

YEAR IN REVIEW

Results of Continuing Operations

Segment Details

The following is an analysis of the 2019 versus 2018 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:	2019	2018	Yr.-to-Yr. Percent/ Margin Change	Yr.-to-Yr. Percent Change Adjusted for Currency
Revenue				
Cloud & Cognitive Software	\$23,200	\$22,209*	4.5%**	6.2%
Gross margin	76.7%	77.6%*	(0.9)pts.**	
Global Business Services	16,634	16,595*	0.2%	2.4%
Gross margin	27.7%	26.8%*	0.9 pts.	
Global Technology Services	27,361	29,146*	(6.1)%	(3.7)%
Gross margin	34.8%	34.4%*	0.3 pts.	
Systems	7,604	8,034	(5.3)%	(4.1)%
Gross margin	53.1%	49.8%	3.2 pts.	
Global Financing	1,400	1,590	(11.9)%	(10.0)%
Gross margin	35.6%	29.1%	6.4 pts.	
Other	948	2,018*	(53.0)%	(51.7)%
Gross margin	4.7%	37.8%*	(33.1) pts.	
Total consolidated revenue	\$77,147	\$79,591	(3.1)%⁺	(1.0)%
Total consolidated gross profit	\$36,488	\$36,936	(1.2)%**	
Total consolidated gross margin	47.3%	46.4%	0.9 pts.	
Non-operating adjustments				
Amortization of acquired intangible assets	534	372	43.8%	
Acquisition-related charges	13	—	NM	
Operating (non-GAAP) gross profit	\$37,035	\$37,307	(0.7)%**	
Operating (non-GAAP) gross margin	48.0%	46.9%	1.1 pts.	

* Recast to reflect segment changes.

**2019 results were impacted by Red Hat purchase accounting and acquisition-related activity.

⁺ 0.2 percent excluding divested businesses and adjusted for currency.

NM—Not meaningful

Cloud & Cognitive Software

(\$ in millions)

For the year ended December 31:	2019	2018*	Yr.-to-Yr. Percent Change **	Yr.-to-Yr. Percent Change Adjusted for Currency**
Cloud & Cognitive Software external revenue	\$23,200	\$22,209	4.5%	6.2%
Cognitive Applications	\$ 5,765	\$ 5,633	2.3%	3.9%
Cloud & Data Platforms	9,499	8,603	10.4	12.3
Transaction Processing Platforms	7,936	7,974	(0.5)	1.4

* Recast to reflect segment changes.

**2019 results were impacted by Red Hat purchase accounting.

Cloud & Cognitive Software revenue of \$23,200 million increased 4.5 percent as reported (6 percent adjusted for currency) in 2019 compared to the prior year. There was strong growth in Cloud & Data Platforms, as reported and at constant currency, driven primarily by the acquisition of Red Hat in the third quarter of 2019. Red Hat had continued strong performance since the acquisition, in Red Hat Enterprise Linux (RHEL), application development and emerging technologies, led by OpenShift and Ansible. Red Hat

and IBM are driving synergies with strong adoption of Cloud Paks since their introduction, expansion of our combined client base and more than 2,000 clients using our hybrid cloud platform. Cognitive Applications also grew as reported and at constant currency. Transaction Processing Platforms declined year to year as reported, but grew 1 percent adjusted for currency driven by strong fourth-quarter performance.