up 4.5 percent. Cloud revenue within the segment grew 74 percent (up 75 percent adjusting for currency), and Solutions Software grew 8 percent.
- *Global Business Services (includes consulting, global process services, application management)* -- revenues of \$4.2 billion, down 0.4 percent (down 1.6 percent adjusting for currency). Strategic imperatives revenue within the segment was up 13 percent (up 12 percent adjusting for currency).
- *Technology Services & Cloud Platforms (includes infrastructure services, technical support services, integration software)* -- revenues of \$8.7 billion, up 2.4 percent (up 1.4 percent adjusting for currency). Growth of 45 percent (up 42 percent adjusting for currency) in strategic imperatives revenue within the segment was driven by strong hybrid cloud services performance.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.6 billion, down 21.0 percent (down 21.5 percent adjusting for currency). Revenue reflects z Systems product cycle dynamics.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$412 million, down 7.9 percent (down 9.2 percent adjusting for currency).

Year-To-Date 2016 Results

Diluted earnings per share from continuing operations were \$7.67, down 15 percent compared to the 2015 period. Net income from continuing operations for the nine months ended September 30, 2016 was \$7.4 billion compared with \$8.9 billion in the year-ago period, a decrease of 17 percent.

Consolidated net income was \$7.4 billion compared to \$8.7 billion in the year-ago period. Consolidated diluted earnings per share were \$7.67 compared to \$8.85, down 13 percent year to year. Revenues from continuing operations for the nine-month period totaled \$58.1 billion, a decrease of 3 percent year to year (down 2 percent adjusting for currency) compared with \$59.7 billion for the first nine months of 2015.

Operating (non-GAAP) diluted earnings per share from continuing operations were \$8.59 compared with \$10.09 per diluted share for the 2015 period, a decrease of 15 percent. Operating (non-GAAP) net income from continuing operations for the nine months ended September 30, 2016 was \$8.3 billion compared with \$10.0 billion in the year-ago period, a decrease of 17 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 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; product quality issues; impacts of 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 and ecosystems; 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 --

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

Free cash flow guidance is derived using an estimate of profit, working capital and operational cash outflows. The company views Global Financing receivables as a profit-generating investment, which it seeks to maximize and therefore it is not considered when formulating guidance for free cash flow. As a result, the company does not estimate a GAAP Net Cash from Operations expectation metric.

The rationale for management's use of these non-GAAP measures is included in Exhibit 99.2 in 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 5:00 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/3q16.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 September 30,		Nine Months Ended September 30,	
	2016	2015*	2016	2015*
REVENUE				
Cognitive Solutions	\$4,235	\$4,052	\$12,889	\$12,616
Global Business Services	4,191	4,206	12,578	12,869
Technology Services & Cloud Platforms	8,748	8,541	26,029	25,993
Systems	1,558	1,973	5,184	6,656
Global Financing	412	447	1,245	1,386
Other	81	60	223	162
TOTAL REVENUE	19,226	19,280	58,149	59,682
GROSS PROFIT	9,013	9,436	27,401	29,278
GROSS PROFIT MARGIN				
Cognitive Solutions	80.4%	84.4%	81.5%	84.9%
Global Business Services	28.8%	29.7%	27.0%	28.2%
Technology Services & Cloud Platforms	42.0%	42.2%	41.5%	42.2%
Systems	51.1%	55.9%	55.1%	55.8%
Global Financing	37.8%	48.4%	39.6%	47.5%
TOTAL GROSS PROFIT MARGIN	46.9%	48.9%	47.1%	49.1%
EXPENSE AND OTHER INCOME				
S,G&A	4,732	4,731	16,093	15,273
R,D&E	1,397	1,287	4,320	3,885
Intellectual property and custom development income	(528)	(188)	(1,110)	(489)
Other (income) and expense	(8)	(133)	281	(578)
Interest expense	158	117	473	340
TOTAL EXPENSE AND OTHER INCOME	5,751	5,815	20,056	18,431
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES				
Pre-tax margin	3,263	3,621	7,345	10,846
Provision for / (Benefit) from income taxes	17.0%	18.8%	12.6%	18.2%
Effective tax rate	409	659	(31)	1,943
	12.5%	18.2%	(0.4%)	17.9%
INCOME FROM CONTINUING OPERATIONS	\$2,854	\$2,962	\$7,375	\$8,904
DISCONTINUED OPERATIONS				
Loss from discontinued operations, net of taxes	(1)	(12)	(4)	(176)
NET INCOME	\$2,853	\$2,950	\$7,371	\$8,727
EARNINGS PER SHARE OF COMMON STOCK:				
Assuming Dilution				
Continuing Operations	\$2.98	\$3.02	\$7.67	\$9.03
Discontinued Operations	\$0.00	(\$0.01)	\$0.00	(\$0.18)
TOTAL	\$2.98	\$3.01	\$7.67	\$8.85
Basic				
Continuing Operations	\$2.99	\$3.04	\$7.70	\$9.07
Discontinued Operations	\$0.00	(\$0.01)	\$0.00	(\$0.18)
TOTAL	\$2.99	\$3.03	\$7.70	\$8.89
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's):				
Assuming Dilution	957.3	979.0	960.7	986.0
Basic	954.0	975.1	957.7	981.8

* Recast to conform with 2016 segment presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(Dollars in Millions)	At September 30, 2016	At December 31, 2015
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$9,039	\$7,686
Marketable securities	929	508
Notes and accounts receivable - trade, net	8,291	8,333
Short-term financing receivables, net	16,032	19,020
Other accounts receivable, net	873	1,201
Inventory	1,729	1,551
Prepaid expenses and other current assets	4,539	4,205
Total Current Assets	41,433	42,504
Property, plant and equipment, net	11,104	10,727
Long-term financing receivables, net	8,936	10,013
Prepaid pension assets	3,487	1,734
Deferred taxes	4,289	4,822
Goodwill and intangibles, net	41,282	35,508
Investments and sundry assets	5,075	5,187
Total Assets	\$115,606	\$110,495
LIABILITIES:		
Current Liabilities:		
Taxes	\$2,137	\$2,847
Short-term debt	6,920	6,461
Accounts payable	5,271	6,028
Deferred income	10,815	11,021
Other liabilities	9,304	7,913
Total Current Liabilities	34,447	34,269
Long-term debt	35,563	33,428
Retirement related obligations	16,688	16,504
Deferred income	3,611	3,771
Other liabilities	8,138	8,099
Total Liabilities	98,447	96,071
EQUITY:		
IBM Stockholders' Equity:		
Common stock	53,759	53,262
Retained earnings	149,585	146,124
Treasury stock -- at cost	(158,170)	(155,518)
Accumulated other comprehensive income/(loss)	(28,164)	(29,607)
Total IBM stockholders' equity	17,010	14,262
Noncontrolling interests	149	162
Total Equity	17,159	14,424
Total Liabilities and Equity	\$115,606	\$110,495

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Cash Provided by Operating Activities per GAAP:	\$4,213	\$4,235	\$13,301	\$11,729
Less: change in Global Financing (GF)				
Receivables	934	749	3,647	1,962
Capital Expenditures, Net	(851)	(934)	(2,801)	(2,764)
Free Cash Flow	2,428	2,553	6,854	7,003
Acquisitions	(40)	(112)	(5,445)	(821)
Divestitures	0	(568)	35	(488)
Dividends	(1,337)	(1,271)	(3,927)	(3,636)
Share Repurchase	(856)	(1,542)	(2,632)	(3,846)
Non-GF Debt	(1,696)	379	3,365	770
Other (includes GF Receivables and GF Debt)	853	1,370	3,523	2,108
Change in Cash, Cash Equivalents and Short-term Marketable Securities	(\$648)	\$808	\$1,773	\$1,091

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW
(Unaudited)

(Dollars in Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	Net Income from Operations	\$2,853	\$2,950	\$7,371
Depreciation/Amortization of Intangibles	1,126	936	3,253	2,865
Stock-based Compensation	142	111	403	369
Working Capital / Other	(842)	(522)	(1,373)	(2,243)
Global Financing A/R	934	749	3,647	1,962
Loss on Microelectronics Business Disposal	0	12	0	48
Net Cash Provided by Operating Activities	\$4,213	\$4,235	\$13,301	\$11,729
Capital Expenditures, net of payments & proceeds	(851)	(934)	(2,801)	(2,764)
Divestitures, net of cash transferred	0	(568)	35	(488)
Acquisitions, net of cash acquired	(40)	(112)	(5,445)	(821)
Marketable Securities / Other Investments, net	(159)	272	610	1,358
Net Cash Used in Investing Activities	(\$1,050)	(\$1,343)	(\$7,600)	(\$2,714)
Debt, net of payments & proceeds	(2,041)	915	1,888	(607)
Dividends	(1,337)	(1,271)	(3,927)	(3,636)
Common Stock Repurchases	(856)	(1,542)	(2,632)	(3,846)
Common Stock Transactions - Other	52	51	166	271
Net Cash Used in Financing Activities	(\$4,182)	(\$1,848)	(\$4,504)	(\$7,818)
Effect of Exchange Rate changes on Cash	41	42	155	(194)
Net Change in Cash & Cash Equivalents	(\$978)	\$1,087	\$1,352	\$1,004

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

THIRD - QUARTER 2016

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud Platforms Systems Global Financing		
	Cognitive Solutions	Global Business Services	Cloud Platforms	Systems	Global Financing
Revenue					
External	\$4,235	\$4,191	\$8,748	\$1,558	\$412
Internal	667	93	180	176	352
Total Segment Revenue	\$4,902	\$4,284	\$8,929	\$1,734	\$763
Pre-tax Income from Continuing Operations	1,574	544	1,288	136	355
Pre-tax margin	32.1%	12.7%	14.4%	7.8%	46.5%
Change YTY Revenue - External	4.5%	(0.4)%	2.4%	(21.0)%	(7.9)%
Change YTY Revenue - External @constant currency	4.5%	(1.6)%	1.4%	(21.5)%	(9.2)%

THIRD - QUARTER 2015*

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud Platforms Systems Global Financing		
	Cognitive Solutions	Global Business Services	Cloud Platforms	Systems	Global Financing
Revenue					
External	\$4,052	\$4,206	\$8,541	\$1,973	\$447
Internal	528	120	161	209	584
Total Segment Revenue	\$4,580	\$4,326	\$8,702	\$2,182	\$1,031
Pre-tax Income from Continuing Operations	1,596	664	1,317	248	562
Pre-tax margin	34.9%	15.4%	15.1%	11.4%	54.5%

* Recast to conform with 2016 segment presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

NINE - MONTHS 2016

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud		Global Financing
	Cognitive Solutions	Global Business Services	Platforms	Systems	
Revenue					
External	\$12,889	\$12,578	\$26,029	\$5,184	\$1,245
Internal	1,929	310	501	594	1,340
Total Segment Revenue	\$14,818	\$12,888	\$26,530	\$5,778	\$2,585
Pre-tax Income from Continuing Operations	4,039	1,210	2,825	354	1,208
Pre-tax margin	27.3%	9.4%	10.6%	6.1%	46.7%
Change YTY Revenue - External	2.2%	(2.3)%	0.1%	(22.1)%	(10.2)%
Change YTY Revenue - External @constant currency	2.9%	(2.2)%	1.0%	(21.9)%	(8.5)%

NINE - MONTHS 2015*

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud		Global Financing
	Cognitive Solutions	Global Business Services	Platforms	Systems	
Revenue					
External	\$12,616	\$12,869	\$25,993	\$6,656	\$1,386
Internal	1,695	380	500	571	1,874
Total Segment Revenue	\$14,311	\$13,249	\$26,493	\$7,226	\$3,261
Pre-tax Income from Continuing Operations	4,949	1,895	3,861	1,048	1,690
Pre-tax margin	34.6%	14.3%	14.6%	14.5%	51.8%

* Recast to conform with 2016 segment presentation.

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

	THIRD - QUARTER 2016			
	CONTINUING OPERATIONS			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$9,013	\$129	\$79	\$9,221
Gross Profit Margin	46.9%	0.7Pts	0.4Pts	48.0%
S,G&A	4,732	(138)	(53)	4,541
R,D&E	1,397	-	(7)	1,390
Other (Income) & Expense	(8)	(2)	-	(10)
Total Expense & Other (Income)	5,751	(140)	(60)	5,550
Pre-tax Income from Continuing Operations	3,263	269	139	3,671
Pre-tax Income Margin from Continuing Operations	17.0%	1.4Pts	0.7Pts	19.1%
Provision for Income Taxes***	409	73	40	521
Effective Tax Rate	12.5%	1.1Pts	0.7Pts	14.2%
Income from Continuing Operations	2,854	197	99	3,149
Income Margin from Continuing Operations	14.8%	1.0Pts	0.5Pts	16.4%
Diluted Earnings Per Share: Continuing Operations	\$2.98	\$0.21	\$0.10	\$3.29

	THIRD - QUARTER 2015			
	CONTINUING OPERATIONS			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$9,436	\$89	\$118	\$9,643
Gross Profit Margin	48.9%	0.5Pts	0.6Pts	50.0%
S,G&A	4,731	(76)	(74)	4,581
R,D&E	1,287	-	(12)	1,275
Other (Income) & Expense	(133)	0	-	(133)
Total Expense & Other (Income)	5,815	(76)	(86)	5,652
Pre-tax Income from Continuing Operations	3,621	165	204	3,991
Pre-tax Income Margin from Continuing Operations	18.8%	0.9Pts	1.1Pts	20.7%
Provision for Income Taxes***	659	(5)	64	718
Effective Tax Rate	18.2%	-0.9Pts	0.7Pts	18.0%
Income from Continuing Operations	2,962	170	140	3,272
Income Margin from Continuing Operations	15.4%	0.9Pts	0.7Pts	17.0%
Diluted Earnings Per Share: Continuing Operations	\$3.02	\$0.18	\$0.14	\$3.34

* Includes amortization of purchased intangible assets, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

** Includes retirement-related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

*** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the As Reported pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

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

	NINE - MONTHS 2016			
	CONTINUING OPERATIONS			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$27,401	\$371	\$238	\$28,010
Gross Profit Margin	47.1%	0.6Pts	0.4Pts	48.2%
S,G&A	16,093	(365)	(183)	15,545
R,D&E	4,320	-	(23)	4,297
Other (Income) & Expense	281	(7)	-	274
Total Expense & Other (Income)	20,056	(372)	(206)	19,478
Pre-tax Income from Continuing Operations	7,345	743	444	8,532
Pre-tax Income Margin from Continuing Operations	12.6%	1.3Pts	0.8Pts	14.7%
Provision for / (Benefit) from Income Taxes***	(31)	201	106	277
Effective Tax Rate	(0.4)%	2.5Pts	1.4Pts	3.2%
Income from Continuing Operations	7,375	542	338	8,255
Income Margin from Continuing Operations	12.7%	0.9Pts	0.6Pts	14.2%
Diluted Earnings Per Share: Continuing Operations	\$7.67	\$0.57	\$0.35	\$8.59

	NINE - MONTHS 2015			
	CONTINUING OPERATIONS			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$29,278	\$268	\$350	\$29,896
Gross Profit Margin	49.1%	0.4Pts	0.6Pts	50.1%
S,G&A	15,273	(230)	(445)	14,598
R,D&E	3,885	-	(36)	3,849
Other (Income) & Expense	(578)	(5)	-	(583)
Total Expense & Other (Income)	18,431	(235)	(481)	17,715
Pre-Tax Income from Continuing Operations	10,846	503	831	12,181
Pre-tax Income Margin from Continuing Operations	18.2%	0.8Pts	1.4Pts	20.4%
Provision for Income Taxes***	1,943	52	234	2,228
Effective Tax Rate	17.9%	-0.3Pts	0.7Pts	18.3%
Income from Continuing Operations	8,904	452	597	9,953
Income Margin from Continuing Operations	14.9%	0.8Pts	1.0Pts	16.7%
Diluted Earnings Per Share: Continuing Operations	\$9.03	\$0.46	\$0.60	\$10.09

* Includes amortization of purchased intangible assets, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

** Includes retirement-related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

*** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the As Reported pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION
RECONCILIATION OF OPERATING EARNINGS PER SHARE
(Unaudited)

<u>EPS Guidance</u>	<u>2016</u> <u>Expectations</u>
IBM GAAP EPS	at least \$12.23
IBM Operating EPS (non-GAAP)	at least \$13.50
Adjustments	
Acquisition related charges *	\$0.84
Non-Operating Retirement-Related Items	\$0.43

* Includes acquisitions through September 30, 2016