

## IBM REPORTS 2013 FIRST-QUARTER RESULTS

- o Diluted EPS:
  - GAAP: \$2.70, up 3 percent;
  - Operating (non-GAAP): \$3.00, up 8 percent;
- o Net income:
  - GAAP: \$3.0 billion, down 1 percent;
  - Operating (non-GAAP): \$3.4 billion, up 3 percent;
- o Gross profit margin:
  - GAAP: 45.6 percent, up 0.6 points;
  - Operating (non-GAAP): 46.7 percent, up 1.0 points;
- o Revenue: \$23.4 billion, down 5 percent, down 3 percent adjusting for currency;
- o Free cash flow of \$1.7 billion, down \$0.2 billion;
- o Software revenue flat, up 1 percent adjusting for currency;
  - Pre-tax: income up 4 percent; margin up 1.2 points;
- o Services revenue down 4 percent, down 1 percent adjusting for currency;
  - Pre-tax: income up 10 percent; margin up 2.0 points;
- o Services backlog of \$141 billion, up 1 percent, up 5 percent adjusting for currency;
  - Closed 22 deals of more than \$100 million in the quarter;
- o Systems and Technology revenue down 17 percent, down 16 percent adjusting for currency;
- o Growth markets revenue down 1 percent, up 1 percent adjusting for currency;
- o Business analytics revenue up 7 percent;
- o Smarter Planet revenue up more than 25 percent;
- o Cloud revenue up more than 70 percent;
- o Reiterating full-year 2013 operating (non-GAAP) EPS expectation of at least \$16.70.

ARMONK, N.Y., April 18, 2013 . . . IBM (NYSE: IBM) today announced first-quarter 2013 diluted earnings of \$2.70 per share, a year-to-year increase of 3 percent. Operating (non-GAAP) diluted earnings were \$3.00 per share, compared with operating diluted earnings of \$2.78 per share in the first quarter of 2012, an increase of 8 percent.

First-quarter net income was \$3.0 billion, down 1 percent year-to-year. Operating (non-GAAP) net income was \$3.4 billion compared with \$3.3 billion in the first quarter of 2012, an increase of 3 percent.

Total revenues for the first quarter of 2013 of \$23.4 billion were down 5 percent (down 3 percent, adjusting for currency) from the first quarter of 2012.

"In the first quarter, we grew operating net income, earnings per share and expanded operating margins but we did not achieve all of our goals in the period. Despite a solid start and good client demand we did not close a number of software and mainframe transactions that have moved into the second quarter. The services business performed as expected with strong profit growth and significant new business in the quarter," said Ginni Rometty, IBM chairman, president and chief executive officer.

"Looking ahead, in addition to closing those transactions, we expect to benefit from investments we are making in our growth initiatives and from the actions we are taking to improve under-performing parts of the business. We remain confident in this model of continuous transformation and in our ability to deliver our full-year 2013 operating earnings per share expectation of at least \$16.70."

### **First-Quarter GAAP - Operating (non-GAAP) Reconciliation**

First-quarter operating (non-GAAP) diluted earnings exclude \$0.30 per share of charges: \$0.12 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.18 per share for retirement-related charges.

## **Full-Year 2013 Expectations**

IBM is reiterating its expectation for full-year 2013 GAAP diluted earnings per share of at least \$15.53. Operating (non-GAAP) diluted earnings per share expectations remain at least \$16.70. The 2013 operating (non-GAAP) earnings expectations exclude \$1.17 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges.

## **Geographic Regions**

The Americas' first-quarter revenues were \$10.0 billion, a decrease of 4 percent (down 3 percent, adjusting for currency) from the 2012 period. Revenues from Europe/Middle East/Africa were \$7.3 billion, down 4 percent (down 4 percent, adjusting for currency). Asia-Pacific revenues decreased 7 percent (down 1 percent, adjusting for currency) to \$5.7 billion. OEM revenues were \$426 million, down 16 percent compared with the 2012 first quarter.

## **Growth Markets**

Revenues from the company's growth markets decreased 1 percent (up 1 percent, adjusting for currency). Revenues in the BRIC countries – Brazil, Russia, India and China – decreased 1 percent (up 3 percent, adjusting for currency).

## **Services**

Global Technology Services segment revenues decreased 4 percent (down 2 percent, adjusting for currency) to \$9.6 billion. Global Business Services segment revenues were down 3 percent (flat, adjusting for currency) to \$4.5 billion.

Pre-tax income from Global Technology Services was up 7 percent and pre-tax margin increased to 16.1 percent. Global Business Services pre-tax income increased 17 percent and pre-tax margin increased to 15.1 percent.

The estimated services backlog at March 31 was \$141 billion, up 1 percent year over year at actual rates (up 5 percent, adjusting for currency). The company closed 22 service agreements of more than \$100 million in the quarter.

## **Software**

Revenues from the Software segment were flat at \$5.6 billion (up 1 percent, adjusting for currency) compared with the first quarter of 2012. Software pre-tax income increased 4 percent and pre-tax margin increased to 31.5 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Social Workforce Solutions (formerly Lotus) and Rational products, were \$3.5 billion, up 1 percent (up 2 percent, adjusting for currency) versus the first quarter of 2012. Operating systems revenues of \$578 million were down 2 percent (down 1 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 6 percent year over year. Information Management software revenues decreased 2 percent. Revenues from Tivoli software increased 1 percent. Revenues from Social Workforce Solutions (formerly Lotus) software increased 8 percent, and Rational software decreased 2 percent.

## **Hardware**

Revenues from the Systems and Technology segment totaled \$3.1 billion for the quarter, down 17 percent (down 16 percent, adjusting for currency) from the first quarter of 2012. Excluding Retail Store Solutions (RSS), revenues were down 14 percent (down 13 percent, adjusting for currency). Systems and Technology pre-tax loss increased \$0.3 billion.

Total systems revenues, excluding RSS, decreased 13 percent (down 13 percent, adjusting for currency). Revenues from System z mainframe server products increased 7 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 27 percent. Revenues from Power Systems were down 32 percent compared with the 2012

period. Revenues from System x were down 9 percent. Revenues from System Storage decreased 11 percent. Revenues from Microelectronics OEM decreased 16 percent.

### **Financing**

Global Financing segment revenues were up 2 percent (up 4 percent, adjusting for currency) in the first quarter at \$499 million. Pre-tax income for the segment increased 5 percent to \$538 million.

### **Gross Profit**

The company's total gross profit margin was 45.6 percent in the 2013 first quarter compared with 45.1 percent in the 2012 first-quarter period. Total operating (non-GAAP) gross profit margin was 46.7 percent in the 2013 first quarter compared with 45.7 percent in the 2012 first-quarter period, with increases in Global Technology Services and Global Business Services.

### **Expense**

Total expense and other income decreased 3 percent to \$7.1 billion, compared to the prior-year period. S,G&A expense of \$5.6 billion decreased 5 percent year over year. R,D&E expense of \$1.6 billion increased 3 percent, compared with the year-ago period. Intellectual property and custom development income decreased to \$183 million compared with \$255 million a year ago. Other (income) and expense was income of \$60 million compared with prior-year income of \$58 million. Interest expense decreased to \$94 million compared with \$110 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 4 percent to \$6.9 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.4 billion decreased 7 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.6 billion increased 1 percent compared with the year-ago period.

\* \* \*

Pre-tax income decreased 6 percent to \$3.6 billion. Pre-tax margin decreased 0.1 points to 15.4 percent. Operating (non-GAAP) pre-tax income decreased 1 percent to \$4.1 billion and pre-tax margin was 17.4 percent, up 0.8 points.

IBM's tax rate was 15.9 percent, down 4.1 points year over year; operating (non-GAAP) tax rate was 17.3 percent, down 3.2 points compared to the year-ago period. The lower tax rate is primarily due to benefits recorded to reflect changes in tax laws enacted during the quarter, including the reinstatement of the U.S. Research and Development Tax Credit.

Net income margin increased 0.5 points to 13.0 percent. Total operating (non-GAAP) net income margin increased 1.2 points to 14.4 percent.

The weighted-average number of diluted common shares outstanding in the first-quarter 2013 was 1.12 billion compared with 1.17 billion shares in the same period of 2012. As of March 31, 2013, there were 1.11 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$33.4 billion, compared with \$33.3 billion at year-end 2012. From a management segment view, Global Financing debt totaled \$25.2 billion versus \$24.5 billion at year-end 2012, resulting in a debt-to-equity ratio of 7.2 to 1. Non-global financing debt totaled \$8.2 billion, a decrease of \$0.6 billion since year-end 2012, resulting in a debt-to-capitalization ratio of 34.3 percent from 36.1 percent.

IBM ended the first-quarter 2013 with \$12.0 billion of cash on hand and generated free cash flow of \$1.7 billion, excluding Global Financing receivables, down approximately \$0.2 billion year over year. The company returned \$3.5 billion to shareholders through \$0.9 billion in dividends and \$2.6 billion of gross share repurchases. The balance sheet remains strong, and the company is well positioned to support the business over the long term.

### **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 the following: a downturn in economic environment and corporate IT spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; 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; cybersecurity and data privacy considerations; fluctuations in financial results and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions and alliances; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) 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. 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 and expectations --

- o presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- o presenting non-global financing debt-to-capitalization ratio;
- o adjusting for free cash flow;
- o adjusting for currency (i.e., at constant currency);
- o adjusting for the divestiture of RSS.

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the first-quarter earnings materials. These materials are available via a link on the IBM investor relations Web site at [www.ibm.com/investor](http://www.ibm.com/investor) and are being included in Attachment II ("Non-GAAP Supplemental Materials") to 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 4:30 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/lq13.phtml>. 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).

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**COMPARATIVE FINANCIAL RESULTS**  
(Unaudited; Dollars in millions except per share amounts)

	Three Months Ended March 31,		Percent Change
	2013	2012	
<b>REVENUE</b>			
Global Technology Services	\$9,605	\$10,035	-4.3%
Gross profit margin	36.7%	35.3%	
Global Business Services	4,484	4,637	-3.3%
Gross profit margin	28.6%	28.0%	
Software	5,572	5,600	-0.5%
Gross profit margin	87.2%	87.0%	
Systems and Technology	3,106	3,749	-17.2%
Gross profit margin	32.3%	34.2%	
Global Financing	499	490	1.9%
Gross profit margin	45.8%	50.7%	
Other	142	162	-12.4%
Gross profit margin	-158.5%	-74.8%	
<b>TOTAL REVENUE</b>	23,408	24,673	-5.1%
<b>GROSS PROFIT</b>	10,678	11,118	-4.0%
Gross profit margin	45.6%	45.1%	
<b>EXPENSE AND OTHER INCOME</b>			
S,G&A	5,577	5,886	-5.2%
Expense to revenue	23.8%	23.9%	
R,D&E	1,644	1,601	2.7%
Expense to revenue	7.0%	6.5%	
Intellectual property and custom development income	(183)	(255)	-28.4%
Other (income) and expense	(60)	(58)	3.8%
Interest expense	94	110	-14.4%
<b>TOTAL EXPENSE AND OTHER INCOME</b>	7,072	7,283	-2.9%
Expense to revenue	30.2%	29.5%	
<b>INCOME BEFORE INCOME TAXES</b>	3,606	3,836	-6.0%
Pre-tax margin	15.4%	15.5%	
Provision for income taxes	574	769	-25.4%
Effective tax rate	15.9%	20.1%	
<b>NET INCOME</b>	\$3,032	\$3,066	-1.1%
Net income margin	13.0%	12.4%	
<b>EARNINGS PER SHARE</b>			

<b>OF COMMON STOCK:</b>			
ASSUMING DILUTION	\$2.70	\$2.61	3.4%
BASIC	\$2.72	\$2.65	2.6%

<b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUT- STANDING (M's):</b>		
ASSUMING DILUTION	1,124.0	1,174.2
BASIC	1,113.7	1,159.1

**INTERNATIONAL BUSINESS MACHINES CORPORATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(Unaudited)**

(Dollars in Millions)	At March 31, 2013	At December 31, 2012
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<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$10,585	\$10,412
Marketable securities	1,407	717
Notes and accounts receivable - trade (net of allowances of \$263 in 2013 and \$255 in 2012)	10,084	10,667
Short-term financing receivables (net of allowances of \$273 in 2013 and \$288 in 2012)	16,141	18,038
Other accounts receivable (net of allowances of \$20 in 2013 and \$17 in 2012)	1,971	1,873
Inventories, at lower of average cost or market:		
Finished goods	519	475
Work in process and raw materials	1,902	1,812
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Total inventories	2,421	2,287
Deferred taxes	1,592	1,415
Prepaid expenses and other current assets	4,747	4,024
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<b>Total Current Assets</b>	<b>48,949</b>	<b>49,433</b>
Property, plant and equipment	40,056	40,501
Less: Accumulated depreciation	26,459	26,505
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Property, plant and equipment - net	13,597	13,996
Long-term financing receivables (net of allowances of \$64 in 2013 and \$66 in 2012)	11,946	12,812
Prepaid pension assets	903	945
Deferred taxes	4,227	3,973
Goodwill	29,025	29,247
Intangible assets - net	3,601	3,787
Investments and sundry assets	5,011	5,021
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<b>Total Assets</b>	<b>\$117,258</b>	<b>\$119,213</b>
	=====	=====
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Taxes	\$4,678	\$4,948
Short-term debt	8,725	9,181
Accounts payable	7,203	7,952
Compensation and benefits	3,964	4,745
Deferred income	12,971	11,952
Other accrued expenses and liabilities	4,583	4,847
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<b>Total Current Liabilities</b>	<b>42,122</b>	<b>43,625</b>

Long-term debt	24,672	24,088
Retirement and nonpension postretirement benefit obligations	19,069	20,418
Deferred income	4,409	4,491
Other liabilities	7,771	7,607
<b>Total Liabilities</b>	<b>98,044</b>	<b>100,229</b>
<b>EQUITY:</b>		
<b>IBM Stockholders' Equity:</b>		
Common stock	50,522	50,110
Retained earnings	119,713	117,641
Treasury stock -- at cost	(125,677)	(123,131)
Accumulated other comprehensive income/(loss)	(25,466)	(25,759)
<b>Total IBM stockholders' equity</b>	<b>19,092</b>	<b>18,860</b>
Noncontrolling interests	122	124
<b>Total Equity</b>	<b>19,214</b>	<b>18,984</b>
<b>Total Liabilities and Equity</b>	<b>\$117,258</b>	<b>\$119,213</b>

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**CASH FLOW ANALYSIS**  
(Unaudited)

(Dollars in Millions)	Three Months Ended	
	March 31,	
	2013	2012
<b>Net Cash from Operating Activities per GAAP:</b>	<b>\$4,023</b>	<b>\$4,291</b>
Less: the change in Global Financing (GF) Receivables	1,597	1,424
<b>Net Cash from Operating Activities</b> (Excluding GF Receivables)	<b>2,425</b>	<b>2,867</b>
Capital Expenditures, Net	(729)	(1,002)
<b>Free Cash Flow</b> (Excluding GF Receivables)	<b>1,696</b>	<b>1,865</b>
Acquisitions	(58)	(1,319)
Divestitures	10	0
Dividends	(948)	(870)
Share Repurchase	(2,593)	(3,015)
Non-GF Debt	(717)	657
Other (includes GF Receivables, and GF Debt)	3,473	3,094
<b>Change in Cash, Cash Equivalents and Short-term Marketable Securities</b>	<b>\$863</b>	<b>\$413</b>

**SEGMENT DATA**  
(Unaudited)

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**FIRST-QUARTER 2013**  
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(Dollars in Millions)	----- External	Revenue Internal	----- Total	Pre-tax Income/ (Loss)	Pre-tax Margin
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<b>SEGMENTS</b>					
Global Technology Services	\$9,605	\$248	\$9,852	\$1,585	16.1%
Y-T-Y change	-4.3%	-15.4%	-4.6%	7.1%	
Global Business Services	4,484	180	4,664	703	15.1%
Y-T-Y change	-3.3%	-1.5%	-3.2%	17.0%	
Software	5,572	831	6,403	2,014	31.5%
Y-T-Y change	-0.5%	-1.1%	-0.6%	3.5%	
Systems and Technology	3,106	120	3,226	(405)	-12.5%
Y-T-Y change	-17.2	-20.5%	-17.3%	-286.7%	
Global Financing	499	541	1,040	538	51.8%
Y-T-Y change	1.9%	11.6%	6.7%	5.0%	
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>\$23,266</b>	<b>\$1,919</b>	<b>\$25,185</b>	<b>\$4,435</b>	<b>17.6%</b>
<b>Y-T-Y change</b>	<b>-5.1%</b>	<b>-1.6%</b>	<b>-4.8%</b>	<b>0.0%</b>	
Eliminations / Other	142	(1,919)	(1,777)	(829)	
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$23,408</b>	<b>\$0</b>	<b>\$23,408</b>	<b>\$3,606</b>	<b>15.4%</b>
<b>Y-T-Y change</b>	<b>-5.1%</b>		<b>-5.1%</b>	<b>-6.0%</b>	

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**FIRST-QUARTER 2012**  
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(Dollars in Millions)	----- External	Revenue Internal	----- Total	Pre-tax Income/ (Loss)	Pre-tax Margin
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<b>SEGMENTS</b>					
Global Technology Services	\$10,035	\$293	\$10,328	\$1,480	14.3%
Global Business Services	4,637	182	4,820	601	12.5%
Software	5,600	840	6,439	1,945	30.2%
Systems and Technology	3,749	151	3,900	(105)	-2.7%
Global Financing	490	485	975	512	52.6%
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>\$24,511</b>	<b>\$1,951</b>	<b>\$26,462</b>	<b>\$4,434</b>	<b>16.8%</b>
Eliminations / Other	162	(1,951)	(1,789)	(598)	
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$24,673</b>	<b>\$0</b>	<b>\$24,673</b>	<b>\$3,836</b>	<b>15.5%</b>

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

**FIRST-QUARTER 2013**

	<b>GAAP</b>	<b>Acquisition- Related Adjustments*</b>	<b>Retirement- Related Adjustments**</b>	<b>Operating (Non-GAAP)</b>
Gross Profit	\$10,678	\$95	\$164	\$10,937
Gross Profit Margin	45.6%	0.4Pts	0.7Pts	46.7%
S,G&A	5,577	(92)	(104)	5,381
R,D&E	1,644	0	(16)	1,628
Other (Income) & Expense	(60)	(7)	0	(67)
Total Expense & Other (Income)	7,072	(99)	(120)	6,853
Pre-Tax Income	3,606	194	283	4,084
Pre-Tax Income Margin	15.4%	0.8Pts	1.2Pts	17.4%
Provision for Income Taxes***	574	54	79	708
Effective Tax Rate	15.9%	0.6Pts	0.9Pts	17.3%
Net Income	3,032	140	204	3,376
Net Income Margin	13.0%	0.6Pts	0.9Pts	14.4%
Diluted Earnings Per Share	\$2.70	\$0.12	\$0.18	\$3.00

**FIRST-QUARTER 2012**

	<b>GAAP</b>	<b>Acquisition- Related Adjustments*</b>	<b>Retirement- Related Adjustments**</b>	<b>Operating (Non-GAAP)</b>
Gross Profit	\$11,118	\$89	\$71	\$11,278
Gross Profit Margin	45.1%	0.4Pts	0.3Pts	45.7%
S,G&A	5,886	(84)	(36)	5,766
R,D&E	1,601	0	4	1,605
Other (Income) & Expense	(58)	(1)	0	(59)
Total Expense & Other (Income)	7,283	(85)	(32)	7,166
Pre-Tax Income	3,836	173	102	4,111
Pre-Tax Income Margin	15.5%	0.7Pts	0.4Pts	16.7%
Provision for Income Taxes***	769	47	30	846
Effective Tax Rate	20.1%	0.3Pts	0.2Pts	20.6%
Net Income	3,066	126	73	3,265

<b>Net Income Margin</b>	12.4%	0.5Pts	0.3Pts	13.2%
<b>Diluted Earnings Per Share</b>	\$2.61	\$0.11	\$0.06	\$2.78

\* Includes amortization of acquired intangible assets and other acquisition-related charges.

\*\* Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

\*\*\* Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

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