OVERVIEW

The financial section of the International Business Machines Corporation (IBM or the company) 2019 Annual Report includes the Management Discussion, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements. This Overview is designed to provide the reader with some perspective regarding the information contained in the financial section.

Organization of Information

- The Management Discussion is designed to provide readers with an overview of the business and a narrative on our financial results and certain factors that may affect our future prospects from the perspective of management. The "Management Discussion Snapshot" presents an overview of the key performance drivers in 2019.
- Beginning with the "Year in Review," the Management Discussion contains the results of operations for each reportable segment of the business and a discussion of our financial position and cash flows. Other key sections within the Management Discussion include: "Looking Forward" and "Liquidity and Capital Resources," which includes a description of management's definition and use of free cash flow.
- The Consolidated Financial Statements provide an overview of income and cash flow performance and financial position.
- The Notes follow the Consolidated Financial Statements. Among other items, the Notes contain our accounting policies, revenue information, acquisitions and divestitures, certain commitments and contingencies and retirement-related plans information.
- On July 9, 2019, IBM acquired 100 percent of the outstanding shares of Red Hat, Inc. (Red Hat). Red Hat is reported within the Cloud & Cognitive Software segment, in Cloud & Data Platforms. The consolidated financial results at and as of the year ended December 31, 2019 reflect the impacts of the acquisition on IBM; including: recognition of goodwill, intangible assets and related amortization and deferred tax liabilities, along with other purchase accounting adjustments including a deferred revenue fair value adjustment. The Consolidated Income Statement for the year ended December 31, 2019 includes impacts from these purchase accounting adjustments, higher interest expense, transaction-related costs and other acquisition-related activities. Refer to note E, "Acquisitions & Divestitures" for additional information.
- Effective the first quarter of 2019, we made a number of changes to our organizational structure and management system. As a result of these changes, we revised our reportable segments. There was no change to the Consolidated Financial Statements. Refer to note D, "Segments" for additional information on our reportable segments. The periods presented in this Annual Report are reported on a comparable basis. We provided recast historical segment information reflecting these changes in a Form 8-K dated April 4, 2019.
- The references to "adjusted for currency" or "at constant currency" in the Management Discussion do not include operational impacts that could result from fluctuations in foreign currency rates. When we refer to growth rates at constant currency or adjust such growth rates for currency, it is done so that certain financial results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of business performance. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior-year period's currency conversion rate. This approach is used for countries where the functional currency is the local currency. Generally, when the dollar either strengthens or weakens against other currencies, the growth at constant currency rates or adjusting for currency will be higher or lower than growth reported at actual exchange rates. See "Currency Rate Fluctuations" for additional information.
- To provide better transparency on the recurring performance of the ongoing business, the company provides revenue growth rates excluding divested businesses and at constant currency. These divested businesses are included in the company's Other segment.
- Within the financial statements and tables in this Annual Report, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages reported are calculated from the underlying whole-dollar numbers.

Operating (non-GAAP) Earnings

In an effort to provide better transparency into the operational results of the business, supplementally, management separates business results into operating and non-operating categories. Operating earnings from continuing operations is a non-GAAP measure that excludes the effects of certain acquisition-related charges, intangible asset amortization, expense resulting from basis differences on equity method investments, retirement-related costs and discontinued operations and their related tax impacts. Due to the unique, non-recurring nature of the enactment of the U.S. Tax Cuts and Jobs Act (U.S. tax reform), management characterizes the one-time provisional charge recorded in the fourth quarter of 2017 and adjustments to that charge as non-operating. Adjustments, among others, include true-ups, accounting elections, any changes to regulations, laws and audit adjustments that affect the recorded one-time charge. For acquisitions, operating (non-GAAP) earnings exclude the amortization of purchased intangible assets and acquisition-related charges such as in-process research and development, transaction costs, applicable retention, restructuring and related expenses, tax charges related to acquisition integration and pre-closing charges, such as financing costs. These charges are excluded as they may be inconsistent in amount and timing from period to period and are significantly impacted by the size, type and frequency of the company's acquisitions. All other spending for acquired companies is included in both earnings from continuing operations and in operating (non-GAAP) earnings. Throughout the Management Discussion, the impact of acquisitions over the prior 12-month period may be a driver of higher expense year to year. For retirement-related costs, management characterizes certain items as operating and others as non-operating, consistent with GAAP. We include defined benefit plan and nonpension postretirement benefit plan service costs, multi-employer plan costs and the cost of defined contribution plans in operating earnings. Non-operating retirement-related costs include defined benefit plan and nonpension postretirement benefit plan amortization of prior service costs, interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any