

IBM REPORTS 2016 FIRST-QUARTER EARNINGS

Transformation Progress Continues with Strong Growth in Strategic Imperatives

Highlights

- Diluted EPS: Operating (non-GAAP) of \$2.35; GAAP of \$2.09
- Revenue from continuing operations of \$18.7 billion
- Strategic imperatives revenue of \$29.8 billion over the last 12 months represents 37 percent of IBM revenue
- Cloud revenue of \$10.8 billion over the last 12 months
- For cloud delivered as a service, annual run rate of \$5.4 billion in the quarter, up 46 percent adjusting for currency, up 42 percent as reported year to year
- Free cash flow of \$14.3 billion over last 12 months
- Announced or closed 10 acquisitions during the quarter
- Returned \$2.2 billion to shareholders in the form of gross share repurchases and dividends
- Maintains full-year operating (non-GAAP) EPS expectations of at least \$13.50
- Improves view of full-year free cash flow

ARMONK, N.Y., April 18, 2016 . . . IBM (NYSE: IBM) today announced first-quarter 2016 earnings results.

"We are pleased with the progress we have made helping our clients apply new cognitive solutions and hybrid cloud platforms," said Ginni Rometty, IBM chairman, president and chief executive officer. "IBM has established itself as the industry leader in total cloud, analytics and cognitive, all of which helped drive our strategic imperatives revenue growth at a strong double-digit rate, substantially faster than the market."

FIRST - QUARTER 2016			
	Diluted EPS	Net Income	Gross Profit Margin
Operating (Non-GAAP)	\$2.35	\$2.3B	47.5%
Year/Year	-19%	-21%	-1.8Pts
GAAP from Continuing Operations	\$2.09	\$2.0B	46.5%
Year/Year	-14%	-17%	-1.8Pts
REVENUE	Total IBM	Strategic Imperatives	Cloud
As reported (US\$)	\$18.7B	\$7.0B	\$2.6B
Year/Year	-5%	14%	34%
Year/Year adjusting for currency	-2%	17%	36%

"In the first quarter, we invested \$3.6 billion in acquisitions and capital expenditures, and returned \$2.2 billion to shareholders through dividends and gross share repurchases," said Martin Schroeter, IBM senior vice president and chief financial officer. "We will continue to invest as we transform our operations, expanding our industry expertise and our cognitive and cloud capabilities."

Strategic Imperatives

First-quarter revenues from the company's strategic imperatives --- cloud, analytics and engagement --- increased 14 percent year to year (up 17 percent adjusting for currency). Total cloud revenues (public, private and hybrid) for the quarter increased 34 percent (up 36 percent adjusting for currency). Cloud revenue over the trailing 12 months was \$10.8 billion. The annual exit run rate for cloud delivered as a service -- a subset of the total cloud revenue -- increased to \$5.4 billion from \$3.8 billion in the first quarter of 2015. Revenues from analytics increased 7 percent (up 9 percent adjusting for currency). Revenues from mobile increased 88 percent (up 93 percent adjusting for currency) and from security increased 18 percent (up 20 percent adjusting for currency).

Full-Year 2016 Expectations

IBM continues to expect full-year 2016 operating (non-GAAP) diluted earnings per share of at least \$13.50. The company expects GAAP diluted earnings per share of at least \$12.35. The 2016 operating (non-GAAP) earnings expectation excludes \$1.15 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges.

IBM had previously expected a free cash flow realization of GAAP net income which implied a full-year free cash flow range of \$11 billion to \$12 billion. The company now expects free cash flow to be at the high end of that range at the same base level of operating (non-GAAP) EPS.

Pre-Tax Income and Tax Rate

The decrease in the company's pre-tax income was primarily the result of increased expenses for workforce transformation, real estate actions, and actions in Latin America, which totaled nearly \$1.5 billion.

IBM's tax rate for the first quarter includes a \$1.0 billion refund of previously paid non-U.S. taxes, plus interest, for a total benefit of \$1.2 billion. This is the result of a long-standing tax matter which was resolved in the company's favor in February and was disclosed in the 2015 IBM Annual Report. The impact of the tax refund on the company's first-quarter net income was largely equivalent on an after-tax basis to the expenses for workforce transformation, real estate actions, and actions in Latin America.

Cash Flow and Balance Sheet

The company generated free cash flow of \$2.3 billion in the first quarter, excluding Global Financing receivables, up \$1.2 billion year to year. IBM returned \$1.2 billion in dividends and \$0.9 billion of gross share repurchases to shareholders. At the end of March 2016, IBM had \$4.7 billion remaining in the current share repurchase authorization.

IBM ended the first-quarter 2016 with \$14.9 billion of cash on hand, an increase of \$6.7 billion since year-end 2015. Debt, including Global Financing debt of \$26.8 billion, totaled \$45.6 billion, compared with \$39.9 billion at year-end 2015. Core (non-global financing) debt totaled \$18.8 billion, an increase of \$6.1 billion since year-end 2015. The balance sheet remains strong and is well positioned to support the business over the long term.

Segment Results

As announced in February during the company's Investor Briefing, IBM has revised its financial reporting structure to reflect the transformation of the business and provide investors with increased visibility into the company's operating model by disclosing additional information on its strategic imperatives revenue by segment. Beginning with the first-quarter 2016, IBM's business segments and results are:

- *Cognitive Solutions (includes solutions software and transaction processing software)* -- revenues of \$4.0 billion, down 1.7 percent, up 0.4 percent adjusting for currency. Solutions software grew, led by security and analytics solutions, including strong growth in the Watson businesses.
- *Global Business Services (includes consulting, global process services, application management)* -- revenues of \$4.1 billion, down 4.3 percent, down 2.3 percent adjusting for currency. Strategic imperatives revenue within the segment was up 19 percent (up 22 percent adjusting for currency) and generated nearly one-half of segment revenue.
- *Technology Services and Cloud Platforms (includes infrastructure services, technical support services, integration software)* -- revenues of \$8.4 billion, down 1.5 percent, up 1.9 percent adjusting for currency. Growth of 41 percent (45 percent adjusting for currency) in strategic imperatives revenue within the segment was driven by hybrid cloud infrastructure engagements.
- *Systems (includes systems hardware and operating systems software)* -- revenues of \$1.7 billion, down 21.8 percent, down 20.6 percent adjusting for currency. Revenue reflects z Systems product cycle dynamics; segment gross profit margins increased.
- *Global Financing (includes financing and used equipment sales)* -- revenues of \$410 million, down 11.2 percent, down 6.4 percent adjusting for currency.

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).

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 5:00 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/1q16.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 March 31,	
	2016	2015*
REVENUE		
Cognitive Solutions	\$3,979	\$4,047
Global Business Services	4,131	4,318
Technology Services & Cloud Platforms	8,424	8,554
Systems	1,675	2,142
Global Financing	410	461
Other	66	67
TOTAL REVENUE	18,684	19,590
GROSS PROFIT	8,686	9,452
GROSS PROFIT MARGIN		
Cognitive Solutions	82.0%	84.5%
Global Business Services	25.8%	27.4%
Technology Services & Cloud Platforms	40.9%	42.1%
Systems	57.2%	54.8%
Global Financing	42.4%	49.6%
TOTAL GROSS PROFIT MARGIN	46.5%	48.2%
EXPENSE AND OTHER INCOME		
S,G&A	6,012	5,362
R,D&E	1,458	1,298
Intellectual property and custom development income	(217)	(173)
Other (income) and expense	253	(143)
Interest expense	147	108
TOTAL EXPENSE AND OTHER INCOME	7,652	6,451
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		
Pre-tax margin	5.5%	15.3%
Provision for / (Benefit) from income taxes	(983)	585
Effective tax rate	(95.1)%	19.5%
INCOME FROM CONTINUING OPERATIONS	\$2,016	\$2,415
DISCONTINUED OPERATIONS		
Loss from discontinued operations, net of taxes	(3)	(88)
NET INCOME	\$2,014	\$2,328
EARNINGS PER SHARE OF COMMON STOCK:		
Assuming Dilution		
Continuing Operations	\$2.09	\$2.44
Discontinued Operations	\$0.00	(\$0.09)
TOTAL	\$2.09	\$2.35
Basic		
Continuing Operations	\$2.09	\$2.45
Discontinued Operations	\$0.00	(\$0.09)
TOTAL	\$2.09	\$2.36
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's):		
Assuming Dilution	964.4	992.3
Basic	961.7	988.1

*Reclassified to conform with 2016 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(Dollars in Millions)	At March 31, 2016	At December 31, 2015
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$14,354	\$7,686
Marketable securities	515	508
Notes and accounts receivable - trade, net	8,527	8,333
Short-term financing receivables, net	16,646	19,020
Other accounts receivable, net	1,557	1,201
Inventory	1,690	1,551
Prepaid expenses and other current assets	4,334	4,205
Total Current Assets	47,623	42,504
Property, plant and equipment, net	10,910	10,727
Long-term financing receivables, net	9,266	10,013
Prepaid pension assets	2,332	1,734
Deferred taxes	4,809	4,822
Goodwill and intangibles, net	38,695	35,508
Investments and sundry assets	5,223	5,187
Total Assets	\$118,856	\$110,495
LIABILITIES:		
Current Liabilities:		
Taxes	\$2,203	\$2,847
Short-term debt	5,303	6,461
Accounts payable	5,302	6,028
Deferred income	12,609	11,021
Other liabilities	9,248	7,913
Total Current Liabilities	34,664	34,269
Long-term debt	40,254	33,428
Retirement related obligations	16,939	16,504
Deferred income	3,662	3,771
Other liabilities	8,264	8,099
Total Liabilities	103,784	96,071
EQUITY:		
IBM Stockholders' Equity:		
Common stock	53,439	53,262
Retained earnings	146,888	146,124
Treasury stock -- at cost	(156,404)	(155,518)
Accumulated other comprehensive income/(loss)	(28,998)	(29,607)
Total IBM stockholders' equity	14,925	14,262
Noncontrolling interests	147	162
Total Equity	15,072	14,424
Total Liabilities and Equity	\$118,856	\$110,495

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended March 31	
	2016	2015
Net Cash from Operating Activities per GAAP:	\$5,645	\$3,610
Less: the change in Global Financing (GF) Receivables	2,378	1,605
Net Cash from Operating Activities (Excluding GF Receivables)	3,266	2,004
Capital Expenditures, Net	(971)	(923)
Free Cash Flow (Excluding GF Receivables)	2,295	1,081
Acquisitions	(2,590)	(148)
Divestitures	47	19
Dividends	(1,250)	(1,088)
Share Repurchase	(939)	(1,165)
Non-GF Debt	5,871	361
Other (includes GF Receivables, and GF Debt)	3,239	1,266
Change in Cash, Cash Equivalents and Short-term Marketable Securities	\$6,674	\$327

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

FIRST - QUARTER 2016

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud		Global Financing
	Cognitive Solutions	Global Business Services	Platforms	Systems	
Revenue					
External	\$3,979	\$4,131	\$8,424	\$1,675	\$410
Internal	668	113	165	212	486
Total Segment Revenue	\$4,647	\$4,245	\$8,589	\$1,888	\$896
Pre-tax Income / (Loss) from Continuing Operations	1,013	190	258	(10)	386
Pre-tax margin	21.8%	4.5%	3.0%	(0.5)%	43.1%
Change YTY Revenue - External	(1.7)%	(4.3)%	(1.5)%	(21.8)%	(11.2)%
Change YTY Revenue - External @constant currency	0.4%	(2.3)%	1.9%	(20.6)%	(6.4)%

FIRST - QUARTER 2015*

(Dollars in Millions)	Cognitive Solutions & Industry Services		Technology Services & Cloud		Global Financing
	Cognitive Solutions	Global Business Services	Platforms	Systems	
Revenue					
External	\$4,047	\$4,318	\$8,554	\$2,142	\$461
Internal	635	131	166	173	586
Total Segment Revenue	\$4,682	\$4,449	\$8,720	\$2,314	\$1,048
Pre-tax Income / (Loss) from Continuing Operations	1,528	588	1,131	261	515
Pre-tax margin	32.6%	13.2%	13.0%	11.3%	49.2%

* Reclassified to conform with 2016 presentation.

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

FIRST - QUARTER 2016				
CONTINUING OPERATIONS				
GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)	
Gross Profit	\$8,686	\$112	\$79	\$8,877
Gross Profit Margin	46.5%	0.6Pts	0.4Pts	47.5%
S,G&A	6,012	(67)	(55)	5,890
R,D&E	1,458		(9)	1,449
Other (Income) & Expense	253	(6)		247
Total Expense & Other (Income)	7,652	(73)	(63)	7,516
Pre-tax Income from Continuing Operations	1,034	185	142	1,361
Pre-tax Income Margin from Continuing Operations	5.5%	1.0Pts	0.8Pts	7.3%
Provision for / (Benefit) from Income Taxes***	(983)	47	27	(909)
Effective Tax Rate	(95.1)%	18.2Pts	13.8Pts	(66.8)%
Income from Continuing Operations	2,016	138	115	2,270
Income Margin from Continuing Operations	10.8%	0.7Pts	0.6Pts	12.1%
Diluted Earnings Per Share: Continuing Operations	\$2.09	\$0.14	\$0.12	\$2.35

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

* 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.