

**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."

| <b>THIRD QUARTER 2016</b>              |                    |                              |                            |
|--|--------------------|------------------------------|----------------------------|
|  | <b>Diluted EPS</b> | <b>Net Income</b>            | <b>Gross Profit Margin</b> |
| <b>GAAP from Continuing Operations</b> | <b>\$2.98</b>      | <b>\$2.9B</b>                | <b>46.9%</b>               |
| Year/Year                              | -1%                | -4%                          | -2.1Pts                    |
| <b>Operating (Non-GAAP)</b>            | <b>\$3.29</b>      | <b>\$3.1B</b>                | <b>48.0%</b>               |
| Year/Year                              | -1%                | -4%                          | -2.1Pts                    |
| <b>REVENUE</b>                         | <b>Total IBM</b>   | <b>Strategic Imperatives</b> | <b>Cloud</b>               |
| <b>As reported (US\$)</b>              | <b>\$19.2B</b>     | <b>\$8.0B</b>                | <b>\$3.4B</b>              |
| 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<br>September 30, |                | Nine Months Ended<br>September 30, |                |
|--|-------------------------------------|----------------|------------------------------------|----------------|
|  | 2016                                | 2015*          | 2016                               | 2015*          |
| <b>REVENUE</b>   |                                     |                |                                    |                |
| 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            |
| <b>TOTAL REVENUE</b>   | <b>19,226</b>                       | <b>19,280</b>  | <b>58,149</b>                      | <b>59,682</b>  |
| <b>GROSS PROFIT</b>  | <b>9,013</b>                        | <b>9,436</b>   | <b>27,401</b>                      | <b>29,278</b>  |
| <b>GROSS PROFIT MARGIN</b>   |                                     |                |                                    |                |
| 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%          |
| <b>TOTAL GROSS PROFIT MARGIN</b>                                   | <b>46.9%</b>                        | <b>48.9%</b>   | <b>47.1%</b>                       | <b>49.1%</b>   |
| <b>EXPENSE AND OTHER INCOME</b>                                    |                                     |                |                                    |                |
| 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            |
| <b>TOTAL EXPENSE AND OTHER INCOME</b>                              | <b>5,751</b>                        | <b>5,815</b>   | <b>20,056</b>                      | <b>18,431</b>  |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>       |                                     |                |                                    |                |
| Pre-tax margin   | 3,263                               | 3,621          | 7,345                              | 10,846         |
| Provision for / (Benefit) from income taxes                        | 409                                 | 659            | (31)                               | 1,943          |
| Effective tax rate   | 12.5%                               | 18.2%          | (0.4%)                             | 17.9%          |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                           | <b>\$2,854</b>                      | <b>\$2,962</b> | <b>\$7,375</b>                     | <b>\$8,904</b> |
| <b>DISCONTINUED OPERATIONS</b>                                     |                                     |                |                                    |                |
| Loss from discontinued operations, net of taxes                    | (1)                                 | (12)           | (4)                                | (176)          |
| <b>NET INCOME</b>  | <b>\$2,853</b>                      | <b>\$2,950</b> | <b>\$7,371</b>                     | <b>\$8,727</b> |
| <b>EARNINGS PER SHARE OF COMMON STOCK:</b>                         |                                     |                |                                    |                |
| Assuming Dilution  |                                     |                |                                    |                |
| Continuing Operations  | \$2.98                              | \$3.02         | \$7.67                             | \$9.03         |
| Discontinued Operations  | \$0.00                              | (\$0.01)       | \$0.00                             | (\$0.18)       |
| <b>TOTAL</b>   | <b>\$2.98</b>                       | <b>\$3.01</b>  | <b>\$7.67</b>                      | <b>\$8.85</b>  |
| Basic  |                                     |                |                                    |                |
| Continuing Operations  | \$2.99                              | \$3.04         | \$7.70                             | \$9.07         |
| Discontinued Operations  | \$0.00                              | (\$0.01)       | \$0.00                             | (\$0.18)       |
| <b>TOTAL</b>   | <b>\$2.99</b>                       | <b>\$3.03</b>  | <b>\$7.70</b>                      | <b>\$8.89</b>  |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's):</b> |                                     |                |                                    |                |
| 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<br>September 30,<br>2016 | At<br>December 31,<br>2015 |
|---|-----------------------------|----------------------------|
| <b>ASSETS:</b>                                |                             |                            |
| <b>Current Assets:</b>                        |                             |                            |
| 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                      |
| <b>Total Current Assets</b>                   | <b>41,433</b>               | <b>42,504</b>              |
| 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                      |
| <b>Total Assets</b>                           | <b>\$115,606</b>            | <b>\$110,495</b>           |
| <b>LIABILITIES:</b>                           |                             |                            |
| <b>Current Liabilities:</b>                   |                             |                            |
| 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                      |
| <b>Total Current Liabilities</b>              | <b>34,447</b>               | <b>34,269</b>              |
| 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                      |
| <b>Total Liabilities</b>                      | <b>98,447</b>               | <b>96,071</b>              |
| <b>EQUITY:</b>                                |                             |                            |
| <b>IBM Stockholders' Equity:</b>              |                             |                            |
| 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)                   |
| <b>Total IBM stockholders' equity</b>         | <b>17,010</b>               | <b>14,262</b>              |
| Noncontrolling interests                      | 149                         | 162                        |
| <b>Total Equity</b>                           | <b>17,159</b>               | <b>14,424</b>              |
| <b>Total Liabilities and Equity</b>           | <b>\$115,606</b>            | <b>\$110,495</b>           |

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**CASH FLOW ANALYSIS**  
(Unaudited)

| (Dollars in Millions)  | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                 |
|--|-------------------------------------|----------------|------------------------------------|-----------------|
|  | 2016                                | 2015           | 2016                               | 2015            |
| <b>Net Cash Provided by Operating Activities per GAAP:</b>                       | <b>\$4,213</b>                      | <b>\$4,235</b> | <b>\$13,301</b>                    | <b>\$11,729</b> |
| Less: change in Global Financing (GF)  |                                     |                |                                    |                 |
| Receivables  | 934                                 | 749            | 3,647                              | 1,962           |
| Capital Expenditures, Net  | (851)                               | (934)          | (2,801)                            | (2,764)         |
| <b>Free Cash Flow</b>  | <b>2,428</b>                        | <b>2,553</b>   | <b>6,854</b>                       | <b>7,003</b>    |
| 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           |
| <b>Change in Cash, Cash Equivalents and<br/>Short-term Marketable Securities</b> | <b>(\$648)</b>                      | <b>\$808</b>   | <b>\$1,773</b>                     | <b>\$1,091</b>  |

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**CASH FLOW**  
(Unaudited)

| (Dollars in Millions)                            | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2016                                | 2015             | 2016                               | 2015             |
|  | <b>Net Income from Operations</b>   | <b>\$2,853</b>   | <b>\$2,950</b>                     | <b>\$7,371</b>   |
| 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               |
| <b>Net Cash Provided by Operating Activities</b> | <b>\$4,213</b>                      | <b>\$4,235</b>   | <b>\$13,301</b>                    | <b>\$11,729</b>  |
| 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            |
| <b>Net Cash Used in Investing Activities</b>     | <b>(\$1,050)</b>                    | <b>(\$1,343)</b> | <b>(\$7,600)</b>                   | <b>(\$2,714)</b> |
| 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              |
| <b>Net Cash Used in Financing Activities</b>     | <b>(\$4,182)</b>                    | <b>(\$1,848)</b> | <b>(\$4,504)</b>                   | <b>(\$7,818)</b> |
| Effect of Exchange Rate changes on Cash          | 41                                  | 42               | 155                                | (194)            |
| <b>Net Change in Cash &amp; Cash Equivalents</b> | <b>(\$978)</b>                      | <b>\$1,087</b>   | <b>\$1,352</b>                     | <b>\$1,004</b>   |



**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**SEGMENT DATA**  
(Unaudited)

**THIRD - QUARTER 2016**

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

**THIRD - QUARTER 2015\***

| (Dollars in Millions)                            | Cognitive Solutions &<br>Industry Services |                                | Technology<br>Services &<br>Cloud<br>Platforms      Systems      Global<br>Financing |                |                     |
|--|--|--------------------------------|--|----------------|---------------------|
|  | Cognitive<br>Solutions                     | Global<br>Business<br>Services | Cloud<br>Platforms   | Systems        | Global<br>Financing |
| <b>Revenue</b>                                   |  |                                |  |                |                     |
| External   | \$4,052                                    | \$4,206                        | \$8,541  | \$1,973        | \$447               |
| Internal   | 528  | 120                            | 161  | 209            | 584                 |
| <b>Total Segment Revenue</b>                     | <b>\$4,580</b>                             | <b>\$4,326</b>                 | <b>\$8,702</b>   | <b>\$2,182</b> | <b>\$1,031</b>      |
| <b>Pre-tax Income from Continuing Operations</b> | 1,596                                      | 664                            | 1,317  | 248            | 562                 |
| <b>Pre-tax margin</b>                            | 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 &<br>Industry Services |                                | Technology<br>Services &<br>Cloud |                | Global<br>Financing |
|---|--|--------------------------------|-----------------------------------|----------------|---------------------|
|   | Cognitive<br>Solutions                     | Global<br>Business<br>Services | Platforms                         | Systems        |                     |
| <b>Revenue</b>  |  |                                |                                   |                |                     |
| External  | \$12,889                                   | \$12,578                       | \$26,029                          | \$5,184        | \$1,245             |
| Internal  | 1,929                                      | 310                            | 501                               | 594            | 1,340               |
| <b>Total Segment Revenue</b>                            | <b>\$14,818</b>                            | <b>\$12,888</b>                | <b>\$26,530</b>                   | <b>\$5,778</b> | <b>\$2,585</b>      |
| <b>Pre-tax Income from Continuing Operations</b>        | 4,039                                      | 1,210                          | 2,825                             | 354            | 1,208               |
| <b>Pre-tax margin</b>                                   | 27.3%                                      | 9.4%                           | 10.6%                             | 6.1%           | 46.7%               |
| <b>Change YTY Revenue - External</b>                    | 2.2%                                       | (2.3)%                         | 0.1%                              | (22.1)%        | (10.2)%             |
| <b>Change YTY Revenue - External @constant currency</b> | 2.9%                                       | (2.2)%                         | 1.0%                              | (21.9)%        | (8.5)%              |

**NINE - MONTHS 2015\***

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

|   | <b>THIRD - QUARTER 2016</b>  |  |  |                                 |
|---|------------------------------|--|--|---------------------------------|
|   | <b>CONTINUING OPERATIONS</b> |  |  |                                 |
|   | <b>GAAP</b>                  | <b>Acquisition-<br/>Related<br/>Adjustments*</b> | <b>Retirement-<br/>Related<br/>Adjustments**</b> | <b>Operating<br/>(Non-GAAP)</b> |
| 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                          |

|   | <b>THIRD - QUARTER 2015</b>  |  |  |                                 |
|---|------------------------------|--|--|---------------------------------|
|   | <b>CONTINUING OPERATIONS</b> |  |  |                                 |
|   | <b>GAAP</b>                  | <b>Acquisition-<br/>Related<br/>Adjustments*</b> | <b>Retirement-<br/>Related<br/>Adjustments**</b> | <b>Operating<br/>(Non-GAAP)</b> |
| 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-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(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-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(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><br><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