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Management Discussion

International Business Machines Corporation and Subsidiary Companies

YEAR IN REVIEW**Results of Continuing Operations****Segment Details**

The following is an analysis of the 2020 versus 2019 reportable segment results. The table below presents each reportable segment's external revenue and gross margin results. Segment pre-tax income includes transactions between segments that are intended to reflect an arm's-length transfer price and excludes certain unallocated corporate items.

(\$ in millions)

For the year ended December 31:	2020	2019	Yr.-to-Yr. Percent/ Margin Change	Yr.-to-Yr. Percent Change Adjusted for Currency
Revenue				
Cloud & Cognitive Software	\$23,376	\$22,891 *	2.1 %	1.9 %
Gross margin	77.5 %	77.1 %*	0.4 pts.	
Global Business Services	16,162	16,798 *	(3.8)%	(4.1)%
Gross margin	29.7 %	27.7 %*	2.0 pts.	
Global Technology Services	25,812	27,361	(5.7)%	(5.4)%
Gross margin	34.8 %	34.8 %	0.0 pts.	
Systems	6,978	7,604	(8.2)%	(8.7)%
Gross margin	55.9 %	53.1 %	2.8 pts.	
Global Financing	1,123	1,400	(19.8)%	(19.2)%
Gross margin	37.7 %	35.6 %	2.1 pts.	
Other	169	1,092 *	(84.5)%	(84.4)%
Gross margin	NM	12.5 %*	NM	
Total consolidated revenue	\$73,620	\$77,147	(4.6)%**	(4.7)%
Total consolidated gross profit	\$35,575	\$36,488	(2.5)%	
Total consolidated gross margin	48.3 %	47.3 %	1.0 pts.	
Non-operating adjustments				
Amortization of acquired intangible assets	732	534	37.1 %	
Acquisition-related charges	—	13	(100.0)%	
Spin-off-related charges	1	—	NM	
Operating (non-GAAP) gross profit	\$36,308	\$37,035	(2.0)%	
Operating (non-GAAP) gross margin	49.3 %	48.0 %	1.3 pts.	

* Recast to reflect segment changes.

** (3.5) percent excluding divested businesses and adjusted for currency.

NM—Not meaningful

Cloud & Cognitive Software

(\$ in millions)

For the year ended December 31:	2020	2019	Yr.-to-Yr. Percent Change	Yr.-to-Yr. Percent Change Adjusted for Currency
Cloud & Cognitive Software external revenue				
Cloud & Data Platforms	\$11,481 **	\$ 9,499	20.9 %	20.5 %
Cognitive Applications	5,290	5,456 *	(3.0)	(3.2)
Transaction Processing Platforms	6,606	7,936	(16.8)	(17.0)

* Recast to reflect segment changes.

** Red Hat was acquired on July 9, 2019. Results in 2020 include a full year of Red Hat revenue.

Cloud & Cognitive Software revenue of \$23,376 million increased 2.1 percent as reported (2 percent adjusted for currency) in 2020 compared to the prior year. There was strong growth in Cloud & Data Platforms, as reported and at constant currency, driven primarily by Red Hat, as our hybrid cloud and AI solutions are resonating with clients. Both Cognitive Applications and Transaction Processing Platforms