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Management Discussion

International Business Machines Corporation and Subsidiary Companies

The following table provides the company's operating (non-GAAP) earnings for 2020 and 2019. See page 45 for additional information.

(\$ in millions except per share amounts)

For year ended December 31:	2020	2019	Yr.-to-Yr. Percent Change
Net income as reported	\$5,590 *	\$ 9,431	(40.7)%
Income/(loss) from discontinued operations, net of tax**	89	(4)	NM
Income from continuing operations	\$5,501 *	\$ 9,435	(41.7)%
Non-operating adjustments (net of tax)			
Acquisition-related charges	1,454	1,343	8.3
Non-operating retirement-related costs/(income)	908	512	77.2
U.S. tax reform impacts	(110)	146	NM
Spin-off-related charges	21	—	NM
Operating (non-GAAP) earnings	\$7,774 *	\$11,436	(32.0)%
Diluted operating (non-GAAP) earnings per share	\$ 8.67 *	\$ 12.81	(32.3)%

* Includes a \$2.0 billion pre-tax charge for structural actions in the fourth quarter resulting in an impact to diluted operating (non-GAAP) earnings per share of (\$1.84).

** Relates to discontinued operations of Microelectronics, divested in 2015.

NM—Not meaningful

Strategic Announcement

IBM is redefining its future as a hybrid cloud platform and AI company. The October 8, 2020 announcement of our plan to separate the managed infrastructure services unit of our GTS segment into a new public company will create two industry-leading companies, each with strategic focus and flexibility to capitalize on their respective missions and drive client and shareholder value. Client buying needs for application and infrastructure services are diverging, while adoption of our hybrid cloud platform is accelerating. This change in clients' needs makes it the right time to create two market-leading companies focused on what they do best. IBM will focus on its open hybrid cloud platform and AI capabilities to accelerate clients' digital transformations. Upon separation, NewCo will immediately be the world's leading managed infrastructure services provider and will have greater agility to design, run and modernize the infrastructure of the world's most important organizations. Both IBM and NewCo will have greater ability to focus on their operating and financial models, have more freedom to partner with others and both will align their investments and capital structure to their strategic focus areas. We are on track to complete the separation by the end of 2021.

Environmental Dynamics

On March 11, 2020, the World Health Organization (WHO) declared the novel coronavirus (COVID-19) a global pandemic. This resulted in significant governmental measures being initiated around the globe, including travel bans and border closings, shelter-in-place orders, closures of non-essential businesses and social distancing requirements in efforts to slow down and control the spread of the virus.

Throughout 2020, the health of IBM employees, our clients, business partners and community continued to be our primary focus. We are actively engaged to ensure our plans and response activities continue to be aligned with recommendations of the WHO, the U.S. Centers for Disease Control and Prevention, and governmental regulations.

IBM continues to be well positioned to support our clients through this crisis. The pandemic has driven companies to accelerate their digital transformations, resulting in the removal of traditional barriers to progress. The reliance on technology, particularly hybrid cloud and AI technologies that give clients the scalability and flexibility needed to adjust to the rapid market changes, has become more acute. We are helping to advise, build, move and manage our clients' journey to the cloud. We are also working with our clients to apply AI, automation and other technologies to make their workflows more intelligent and responsive. As our clients are intensifying their focus on their most important asset, their people, we are partnering with clients to help them enhance employee engagement and productivity, reskill the workforce faster and reimagine ways of working.