

IBM REPORTS 2015 FIRST-QUARTER RESULTS

- o Diluted EPS from continuing operations:
 - Operating (non-GAAP): \$2.91, up 9 percent;
 - GAAP: \$2.44, flat year-to-year;
- o Net income from continuing operations:
 - Operating (non-GAAP): \$2.9 billion, up 4 percent;
 - GAAP: \$2.4 billion, down 5 percent;
- o Gross profit margin from continuing operations:
 - Operating (non-GAAP): 49.3 percent, up 80 basis points;
 - GAAP: 48.2 percent, up 50 basis points;
- o Revenue from continuing operations: \$19.6 billion:
 - Flat year-to-year adjusting for currency and divested businesses (8 percent and 4 percent, respectively); down 12 percent as reported;
 - System z mainframe more than doubled;
- o Strategic imperatives revenue up more than 30 percent adjusting for currency and divested businesses; up more than 20 percent, as reported:
 - Cloud revenue up more than 75 percent adjusting for currency and divested businesses; up more than 60 percent as reported;
 - For cloud delivered as a service, annual run rate of \$3.8 billion compared to \$2.3 billion in the first quarter of 2014;
 - Business analytics revenue up more than 20 percent adjusting for currency and divested businesses; up 12 percent as reported;
- o Services backlog of \$121 billion, flat year-to-year adjusting for currency and divested businesses;
- o Total shareholder return of \$2.3 billion: dividends of \$1.1 billion and gross share repurchases of \$1.2 billion;
- o Maintain full-year expectations:
 - Operating (non-GAAP) EPS of \$15.75 to \$16.50;
 - Free cash flow flat year-to-year.

ARMONK, N.Y., April 20, 2015 . . . IBM (NYSE: IBM) today announced first-quarter 2015 diluted earnings from continuing operations of \$2.44 per share, flat year-to-year. Operating (non-GAAP) diluted earnings from continuing operations were \$2.91 per share, compared with operating diluted earnings of \$2.68 per share in the first quarter of 2014, an increase of 9 percent.

First-quarter net income from continuing operations was \$2.4 billion, down 5 percent year-to-year, including the impact of \$0.2 billion in pension-related pre-tax charges for IBM Spain in the first quarter of 2015, resulting from a court ruling in Spain. Operating (non-GAAP) net income from continuing operations was \$2.9 billion compared with \$2.8 billion in the first quarter of 2014, an increase of 4 percent. GAAP and Operating (non-GAAP) results include workforce rebalancing charges of \$0.3 billion in the first quarter of 2015 and \$0.9 billion in the year-ago period.

For the first-quarter of 2015, IBM reported consolidated net income of \$2.3 billion or \$2.35 of diluted earnings per share, including operating net losses in discontinued operations related to the Microelectronics business.

Total revenues from continuing operations for the first quarter of 2015 of \$19.6 billion were down 12 percent, flat year-to-year adjusting for currency and divested businesses, from the first quarter of 2014.

"In the first quarter we had a strong start to the year. Our strategic imperatives growth rate accelerated, demonstrating the power of our offerings in these new opportunities and contributing to improved revenue performance. Our focus on higher value through portfolio transformation and investment in key areas of the business drove continued margin expansion," said Ginni Rometty, IBM chairman, president and chief executive officer.

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

First-quarter operating (non-GAAP) diluted earnings from continuing operations exclude \$0.47 per share of charges: \$0.14 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.33 per share for retirement-related charges, which includes the Spain pension-related charges.

Full-Year 2015 Expectations

IBM expects full-year 2015 GAAP diluted earnings per share of \$14.17 to \$14.92, and operating (non-GAAP) diluted earnings per share of \$15.75 to \$16.50. At this level of profit, IBM continues to expect free cash flow to be flat year-to-year. The 2015 operating (non-GAAP) earnings expectation excludes \$1.58 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges.

Geographic Regions

The Americas' first-quarter revenues were \$9.3 billion, a decrease of 3 percent (up 2 percent adjusting for currency and divested businesses) from the 2014 period. Revenues from Europe/Middle East/Africa were \$6.1 billion, down 19 percent (down 2 percent adjusting for currency and divested businesses). Asia-Pacific revenues decreased 18 percent (down 2 percent adjusting for currency and divested businesses) to \$4.1 billion.

Growth Markets and Major Markets

Revenues from the company's growth markets decreased 16 percent (down 1 percent adjusting for currency and divested businesses). Revenues from the company's major markets were down 11 percent (flat year-to-year adjusting for currency and divested businesses).

Services

Global Services revenues decreased 12 percent (down 2 percent adjusting for currency and divested businesses) to \$12.2 billion. Global Technology Services segment revenues were down 11 percent (down 1 percent adjusting for currency and divested businesses) to \$7.9 billion. Global Business Services segment revenues were down 13 percent (down 4 percent adjusting for currency and divested businesses) to \$4.3 billion.

Pre-tax income from Global Technology Services was down 18 percent and pre-tax margin decreased to 12.3 percent. Global Business Services pre-tax income decreased 21 percent and pre-tax margin decreased to 13.4 percent.

The estimated services backlog as of March 31 was \$121 billion, flat year-to-year adjusting for currency and divested businesses.

Software

Revenues from the Software segment were down 8 percent to \$5.2 billion (down 2 percent adjusting for currency) compared with the first quarter of 2014. Software pre-tax income increased 1 percent and pre-tax margin increased to 31.4 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$3.5 billion, down 5 percent (up 1 percent adjusting for currency) versus the first quarter of 2014. Operating systems revenues of \$0.4 billion were down 15 percent (down 9 percent adjusting for currency) compared with the prior-year quarter.

Hardware

Revenues for the Systems Hardware segment totaled \$1.7 billion for the quarter, down 23 percent (up 30 percent adjusting for currency and the impact of the divested System x business) from the first quarter of 2014. Systems Hardware pre-tax income increased \$0.5 billion.

Revenues from System z mainframe server products increased 118 percent compared with the year-ago period (up 130 percent adjusting for currency). Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 95 percent. Revenues from Power Systems were down 3 percent compared with

the 2014 period (up 1 percent adjusting for currency). Revenues from System Storage decreased 8 percent (down 2 percent adjusting for currency).

Financing

Global Financing segment revenues were down 10 percent (down 1 percent adjusting for currency) in the first quarter to \$0.5 billion. Pre-tax income for the segment decreased 14 percent to \$0.5 billion.

Gross Profit

The company's total gross profit margin from continuing operations was 48.2 percent in the 2015 first quarter compared with 47.8 percent in the 2014 first-quarter period. Total operating (non-GAAP) gross profit margin from continuing operations was 49.3 percent in the 2015 first quarter compared with 48.5 percent in the 2014 first-quarter period, with an increase in Hardware and an improving segment mix partially offset by a decline in Services.

Expense

Total expense and other income from continuing operations decreased to \$6.5 billion, down 13 percent compared to the prior-year period. Year-to-year results include the impact of currency and the divested System x business, as well as lower workforce rebalancing charges, partially offset by the Spain pension-related charges and prior year gain for the divestiture of the customer care outsourcing business. S,G&A expense of \$5.4 billion decreased 15 percent year over year. R,D&E expense of \$1.3 billion decreased 7 percent year-to-year; the related expense-to-revenue ratio increased to 6.6 percent compared with 6.3 percent in the year-ago period. Intellectual property and custom development income decreased to \$173 million compared with \$207 million a year ago. Other (income) and expense was income of \$143 million compared with prior-year income of \$127 million. Interest expense increased to \$108 million compared with \$105 million in the prior year.

Total operating (non-GAAP) expense and other income from continuing operations decreased to \$6.1 billion, down 17 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.0 billion decreased 18 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.3 billion decreased 9 percent year-to-year, reflecting the impact of currency and divested businesses; the related expense-to-revenue ratio increased to 6.6 percent compared with 6.4 percent in the year-ago period.

Pre-Tax Income

Pre-tax income from continuing operations decreased 6 percent to \$3.0 billion. Pre-tax margin from continuing operations increased 1.0 points to 15.3 percent. Operating (non-GAAP) pre-tax income from continuing operations increased 3 percent to \$3.6 billion and pre-tax margin was 18.4 percent, up 2.7 points.

IBM's tax rate from continuing operations was 19.5 percent, down 1.0 points year over year; the operating (non-GAAP) tax rate was 20.0 percent, down 0.5 points compared to the year-ago period.

Net income margin from continuing operations increased 0.9 points to 12.3 percent. Total operating (non-GAAP) net income margin from continuing operations increased 2.2 points to 14.8 percent.

The weighted-average number of diluted common shares outstanding in the first-quarter 2015 was 992 million compared with 1.04 billion shares in the same period of 2014. As of March 31, 2015, there were 985 million basic common shares outstanding.

Debt, including Global Financing, totaled \$38.8 billion, compared with \$40.8 billion at year-end 2014. From a management segment view, Global Financing debt totaled \$26.2 billion versus \$29.1 billion at year-end 2014, resulting in a debt-to-equity ratio of 7.0 to 1. Core (non-global financing) debt totaled \$12.6 billion, an increase of \$0.9 billion since year-end 2014 and a decrease of \$3.1 billion from the first quarter of 2014.

IBM ended the first-quarter 2015 with \$8.8 billion of cash on hand and generated free cash flow of \$1.1 billion, excluding Global Financing receivables, up \$0.4 billion year over year. The company returned \$2.3 billion to shareholders through \$1.1 billion in dividends and \$1.2 billion of gross share repurchases. The balance sheet remains strong, and the company is well positioned to support the business over the long term.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and client spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and 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 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 from continuing operations amounts and related income statement items;
- o adjusting for free cash flow;
- o adjusting for currency (i.e., at constant currency);
- o adjusting for the divestiture of the System x and the customer care outsourcing businesses.

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the first-quarter earnings materials. These materials are available via a link on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II ("Non-GAAP Supplemental Materials") to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. The Webcast may be accessed via a link at

<http://www.ibm.com/investor/events/earnings/lq15.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 March 31,		Percent Change
	2015	2014*	
REVENUE			
Global Technology Services **	\$7,886	\$8,849	-10.9%
Gross profit margin	37.4%	38.8%	
Global Business Services **	4,318	4,964	-13.0%
Gross profit margin	27.4%	29.2%	
Software	5,199	5,661	-8.2%
Gross profit margin	86.6%	87.5%	
Systems Hardware *	1,659	2,143	-22.6%
Gross profit margin	44.5%	34.0%	
Global Financing	461	512	-9.9%
Gross profit margin	49.6%	46.1%	
Other	67	107	-37.5%
Gross profit margin	-224.6%	-163.7%	
TOTAL REVENUE	19,590	22,236	-11.9%
GROSS PROFIT			
Gross profit margin	48.2%	47.8%	-11.1%
EXPENSE AND OTHER INCOME			
S, G&A	5,362	6,272	-14.5%
Expense to revenue	27.4%	28.2%	
R, D&E	1,298	1,402	-7.4%
Expense to revenue	6.6%	6.3%	
Intellectual property and custom development income	(173)	(207)	-16.5%
Other (income) and expense	(143)	(127)	12.5%
Interest expense	108	105	2.7%
TOTAL EXPENSE AND OTHER INCOME	6,451	7,444	-13.3%
Expense to revenue	32.9%	33.5%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
Pre-tax margin	15.3%	14.3%	-5.7%
Provision for income taxes	585	653	-10.3%
Effective tax rate	19.5%	20.5%	
INCOME FROM CONTINUING OPERATIONS	\$2,415	\$2,530	-4.6%
Net margin	12.3%	11.4%	

DISCONTINUED OPERATIONS

Loss from discontinued operations, net of taxes	(88)	(146)	
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NET INCOME	\$2,328	\$2,384	-2.4%
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EARNINGS PER SHARE**OF COMMON STOCK:**

Assuming dilution			
Continuing operations	\$2.44	\$2.43	0.4%
Discontinued operations	(\$0.09)	(\$0.14)	

TOTAL	\$2.35	\$2.29	2.6%
	=====	=====	

Basic			
Continuing operations	\$2.45	\$2.44	0.4%
Discontinued operations	(\$0.09)	(\$0.14)	

TOTAL	\$2.36	\$2.30	2.6%
	=====	=====	

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

Assuming dilution	992.3	1,041.8
Basic	988.1	1,035.2

* Reclassified to reflect discontinued operations presentation.

**Reclassified to conform with 2015 presentation.

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

(Dollars in Millions)	At March 31, 2015	At December 31, 2014
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ASSETS:		
Current Assets:		
Cash and cash equivalents	\$8,796	\$8,476
Marketable securities	8	0
Notes and accounts receivable - trade (net of allowances of \$354 in 2015 and \$336 in 2014)	8,806	9,090
Short-term financing receivables (net of allowances of \$484 in 2015 and \$452 in 2014)	16,303	19,835
Other accounts receivable (net of allowances of \$41 in 2015 and \$40 in 2014)	2,740	2,906
Inventories, at lower of average cost or market:		
Finished goods	371	430
Work in process and raw materials	1,599	1,674
	1,970	2,103
Total inventories	1,970	2,103
Deferred taxes	1,805	2,044
Prepaid expenses and other current assets	5,890	4,967
	46,316	49,422
Total Current Assets	46,316	49,422
Property, plant and equipment	38,303	39,034
Less: Accumulated depreciation	27,793	28,263
	10,509	10,771
Property, plant and equipment - net	10,509	10,771
Long-term financing receivables (net of allowances of \$125 in 2015 and \$126 in 2014)	9,820	11,109
Prepaid pension assets	2,690	2,160
Deferred taxes	4,374	4,808
Goodwill	29,871	30,556
Intangible assets - net	2,991	3,104
Investments and sundry assets	5,466	5,603
	\$112,037	\$117,532
	\$112,037	\$117,532
LIABILITIES:		
Current Liabilities:		
Taxes	\$3,539	\$5,084
Short-term debt	4,532	5,731
Accounts payable	6,314	6,864
Compensation and benefits	3,328	4,031
Deferred income	12,162	11,877
Other accrued expenses and liabilities	5,765	6,013
	35,640	39,600
Total Current Liabilities	35,640	39,600
Long-term debt	34,295	35,073
Retirement and nonpension postretirement benefit obligations	17,211	18,261
Deferred income	3,811	3,691
Other liabilities	8,791	8,892
	99,747	105,518
Total Liabilities	99,747	105,518
EQUITY:		

IBM Stockholders' Equity:

Common stock	52,928	52,666
Retained earnings	139,030	137,793
Treasury stock -- at cost	(151,975)	(150,715)
Accumulated other comprehensive income/(loss)	(27,842)	(27,875)
	<u>12,141</u>	<u>11,868</u>
Total IBM stockholders' equity	12,141	11,868
Noncontrolling interests	148	146
	<u>12,289</u>	<u>12,014</u>
Total Equity	12,289	12,014
Total Liabilities and Equity	\$112,037	\$117,532
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INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended March 31,	
	2015	2014
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Net Cash from Operating Activities per GAAP:	\$3,610	\$3,326
Less: the change in Global Financing (GF) Receivables	1,605	1,807
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Net Cash from Operating Activities (Excluding GF Receivables)	2,004	1,518
Capital Expenditures, Net	(923)	(887)
Free Cash Flow (Excluding GF Receivables)	1,081	631
Acquisitions	(148)	(264)
Divestitures	19	391
Dividends	(1,088)	(990)
Share Repurchase	(1,165)	(8,166)
Non-GF Debt	361	3,634
Other (includes GF Receivables, and GF Debt)	1,266	3,402
Change in Cash, Cash Equivalents and Short-term Marketable Securities	\$327	(\$1,361)
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INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

FIRST-QUARTER 2015

(Dollars in Millions)	----- External	Revenue Internal	----- Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$7,886	\$195	\$8,081	\$994	12.3%
Y-T-Y change	-10.9%	-18.8%	-11.1%	-18.2%	
Global Business Services	4,318	131	4,449	597	13.4%
Y-T-Y change	-13.0%	-7.3%	-12.8%	-21.3%	
Software	5,199	964	6,162	1,936	31.4%
Y-T-Y change	-8.2%	3.3%	-6.5%	0.9%	
Systems Hardware	1,659	92	1,751	24	1.4%
Y-T-Y change	-22.6%	-45.3%	-24.2%	NM	
Global Financing	461	586	1,048	515	49.2%
Y-T-Y change	-9.9%	-5.0%	-7.2%	-13.6%	
TOTAL REPORTABLE SEGMENTS	\$19,523	\$1,968	\$21,491	\$4,066	18.9%
Y-T-Y change	-11.8%	-6.3%	-11.3%	0.9%	
Eliminations / Other	67	(1,968)	(1,901)	(1,065)	
TOTAL IBM CONSOLIDATED	\$19,590	\$0	\$19,590	\$3,001	15.3%
Y-T-Y change	-11.9%		-11.9%	-5.7%	

FIRST-QUARTER 2014*

(Dollars in Millions)	----- External	Revenue Internal	----- Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services **	\$8,849	\$241	\$9,089	\$1,215	13.4%
Global Business Services **	4,964	141	5,105	759	14.9%
Software	5,661	932	6,593	1,918	29.1%
Systems Hardware *	2,143	168	2,311	(457)	-19.8%
Global Financing	512	617	1,129	596	52.8%
TOTAL REPORTABLE SEGMENTS	\$22,128	\$2,099	\$24,228	\$4,031	16.6%
Eliminations / Other	107	(2,099)	(1,992)	(848)	

TOTAL IBM CONSOLIDATED	\$22,236	\$0	\$22,236	\$3,183	14.3%
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* Reclassified to reflect discontinued operations presentation.

**Reclassified to conform with 2015 presentation.

NM - Not Meaningful

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

FIRST-QUARTER 2015
CONTINUING OPERATIONS

	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$9,452	\$91	\$121	\$9,664
Gross Profit Margin	48.2%	0.5Pts	0.6Pts	49.3%
S,G&A	5,362	(79)	(308)	4,975
R,D&E	1,298	-	(13)	1,285
Other (Income) & Expense	(143)	0	-	(143)
Total Expense & Other (Income)	6,451	(79)	(321)	6,051
Pre-tax Income from Continuing Operations	3,001	170	442	3,612
Pre-tax Income Margin from Continuing Operations	15.3%	0.9Pts	2.3Pts	18.4%
Provision for Income Taxes***	585	28	109	722
Effective Tax Rate	19.5%	-0.2Pts	0.7Pts	20.0%
Income from Continuing Operations	2,415	142	333	2,890
Income Margin from Continuing Operations	12.3%	0.7Pts	1.7Pts	14.8%
Diluted Earnings Per Share: Continuing Operations	\$2.44	\$0.14	\$0.33	\$2.91

FIRST-QUARTER 2014****
CONTINUING OPERATIONS

	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$10,627	\$104	\$52	\$10,783
Gross Profit Margin	47.8%	0.5Pts	0.2Pts	48.5%
S,G&A	6,272	(97)	(87)	6,087
R,D&E	1,402	-	17	1,419
Other (Income) & Expense	(127)	0	-	(128)
Total Expense & Other (Income)	7,444	(98)	(70)	7,276
Pre-tax Income from Continuing Operations	3,183	201	123	3,507

Pre-tax Income Margin from Continuing Operations	14.3%	0.9Pts	0.6Pts	15.8%
Provision for Income Taxes***	653	40	25	717
Effective Tax Rate	20.5%	0.0Pts	0.0Pts	20.5%
Income from Continuing Operations	2,530	161	98	2,790
Income Margin from Continuing Operations	11.4%	0.7Pts	0.4Pts	12.5%
Diluted Earnings Per Share: Continuing Operations	\$2.43	\$0.16	\$0.09	\$2.68

* 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 from continuing operations 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.

**** Reclassified to reflect discontinued operations presentation.

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