

GLOBALFOUNDRIES to Acquire IBM's Microelectronics Business

IBM to Focus on Fundamental Semiconductor Research and Systems Innovation

October 20, 2014

On October 20, 2014, IBM and GLOBALFOUNDRIES announced that they have signed a Definitive Agreement under which GLOBALFOUNDRIES plans to acquire IBM's global commercial semiconductor technology business, including intellectual property, world-class technologists and technologies related to IBM's Microelectronics business. GLOBALFOUNDRIES will also become IBM's exclusive server processor semiconductor technology provider for 22 nanometer (nm), 14nm and 10nm semiconductors for the next 10 years.

A copy of the announcement press release is available at <http://www.ibm.com/press/us/en/pressrelease/45110.wss>

Strategic Rationale

IBM's strategy is one of innovation, transformation and a constant evolution by investing where it is best able to provide higher value solutions to its clients. IBM has a proven history of continuously transforming its portfolio and has been executing in support of its strategic agenda. IBM's objective is to direct its investments where it can best differentiate, and to rely on others where they are best able to help with total solutions. Semiconductor manufacturing is such a case, where scale is critical for competitive cost. As IBM continues to perform the fundamental research, as well as semiconductor circuit and system design, a trusted manufacturing supplier will provide significant economic leverage.

IBM has been in the semiconductor business primarily to supply leading edge technologies to its high-end systems and storage products. A portion of the manufacturing capacity is made available to supply commercial microelectronics customers with access to IBM's advanced technologies, while improving IBM's cost profile. While IBM has world-class technology and intellectual property, the company has lacked scale. As a subscale business, IBM's Microelectronic business has been generating losses. The technology manufacturing process will become more complex as the node progresses from 22nm to 14nm and then to 10nm and even more challenging for a subscale operation. This progression will entail incremental manufacturing capacity and re-tooling to support increasing development effort and more challenging chip yields.

Advances in semiconductor manufacturing innovation will enable IBM to leverage GLOBALFOUNDRIES' scaled semiconductor manufacturing operations and commitment to manufacturing innovation to support node progression to 14nm and then to 10nm. This transaction will also free up capital to be reallocated to other areas including focusing investments on material science and system strategy innovation.

Systems of the future will continue to be differentiated at the systems and chip

design level, which is where IBM is focused. IBM recently announced its investment commitment of \$3 billion over the next five years in broad research and early stage development programs to push the limits of chip technology needed to meet the demands of cloud computing and Big Data systems. These investments will push IBM's semiconductor innovations from today's breakthroughs into the advanced technology leadership required for the future.

For more details on IBM's announcement on the investment and its focus, please refer to the press release dated July 10, 2014 at <http://www-03.ibm.com/press/us/en/pressrelease/44357.wss>

As a result of this transaction, GLOBALFOUNDRIES will gain substantial intellectual property and an influx of the best technical teams in the semiconductor industry, which will support its path to advanced process geometrics at 10nm and below. Additionally, the transaction opens up business opportunities for GLOBALFOUNDRIES in industry-leading radio frequency (RF) and specialty technologies and ASIC design capabilities.

Transaction Details and Business Relationship

IBM and GLOBALFOUNDRIES have signed the Agreement under which GLOBALFOUNDRIES will acquire IBM's semiconductor manufacturing operations and facilities in East Fishkill, NY, and Essex Junction, VT and its commercial microelectronics business. GLOBALFOUNDRIES will become IBM's exclusive server processor semiconductor technology provider for 22nm, 14nm and 10nm semiconductors for the next 10 years.

The Agreement provides IBM with supply at market based pricing. As part of the transaction, IBM and GLOBALFOUNDRIES will provide each other certain transition services to ensure the continuity of operations for GLOBALFOUNDRIES.

The Agreement plays to the strength of each company: IBM's unparalleled semiconductor and material science research, development capabilities and leadership in high-end systems, and GLOBALFOUNDRIES' leadership in advanced technology manufacturing at scale and commitment to delivering future semiconductor technologies.

The transaction will be completed as soon as is practical with a target closing in 2015, subject to completion of applicable regulatory reviews.

Financial Implications

Non-Recurring Items

IBM will reflect a pre-tax charge of \$4.7 billion in its financial results for the third quarter of 2014 related to the divestiture of the Microelectronics business. This pre-tax charge includes impairment of long-lived assets to reflect the fair value less the estimated costs of divesting the Microelectronics business, which the company classified as held for sale at September 30, 2014, cash consideration of \$1.5 billion

and other related costs. The cash consideration of \$1.5 billion is expected to be paid to GLOBALFOUNDRIES over the next 3 years, and will be adjusted down by the amount of working capital which is estimated to be \$0.2 billion.

Breakout of Pre-tax Charges (\$ billion)

Asset Impairment	2.4 (non-cash)
Cash Consideration	1.5 (excludes working capital adjustments)
Other Costs	0.8
Total Pre-Tax Charge	4.7

As a result of these actions, the operating results of the related IBM business, including the noted charge, will be reported as a discontinued operation. Prior periods have been reclassified to conform to this presentation to allow for meaningful comparison of continuing operations.

As a result of the charge, IBM's book-equity was impacted by \$3.3 billion as of September 30, 2014, which impacts IBM's core debt to cap by 7 points in the third quarter of 2014.

Ongoing Revenue and Profit Impact

IBM's microelectronics OEM business has been reported in IBM's Systems and Technology segment. For the full year 2013 and first half of 2014, IBM's OEM revenue will be reduced by approximately \$1.4 billion and \$0.6 billion, respectively. In the same periods, the divested business reflected pre-tax losses of \$0.7 billion and \$0.4 billion, respectively. Moving forward, the revenue, costs and expenses of IBM's discontinued operation will be presented in a single line, net of tax, in the company's Consolidated Statement of Earnings.

IBM will retain its systems-related IP but will transfer manufacturing-related IP to GLOBALFOUNDRIES. As a result, IBM's licensing and IP-related activity is expected to decline over time. The IP and licensing income related to retained IP will remain part of IBM's continuing operations.

The impact to IBM's third quarter 2014 continuing operations results, as well as the implications to its full year 2014 Operating EPS expectations will be discussed during IBM's earnings webcast on October 20th.

See attachment A for additional information regarding the historical periods that have been reclassified.

Further information will be included in IBM's third quarter 2014 10-Q filing.

Attachment A

As Reported Previously (GAAP)

\$ in millions except for per share	1Q'13	2Q'13	3Q'13	4Q'13	FY13	1Q'14	2Q'14	1H'14
Revenue	23,408	24,924	23,720	27,699	99,751	22,484	24,364	46,848
PTI	3,606	4,144	4,812	6,962	19,524	2,980	5,171	8,151
Net Income (As-Reported)	3,032	3,226	4,041	6,185	16,483	2,384	4,137	6,521
Earnings Per Share (Fully Diluted)	2.70	2.91	3.68	5.73	14.94	2.29	4.12	6.37

Discontinued Operations (GAAP)

\$ in millions except for per share	1Q'13	2Q'13	3Q'13	4Q'13	FY13	1Q'14	2Q'14	1H'14
Revenue	307	380	383	314	1,384	248	317	565
PTI	(202)	(219)	(159)	(140)	(720)	(203)	(177)	(379)
Net Income (Discontinued Ops)	(129)	(138)	(98)	(32)	(398)	(146)	(115)	(261)
Earnings Per Share (Fully Diluted)	(0.11)	(0.12)	(0.09)	(0.03)	(0.36)	(0.14)	(0.11)	(0.25)

Continuing Operations (GAAP)

\$ in millions except for per share	1Q'13	2Q'13	3Q'13	4Q'13	FY13	1Q'14	2Q'14	1H'14
Revenue	23,101	24,544	23,338	27,385	98,367	22,236	24,047	46,283
PTI	3,808	4,363	4,972	7,102	20,244	3,183	5,348	8,531
Net Income (Continuing Ops)	3,161	3,365	4,139	6,216	16,881	2,530	4,251	6,782
Earnings Per Share (Fully Diluted)	2.81	3.03	3.77	5.76	15.30	2.43	4.23	6.62

Operating "Continuing Operations" (Non-GAAP)

\$ in millions except for per share	1Q'13	2Q'13	3Q'13	4Q'13	FY13	1Q'14	2Q'14	1H'14
Revenue	23,101	24,544	23,338	27,385	98,367	22,236	24,047	46,283
Gross Profit	10,993	12,431	11,686	14,596	49,706	10,783	12,195	22,978
Total Expense	6,707	7,624	6,243	7,023	27,597	7,276	6,591	13,868
<i>RD&E</i>	1,497	1,409	1,342	1,438	5,686	1,419	1,381	2,800
PTI	4,286	4,807	5,443	7,573	22,110	3,507	5,603	9,110
Net Income (Operating "Continuing Ops")	3,505	3,718	4,485	6,649	18,356	2,790	4,456	7,246
Earnings Per Share (Fully Diluted)	3.12	3.35	4.08	6.16	16.64	2.68	4.43	7.08

Notes:

1. All the revenue and costs associated with discontinued operations is in IBM's Systems and Technology segment and 85-90% of the discontinued operations expense is in RD&E.
2. Operating "Continuing Operations" (Non-GAAP) excludes acquisitions-related adjustments and retirement-related adjustments as previously reported in the Company's Forms 10-K and 10-Qs filed with SEC.