

**IBM RELEASES FOURTH QUARTER RESULTS****Software and Consulting Growth Driven by Hybrid Cloud Adoption; Strong Profit Performance**

ARMONK, N.Y., Jan. 24, 2022 /PRNewswire/ -- IBM (NYSE: **IBM**) today announced fourth-quarter 2021 earnings results.

"We increased revenue in the fourth quarter with hybrid cloud adoption driving growth in software and consulting," said Arvind Krishna, IBM chairman and chief executive officer. "Our fourth-quarter results give us confidence in our ability to deliver our objectives of sustained mid-single digit revenue growth and strong free cash flow in 2022."

On November 3, 2021, IBM completed the separation of Kyndryl. Unless otherwise specified, fourth-quarter and full-year results are presented on a continuing operations basis.

**Fourth-Quarter Highlights**

- Revenue
  - Revenue of \$16.7 billion, up 6.5 percent, up 8.6 percent at constant currency (including about 3.5 points from incremental external sales to Kyndryl)
  - Software revenue up 8 percent, up 10 percent at constant currency (including about 5 points from incremental external sales to Kyndryl)
  - Consulting revenue up 13 percent, up 16 percent at constant currency
  - Infrastructure revenue flat, up 2 percent at constant currency (including about 5 points from incremental external sales to Kyndryl)
  - Hybrid cloud revenue:
    - Fourth Quarter: \$6.2 billion, up 16 percent, up 18 percent at constant currency
    - Full Year: \$20.2 billion, up 20 percent, up 19 percent at constant currency
- Pre-tax Income:
  - GAAP: \$2.9 billion, up 183 percent, including 167 points from the impact of fourth-quarter 2020 charge for structural actions
  - Operating (Non-GAAP): \$3.5 billion, up 102 percent, including 92 points from the impact of fourth-quarter 2020 charge for structural actions

**FOURTH QUARTER 2021 INCOME STATEMENT SUMMARY**

|                   | Pre-tax        |               |               |              |               |               |
|-------------------|----------------|---------------|---------------|--------------|---------------|---------------|
|                   | Gross          | Pre-tax       | Income        | Net          | Diluted       |               |
|                   | Revenue        | Profit        | Income**      | Margin**     | Income**      | EPS**         |
| <b>GAAP from</b>  |                |               |               |              |               |               |
| <b>Continuing</b> |                |               |               |              |               |               |
| <b>Operations</b> | <b>\$16.7B</b> | <b>\$9.5B</b> | <b>\$2.9B</b> | <b>17.2%</b> | <b>\$2.5B</b> | <b>\$2.72</b> |
| Year/Year         | 6.5%*          | 2.8%          | 183%          | 10.7 Pts     | 107%          | 106%          |
| <b>Operating</b>  |                |               |               |              |               |               |
| <b>(Non-GAAP)</b> | <b>\$</b>      | <b>\$9.7B</b> | <b>\$3.5B</b> | <b>21.2%</b> | <b>\$3.0B</b> | <b>\$3.35</b> |
| Year/Year         |                | 2.8%          | 102%          | 10.0 Pts     | 80%           | 78%           |

\* 8.6% at constant currency

\*\* Year-to-year results include impact of \$1.5 billion pre-tax charge for structural actions in fourth quarter of 2020

"In 2021, we continued to invest for the future by increasing R&D spending, expanding our ecosystem and acquiring 15 companies to strengthen our hybrid cloud and AI capabilities," said James Kavanaugh, IBM senior vice president and chief financial officer. "With the separation of Kyndryl we now have taken the next step in the evolution of our strategy, creating value through focus and strengthening our financial profile."

**Segment Results for Fourth Quarter**

- *Software (includes Hybrid Platform & Solutions, Transaction Processing)*— revenues of \$7.3 billion, up 8.2 percent, up 10.1 percent at constant currency (including about 5 points from incremental external sales to Kyndryl):
  - Hybrid Platform & Solutions up 7 percent, up 9 percent at constant currency (including about 1 point from incremental external sales to Kyndryl):
    - Red Hat up 19 percent, up 21 percent at constant currency
    - Automation up 13 percent, up 15 percent at constant currency
    - Data & AI up 1 percent, up 3 percent at constant currency
    - Security down 2 percent, down 1 percent at constant currency
  - Transaction Processing up 11 percent, up 14 percent at constant currency (including about 16 points from incremental external sales to Kyndryl)
  - Software segment hybrid cloud revenue up 22 percent, up 24 percent at constant currency
- *Consulting (includes Business Transformation, Technology Consulting and Application Operations)*— revenues of \$4.7 billion, up 13.1 percent, up 15.7 percent at constant currency:
  - Business Transformation up 18 percent, up 20 percent at constant currency
  - Technology Consulting up 14 percent, up 19 percent at constant currency

- Application Operations up 6 percent, up 8 percent at constant currency
- Consulting segment hybrid cloud revenue up 31 percent, up 34 percent at constant currency
- *Infrastructure (includes Hybrid Infrastructure, Infrastructure Support)*— revenues of \$4.4 billion, down 0.2 percent, up 1.7 percent at constant currency (including about 5 points from incremental external sales to Kyndryl):
  - Hybrid Infrastructure flat, up 2 percent at constant currency (including about 4 points from incremental external sales to Kyndryl)
    - IBM Z down 6 percent, down 4 percent at constant currency
    - Distributed Infrastructure up 5 percent, up 7 percent at constant currency
  - Infrastructure Support down 1 percent, up 1 percent at constant currency (including about 6 points from incremental external sales to Kyndryl)
  - Infrastructure segment hybrid cloud revenue down 12 percent, down 11 percent at constant currency
- *Financing (includes client and commercial financing)*— revenues of \$0.2 billion, down 29.4 percent, down 28.8 percent at constant currency

#### **Cash Flow and Balance Sheet**

On a consolidated basis, full-year cash from operating activities was \$12.8 billion and free cash flow was \$6.5 billion. These consolidated results include ten months of Kyndryl results, and reflect cash paid in 2021 for separation charges and fourth-quarter 2020 structural actions.

IBM's post-separation baseline free cash flow for the year was \$7.9 billion excluding Kyndryl charges and pre-separation activity. This view is aligned to the company's go-forward business. Payments for IBM-related structural actions and deferred cash taxes paid in 2021 contributed to the year-to-year decline in the post-separation baseline free cash flow.

IBM ended the year with \$7.6 billion of cash on hand (which includes marketable securities), down \$6.7 billion from year-end 2020, reflecting acquisitions of \$3.3 billion and debt reduction payments consistent with the company's previously-stated intention to deleverage. Debt, including Financing debt of \$13.9 billion, totaled \$51.7 billion, down \$9.6 billion since the end of 2020, and down more than \$21 billion since closing the Red Hat acquisition. The company returned \$5.9 billion to shareholders in dividends.

#### **Full-Year 2022 Expectations**

The company will discuss 2022 expectations during today's quarterly earnings conference call.

#### **Continuing Operations**

With the separation completed on November 3, 2021, Kyndryl's operational activity has been reclassified to IBM's discontinued operations results in accordance with U.S. Generally Accepted Accounting Principles (GAAP). As discussed in previous communications, discontinued operations does not include historical intercompany transactions between IBM and Kyndryl (e.g., purchases of IBM hardware and software) which were previously eliminated in consolidation. It also does not include the spending for shared services (e.g., finance, marketing, human resources, global sales coverage) that has already been transferred to Kyndryl. IBM results on a continuing operations basis after separation reflect the new commercial relationship with Kyndryl and do not include shared services costs, which have been transferred to Kyndryl.

#### **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, but not limited to, the following: a downturn in economic environment and client spending budgets; a failure of the company's innovation initiatives; damage to the company's reputation; 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; the company's ability to successfully manage acquisitions, alliances and dispositions, including integration challenges, failure to achieve objectives, the assumption of liabilities, and higher debt levels; fluctuations in financial results; impact of local legal, economic, political, health and other conditions; the company's failure to meet growth and productivity objectives; ineffective internal controls; the company's use of accounting estimates; impairment of the company's goodwill or amortizable intangible assets; the company's ability to attract and retain key employees and its reliance on critical skills; impacts of relationships with critical suppliers; product quality issues; impacts of business with government clients; reliance on third party distribution channels and ecosystems; cybersecurity and data privacy considerations; adverse effects from environmental matters, tax matters; legal proceedings and investigatory risks; the company's pension plans; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; 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 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. Except as required by law, 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 —

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

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. EST, today. The Webcast may be accessed via a link at <https://www.ibm.com/investor/events/earnings-4q21>. 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 |               | Year Ended    |               |
|---|--------------------|---------------|---------------|---------------|
|   | December 31,       |               | December 31,  |               |
|   | 2021               | 2020          | 2021          | 2020          |
| <b>REVENUE</b>                                      |                    |               |               |               |
| Software  | \$ 7,273           | \$ 6,719      | \$ 24,141     | \$ 22,927     |
| Consulting  | 4,746              | 4,196         | 17,844        | 16,257        |
| Infrastructure                                      | 4,414              | 4,425         | 14,188        | 14,533        |
| Financing   | 172                | 244           | 774           | 975           |
| Other   | 89                 | 98            | 404           | 488           |
| <b>TOTAL REVENUE</b>                                | <u>16,695</u>      | <u>15,682</u> | <u>57,350</u> | <u>55,179</u> |
| <b>GROSS PROFIT</b>                                 | 9,500              | 9,238         | 31,486        | 30,865        |
| <b>GROSS PROFIT MARGIN</b>                          |                    |               |               |               |
| Software  | 80.9 %             | 80.5 %        | 78.8 %        | 78.3 %        |
| Consulting  | 27.0 %             | 29.7 %        | 28.0 %        | 29.3 %        |
| Infrastructure                                      | 54.8 %             | 60.1 %        | 55.3 %        | 57.5 %        |
| Financing   | 32.5 %             | 36.0 %        | 31.7 %        | 41.6 %        |
| <b>TOTAL GROSS PROFIT MARGIN</b>                    | 56.9 %             | 58.9 %        | 54.9 %        | 55.9 %        |
| <b>EXPENSE AND OTHER INCOME</b>                     |                    |               |               |               |
| S,G&A   | 4,903              | 6,256         | 18,745        | 20,561        |
| R,D&E   | 1,625              | 1,592         | 6,488         | 6,262         |
| Intellectual property and custom development income | (181)              | (171)         | (612)         | (620)         |
| Other (income) and expense                          | (18)               | 230           | 873           | 802           |
| Interest expense                                    | 303                | 317           | 1,155         | 1,288         |
| <b>TOTAL EXPENSE AND OTHER INCOME</b>               | <u>6,632</u>       | <u>8,224</u>  | <u>26,649</u> | <u>28,293</u> |
| <b>INCOME/(LOSS) FROM CONTINUING OPERATIONS</b>     |                    |               |               |               |
| <b>BEFORE INCOME TAXES</b>                          | 2,869              | 1,014         | 4,837         | 2,572         |
| Pre-tax margin                                      | 17.2 %             | 6.5 %         | 8.4 %         | 4.7 %         |
| Provision for/(Benefit from) income taxes           | 407                | (175)         | 124           | (1,360)       |
| Effective tax rate                                  | 14.2 %             | (17.3) %      | 2.6 %         | (52.9) %      |
| <b>INCOME FROM CONTINUING OPERATIONS</b>            | \$ 2,462           | \$ 1,190      | \$ 4,712      | \$ 3,932      |

**DISCONTINUED OPERATIONS**

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Income/(Loss) from discontinued operations, net of taxes          | (129)           | 166             | 1,030           | 1,658           |
| <b>NET INCOME</b>   | <b>\$ 2,332</b> | <b>\$ 1,356</b> | <b>\$ 5,743</b> | <b>\$ 5,590</b> |
| <b>EARNINGS/(LOSS) PER SHARE OF COMMON STOCK</b>                  |                 |                 |                 |                 |
| Assuming Dilution   |                 |                 |                 |                 |
| Continuing Operations   | \$ 2.72         | \$ 1.32         | \$ 5.21         | \$ 4.38         |
| Discontinued Operations   | \$ (0.14)       | \$ 0.19         | \$ 1.14         | \$ 1.85         |
| <b>TOTAL</b>  | <b>\$ 2.57</b>  | <b>\$ 1.51</b>  | <b>\$ 6.35</b>  | <b>\$ 6.23</b>  |
| Basic   |                 |                 |                 |                 |
| Continuing Operations   | \$ 2.74         | \$ 1.33         | \$ 5.26         | \$ 4.42         |
| Discontinued Operations   | \$ (0.14)       | \$ 0.19         | \$ 1.15         | \$ 1.86         |
| <b>TOTAL</b>  | <b>\$ 2.60</b>  | <b>\$ 1.52</b>  | <b>\$ 6.41</b>  | <b>\$ 6.28</b>  |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's)</b> |                 |                 |                 |                 |
| Assuming Dilution   | 906.6           | 899.0           | 904.6           | 896.6           |
| Basic   | 898.2           | 892.6           | 896.0           | 890.3           |

**INTERNATIONAL BUSINESS MACHINES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET****(Unaudited)**

| <b>(Dollars in Millions)</b>               | <b>At</b>                    | <b>At</b>                    |
|--|------------------------------|------------------------------|
|  | <b>December 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
| <b>ASSETS:</b>                             |                              |                              |
| <b>Current Assets:</b>                     |                              |                              |
| Cash and cash equivalents                  | \$ 6,650                     | \$ 13,188                    |
| Restricted cash                            | 307                          | 463                          |
| Marketable securities                      | 600                          | 600                          |
| Notes and accounts receivable - trade, net | 6,754                        | 5,790                        |
| Short-term financing receivables, net      | 8,014                        | 10,892                       |
| Other accounts receivable, net             | 1,002                        | 695                          |
| Inventories                                | 1,649                        | 1,812                        |
| Deferred costs                             | 1,097                        | 1,018                        |
| Prepaid expenses and other current assets  | 3,466                        | 2,089                        |
| Current assets of discontinued operations  | —                            | 2,618                        |
| <b>Total Current Assets</b>                | <b>29,539</b>                | <b>39,165</b>                |
| Property, plant and equipment, net         | 5,694                        | 6,205                        |
| Operating right-of-use assets, net         | 3,222                        | 3,566                        |
| Long-term financing receivables, net       | 5,425                        | 7,086                        |
| Prepaid pension assets                     | 9,850                        | 7,557                        |
| Deferred costs                             | 924                          | 1,150                        |
| Deferred taxes                             | 7,370                        | 8,404                        |

|  |                   |                   |
|--|-------------------|-------------------|
| Goodwill   | 55,643            | 53,765            |
| Intangibles, net                                   | 12,511            | 13,739            |
| Investments and sundry assets                      | 1,823             | 2,187             |
| Non-current assets of discontinued operations      | —                 | 13,147            |
| <b>Total Assets</b>                                | <b>\$ 132,001</b> | <b>\$ 155,971</b> |
| <b>LIABILITIES:</b>                                |                   |                   |
| <b>Current Liabilities:</b>                        |                   |                   |
| Taxes  | \$ 2,289          | \$ 3,198          |
| Short-term debt                                    | 6,787             | 7,116             |
| Accounts payable                                   | 3,955             | 4,033             |
| Deferred income                                    | 12,518            | 11,980            |
| Operating lease liabilities                        | 974               | 1,035             |
| Other liabilities                                  | 7,097             | 8,688             |
| Current liabilities of discontinued operations     | —                 | 3,820             |
| <b>Total Current Liabilities</b>                   | <b>33,619</b>     | <b>39,869</b>     |
| Long-term debt                                     | 44,917            | 54,217            |
| Retirement related obligations                     | 14,435            | 17,184            |
| Deferred income                                    | 3,577             | 3,758             |
| Operating lease liabilities                        | 2,462             | 2,720             |
| Other liabilities                                  | 13,996            | 14,180            |
| Non-current liabilities of discontinued operations | —                 | 3,317             |
| <b>Total Liabilities</b>                           | <b>113,005</b>    | <b>135,244</b>    |
| <b>EQUITY:</b>                                     |                   |                   |
| <b>IBM Stockholders' Equity:</b>                   |                   |                   |
| Common stock                                       | 57,319            | 56,556            |
| Retained earnings                                  | 154,209           | 162,717           |
| Treasury stock — at cost                           | (169,392)         | (169,339)         |
| Accumulated other comprehensive income/(loss)      | (23,234)          | (29,337)          |
| <b>Total IBM Stockholders' Equity</b>              | <b>18,901</b>     | <b>20,597</b>     |
| Noncontrolling interests                           | 95                | 129               |
| <b>Total Equity</b>                                | <b>18,996</b>     | <b>20,727</b>     |
| <b>Total Liabilities and Equity</b>                | <b>\$ 132,001</b> | <b>\$ 155,971</b> |

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**CASH FLOW ANALYSIS**

(Unaudited)

**Three Months Ended**  
**December 31,**

**Year Ended**  
**December 31,**

| (Dollars in Millions)   | 2021            |                   | 2020              |                  |
|---|-----------------|-------------------|-------------------|------------------|
|   | 2021            | 2020              | 2021              | 2020             |
| <b>Consolidated Net Cash from Operations per GAAP</b>   | <b>\$ 2,543</b> | <b>\$ 5,859</b>   | <b>\$ 12,796</b>  | <b>\$ 18,197</b> |
| Less: change in IBM Financing receivables   | (1,328)         | (974)             | 3,907             | 4,349            |
| Capital Expenditures, net   | (526)           | (780)             | (2,381)           | (3,042)          |
| <b>Consolidated Free Cash Flow</b>  | <b>3,345</b>    | <b>6,054</b>      | <b>6,508</b>      | <b>10,805</b>    |
| Acquisitions  | (275)           | (299)             | (3,293)           | (336)            |
| Divestitures  | 88              | (7)               | 114               | 503              |
| Dividends   | (1,474)         | (1,455)           | (5,869)           | (5,797)          |
| Non-IBM Financing debt  | (20)            | (4,814)           | (1,191)           | 221              |
| Other (includes IBM Financing net receivables and debt)*  | (2,514)         | (958)             | (2,987)           | (130)            |
| <b>Change in Cash, Cash Equivalents, Restricted Cash and Short-term Marketable Securities**</b> | <b>\$ (850)</b> | <b>\$ (1,478)</b> | <b>\$ (6,718)</b> | <b>\$ 5,265</b>  |

\* The three months and year ended December 31, 2021 include distribution from Kyndryl of \$0.9 billion.

\*\* Cash flows above are presented on an IBM consolidated basis and therefore include an immaterial amount of cash and cash equivalents presented in current assets of discontinued operations in the IBM Condensed Consolidated Balance Sheet at December 31, 2020.

## INTERNATIONAL BUSINESS MACHINES CORPORATION

### CASH FLOW

(Unaudited)

| (Dollars in Millions)   | Three Months Ended |                   | Year Ended         |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | December 31,       |                   | December 31,       |                   |
|   | 2021               | 2020              | 2021               | 2020              |
| <b>Net Income from Operations</b>                                 | <b>\$ 2,332</b>    | <b>\$ 1,356</b>   | <b>\$ 5,743</b>    | <b>\$ 5,590</b>   |
| Depreciation/Amortization of Intangibles                          | 1,380              | 1,699             | 6,416              | 6,695             |
| Stock-based Compensation  | 264                | 279               | 982                | 937               |
| Working Capital / Other   | (105)              | 3,499             | (4,253)            | 625               |
| IBM Financing A/R   | (1,328)            | (974)             | 3,907              | 4,349             |
| <b>Net Cash Provided by Operating Activities</b>                  | <b>\$ 2,543</b>    | <b>\$ 5,859</b>   | <b>\$ 12,796</b>   | <b>\$ 18,197</b>  |
| Capital Expenditures, net of payments & proceeds                  | (526)              | (780)             | (2,381)            | (3,042)           |
| Divestitures, net of cash transferred                             | 88                 | (7)               | 114                | 503               |
| Acquisitions, net of cash acquired                                | (275)              | (299)             | (3,293)            | (336)             |
| Marketable Securities / Other Investments, net                    | 38                 | 528               | (414)              | (153)             |
| <b>Net Cash Provided by/(Used in) Investing Activities</b>        | <b>\$ (675)</b>    | <b>\$ (558)</b>   | <b>\$ (5,975)</b>  | <b>\$ (3,028)</b> |
| Debt, net of payments & proceeds                                  | (2,030)            | (4,781)           | (8,116)            | (3,714)           |
| Dividends   | (1,474)            | (1,455)           | (5,869)            | (5,797)           |
| Financing - Other*  | 811                | (57)              | 630                | (210)             |
| <b>Net Cash Provided by/(Used in) Financing Activities</b>        | <b>\$ (2,692)</b>  | <b>\$ (6,293)</b> | <b>\$ (13,354)</b> | <b>\$ (9,721)</b> |
| Effect of Exchange Rate changes on Cash                           | (26)               | 113               | (185)              | (87)              |
| <b>Net Change in Cash, Cash Equivalents and Restricted Cash**</b> | <b>\$ (850)</b>    | <b>\$ (878)</b>   | <b>\$ (6,718)</b>  | <b>\$ 5,361</b>   |

\* Represents Common Stock Transactions and other financing activities. The three months and year ended December 31, 2021 include distribution from Kyndryl of \$0.9

billion.

\*\* Cash flows above are presented on an IBM consolidated basis and therefore include an immaterial amount of cash and cash equivalents presented in current assets of discontinued operations in the IBM Condensed Consolidated Balance Sheet at December 31, 2020.

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**SEGMENT DATA**

**(Unaudited)**

**Three Months Ended December 31, 2021**

| <b>(Dollars in Millions)</b>                            | <b>Software</b> | <b>Consulting</b> | <b>Infrastructure</b> | <b>Financing</b> |
|---|-----------------|-------------------|-----------------------|------------------|
| <b>Revenue</b>  | \$ 7,273        | \$ 4,746          | \$ 4,414              | \$ 172           |
| <b>Pre-tax Income/(Loss) from Continuing Operations</b> | 2,109           | 436               | 1,036                 | 79               |
| <b>Pre-tax Margin</b>                                   | 29.0 %          | 9.2 %             | 23.5 %                | 46.0 %           |
| <b>Change YTY Revenue</b>                               | 8.2 %           | 13.1 %            | (0.2) %               | (29.4) %         |
| <b>Change YTY Revenue - constant currency</b>           | 10.1 %          | 15.7 %            | 1.7 %                 | (28.8) %         |

**Three Months Ended December 31, 2020**

| <b>(Dollars in Millions)</b>                            | <b>Software</b> | <b>Consulting</b> | <b>Infrastructure</b> | <b>Financing</b> |
|---|-----------------|-------------------|-----------------------|------------------|
| <b>Revenue</b>  | \$ 6,719        | \$ 4,196          | \$ 4,425              | \$ 244           |
| <b>Pre-tax Income/(Loss) from Continuing Operations</b> | 1,151           | 62                | 629                   | 110              |
| <b>Pre-tax Margin</b>                                   | 17.1 %          | 1.5 %             | 14.2 %                | 45.1 %           |

**Year Ended December 31, 2021**

| <b>(Dollars in Millions)</b>                            | <b>Software</b> | <b>Consulting</b> | <b>Infrastructure</b> | <b>Financing</b> |
|---|-----------------|-------------------|-----------------------|------------------|
| <b>Revenue</b>  | \$ 24,141       | \$ 17,844         | \$ 14,188             | \$ 774           |
| <b>Pre-tax Income/(Loss) from Continuing Operations</b> | 4,722           | 1,449             | 2,025                 | 441              |
| <b>Pre-tax Margin</b>                                   | 19.6 %          | 8.1 %             | 14.3 %                | 57.0 %           |
| <b>Change YTY Revenue</b>                               | 5.3 %           | 9.8 %             | (2.4) %               | (20.6) %         |
| <b>Change YTY Revenue - constant currency</b>           | 4.1 %           | 8.3 %             | (3.4) %               | (21.9) %         |

**Year Ended December 31, 2020**

| <b>(Dollars in Millions)</b>                            | <b>Software</b> | <b>Consulting</b> | <b>Infrastructure</b> | <b>Financing</b> |
|---|-----------------|-------------------|-----------------------|------------------|
| <b>Revenue</b>  | \$ 22,927       | \$ 16,257         | \$ 14,533             | \$ 975           |
| <b>Pre-tax Income/(Loss) from Continuing Operations</b> | 3,341           | 1,034             | 1,654                 | 449              |
| <b>Pre-tax Margin</b>                                   | 14.6 %          | 6.4 %             | 11.4 %                | 46.1 %           |

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**U.S. GAAP TO OPERATING (Non-GAAP) RESULTS RECONCILIATION**

**(Unaudited; Dollars in millions except per share amounts)**

**Three Months Ended December 31, 2021**

**Continuing Operations**

|  | Acquisition-Related |                            | Retirement-Related         |  | Tax Reform |  | Kyndryl-Related        |  | Operating  |  |
|--|---------------------|----------------------------|----------------------------|--|------------|--|------------------------|--|------------|--|
|  | GAAP                | Adjustments <sup>(1)</sup> | Adjustments <sup>(2)</sup> |  | Impacts    |  | Impacts <sup>(4)</sup> |  | (Non-GAAP) |  |
|  |                     |                            |                            |  |            |  |                        |  |            |  |
| Gross Profit   | \$ 9,500            | \$ 182                     | \$ —                       |  | \$ —       |  | \$ —                   |  | \$ 9,682   |  |
| Gross Profit Margin                                      | 56.9 %              | 1.1 Pts                    | — Pts                      |  | — Pts      |  | — Pts                  |  | 58.0 %     |  |
| S,G&A  | 4,903               | (290)                      | —                          |  | —          |  | (8)                    |  | 4,605      |  |
| Other (Income) & Expense                                 | (18)                | (1)                        | (315)                      |  | —          |  | 126                    |  | (208)      |  |
| Total Expense & Other (Income)                           | 6,632               | (290)                      | (315)                      |  | —          |  | 118                    |  | 6,145      |  |
| Pre-tax Income from Continuing Operations                | 2,869               | 472                        | 315                        |  | —          |  | (118)                  |  | 3,537      |  |
| Pre-tax Income Margin from Continuing Operations         | 17.2 %              | 2.8 Pts                    | 1.9 Pts                    |  | — Pts      |  | (0.7) Pts              |  | 21.2 %     |  |
| Provision for/(Benefit from) Income Taxes <sup>(3)</sup> | 407                 | 117                        | 109                        |  | (94)       |  | (37)                   |  | 502        |  |
| Effective Tax Rate                                       | 14.2 %              | 1.4 Pts                    | 1.8 Pts                    |  | (2.7) Pts  |  | (0.6) Pts              |  | 14.2 %     |  |
| Income from Continuing Operations                        | 2,462               | 355                        | 206                        |  | 94         |  | (81)                   |  | 3,035      |  |
| Income Margin from Continuing Operations                 | 14.7 %              | 2.1 Pts                    | 1.2 Pts                    |  | 0.6 Pts    |  | (0.5) Pts              |  | 18.2 %     |  |
| Diluted Earnings/(Loss) Per Share: Continuing Operations | \$ 2.72             | \$ 0.39                    | \$ 0.23                    |  | \$ 0.10    |  | \$ (0.09)              |  | \$ 3.35    |  |

**Three Months Ended December 31, 2020**

**Continuing Operations**

|  | Acquisition-Related |                            | Retirement-Related         |  | Tax Reform |  | Kyndryl-Related        |  | Operating  |  |
|--|---------------------|----------------------------|----------------------------|--|------------|--|------------------------|--|------------|--|
|  | GAAP                | Adjustments <sup>(1)</sup> | Adjustments <sup>(2)</sup> |  | Impacts    |  | Impacts <sup>(4)</sup> |  | (Non-GAAP) |  |
|  |                     |                            |                            |  |            |  |                        |  |            |  |
| Gross Profit   | \$ 9,238            | \$ 176                     | \$ —                       |  | \$ —       |  | \$ —                   |  | \$ 9,414   |  |
| Gross Profit Margin                                      | 58.9 %              | 1.1 Pts                    | — Pts                      |  | — Pts      |  | — Pts                  |  | 60.0 %     |  |
| S,G&A  | 6,256               | (283)                      | —                          |  | —          |  | —                      |  | 5,973      |  |
| Other (Income) & Expense                                 | 230                 | (1)                        | (278)                      |  | —          |  | —                      |  | (49)       |  |
| Total Expense & Other (Income)                           | 8,224               | (283)                      | (278)                      |  | —          |  | —                      |  | 7,662      |  |
| Pre-tax Income/(Loss) from Continuing Operations         | 1,014               | 459                        | 278                        |  | —          |  | —                      |  | 1,752      |  |
| Pre-tax Income Margin from Continuing Operations         | 6.5 %               | 2.9 Pts                    | 1.8 Pts                    |  | — Pts      |  | — Pts                  |  | 11.2 %     |  |
| Provision for/(Benefit from) Income Taxes <sup>(3)</sup> | (175)               | 102                        | 156                        |  | (18)       |  | —                      |  | 66         |  |
| Effective Tax Rate                                       | (17.3) %            | 10.4 Pts                   | 11.7 Pts                   |  | (1.0) Pts  |  | — Pts                  |  | 3.7 %      |  |
| Income from Continuing Operations                        | 1,190               | 357                        | 122                        |  | 18         |  | —                      |  | 1,686      |  |
| Income Margin from Continuing Operations                 | 7.6 %               | 2.3 Pts                    | 0.8 Pts                    |  | 0.1 Pts    |  | — Pts                  |  | 10.8 %     |  |
| Diluted Earnings/(Loss) Per Share: Continuing Operations | \$ 1.32             | \$ 0.40                    | \$ 0.14                    |  | \$ 0.02    |  | \$ —                   |  | \$ 1.88    |  |

(1) Includes amortization of purchased intangible assets, in process R&D, transaction costs, applicable restructuring and related expenses, tax charges related to acquisition integration and pre-closing charges, such as financing costs.

(2) Includes amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements and pension insolvency costs and other costs.

(3) 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.

(4) Primarily relates to fair value changes in shares of Kyndryl common stock that were retained by IBM, employee awards, and separation related tax impacts.

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

**Year Ended December 31, 2021**

**Continuing Operations**

|  | <b>GAAP</b> | <b>Acquisition-<br/>Related<br/>Adjustments <sup>(1)</sup></b> | <b>Retirement-<br/>Related<br/>Adjustments <sup>(2)</sup></b> | <b>Tax<br/>Reform<br/>Impacts</b> | <b>Kyndryl-<br/>Related<br/>Impacts <sup>(4)</sup></b> | <b>Operating<br/>(Non-GAAP)</b> |
|--|-------------|--|---|-----------------------------------|--|---------------------------------|
| Gross Profit   | \$ 31,486   | \$ 719   | \$ —  | \$ —                              | \$ —   | \$ 32,205                       |
| Gross Profit Margin                                      | 54.9 %      | 1.3 Pts  | — Pts   | — Pts                             | — Pts  | 56.2 %                          |
| S,G&A  | 18,745      | (1,160)  | —   | —                                 | (8)  | 17,577                          |
| Other (Income) & Expense                                 | 873         | (2)  | (1,282)   | —                                 | 126  | (285)                           |
| Total Expense & Other (Income)                           | 26,649      | (1,162)  | (1,282)   | —                                 | 118  | 24,324                          |
| Pre-tax Income from Continuing Operations                | 4,837       | 1,881  | 1,282   | —                                 | (118)  | 7,881                           |
| Pre-tax Income Margin from Continuing Operations         | 8.4 %       | 3.3 Pts  | 2.2 Pts   | — Pts                             | (0.2) Pts  | 13.7 %                          |
| Provision for/(Benefit from) Income Taxes <sup>(3)</sup> | 124         | 457  | 251   | (89)                              | (37)   | 706                             |
| Effective Tax Rate                                       | 2.6 %       | 5.2 Pts  | 2.8 Pts   | (1.1) Pts                         | (0.4) Pts  | 9.0 %                           |
| Income from Continuing Operations                        | 4,712       | 1,424  | 1,031   | 89                                | (81)   | 7,174                           |
| Income Margin from Continuing Operations                 | 8.2 %       | 2.5 Pts  | 1.8 Pts   | 0.2 Pts                           | (0.1) Pts  | 12.5 %                          |
| Diluted Earnings/(Loss) Per Share: Continuing Operations | \$ 5.21     | \$ 1.57  | \$ 1.14   | \$ 0.10                           | \$ (0.09)  | \$ 7.93                         |

**Year Ended December 31, 2020**

**Continuing Operations**

|  | <b>GAAP</b> | <b>Acquisition-<br/>Related<br/>Adjustments <sup>(1)</sup></b> | <b>Retirement-<br/>Related<br/>Adjustments <sup>(2)</sup></b> | <b>Tax<br/>Reform<br/>Impacts</b> | <b>Kyndryl-<br/>Related<br/>Impacts <sup>(4)</sup></b> | <b>Operating<br/>(Non-GAAP)</b> |
|--|-------------|--|---|-----------------------------------|--|---------------------------------|
| Gross Profit   | \$ 30,865   | \$ 726   | \$ —  | \$ —                              | \$ —   | \$ 31,591                       |
| Gross Profit Margin                                      | 55.9 %      | 1.3 Pts  | — Pts   | — Pts                             | — Pts  | 57.3 %                          |
| S,G&A  | 20,561      | (1,117)  | —   | —                                 | —  | 19,445                          |
| Other (Income) & Expense                                 | 802         | (2)  | (1,073)   | —                                 | —  | (273)                           |
| Total Expense & Other (Income)                           | 28,293      | (1,119)  | (1,073)   | —                                 | —  | 26,101                          |
| Pre-tax Income from Continuing Operations                | 2,572       | 1,845  | 1,073   | —                                 | —  | 5,490                           |
| Pre-tax Income Margin from Continuing Operations         | 4.7 %       | 3.3 Pts  | 1.9 Pts   | — Pts                             | — Pts  | 9.9 %                           |
| Provision for/(Benefit from) Income Taxes <sup>(3)</sup> | (1,360)     | 411  | 208   | 110                               | —  | (630)                           |
| Effective Tax Rate                                       | (52.9) %    | 25.3 Pts   | 14.1 Pts  | 2.0 Pts                           | — Pts  | (11.5) %                        |

|  |         |         |         |           |       |         |
|--|---------|---------|---------|-----------|-------|---------|
| Income from Continuing Operations                        | 3,932   | 1,434   | 864     | (110)     | —     | 6,120   |
| Income Margin from Continuing Operations                 | 7.1 %   | 2.6 Pts | 1.6 Pts | (0.2) Pts | — Pts | 11.1 %  |
| Diluted Earnings/(Loss) Per Share: Continuing Operations | \$ 4.38 | \$ 1.60 | \$ 0.96 | \$ (0.12) | \$ —  | \$ 6.82 |

- (1) Includes amortization of purchased intangible assets, in process R&D, transaction costs, applicable restructuring and related expenses, tax charges related to acquisition integration and pre-closing charges, such as financing costs.
- (2) Includes amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements and pension insolvency costs and other costs.
- (3) 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.
- (4) Primarily relates to fair value changes in shares of Kyndryl common stock that were retained by IBM, employee awards, and separation related tax impacts.

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**U.S. GAAP TO OPERATING (Non-GAAP) RESULTS RECONCILIATION**  
(Unaudited; Dollars in billions)

| <b>IBM post-separation baseline Free Cash Flow Reconciliation</b> | <b>Year Ended</b>        |
|---|--------------------------|
|   | <b>December 31, 2021</b> |
| <b>Consolidated Net Cash from Operations per GAAP</b>             | <b>\$ 12.8</b>           |
| Less: change in Financing receivables                             | 3.9                      |
| Capital Expenditures, net   | (2.4)                    |
| <b>Consolidated Free Cash Flow</b>                                | <b>6.5</b>               |
| Less: Kyndryl charges and pre-separation activity*                | (1.4) *                  |
| <b>IBM post-separation baseline Free Cash Flow</b>                | <b>7.9</b>               |

\* Includes Kyndryl portion of cash impacts incurred in the period related to structural actions initiated in 4Q20 and separation related costs. Kyndryl's estimated free cash flow was deemed immaterial.

SOURCE IBM

<https://newsroom.ibm.com/2022-1-24-IBM-RELEASES-FOURTH-QUARTER-RESULTS>