

# Quarterly earnings

First-Quarter Earnings Announcement

## IBM REPORTS 2009 FIRST-QUARTER RESULTS

- Diluted earnings of \$1.70 per share, up 4 percent;
- Reiterates full-year 2009 earnings of at least \$9.20 per share;
- Free cash flow of \$1 billion, up \$450 million;
- Gross profit margin of 43.4 percent, up 1.9 points;
- Net income of \$2.3 billion, down 1 percent; net margin up 1.1 points;
- Revenue of \$21.7 billion, impacted by strong U.S. dollar, down 11 percent, down 4 percent adjusting for currency;
- Software pre-tax margin up 2.9 points; income up 5 percent;
- Global Services pre-tax margin up 1.6 points; income up 4 percent;
- Total services signings up 10 percent, longer-term signings up 27 percent, both adjusting for currency;
- 16 services deals greater than \$100 million;
- Growth markets revenue up 4 percent adjusting for currency;
- Returned nearly \$2.5 billion to shareholders in dividends and share repurchases.

ARMONK, N.Y., April 20, 2009 . . . IBM (NYSE: IBM) today announced first-quarter 2009 diluted earnings of \$1.70 per share compared with diluted earnings of \$1.64 per share in the first quarter of 2008, an increase of 4 percent as reported. First-quarter net income was \$2.30 billion compared with \$2.32 billion in the first quarter of 2008, a decrease of 1 percent. Total revenues for the first quarter of 2009 of \$21.7 billion decreased 11 percent (4 percent, adjusting for currency) from the first quarter of 2008.

"IBM continued to perform well in a very difficult economic environment. This was due to our long-term strategic focus: shifting into software and services, divesting of commodity businesses, and creating solutions that help clients reduce cost and conserve capital. At the same time we have a disciplined approach to cost and expense management giving us a strong financial position," said Samuel J. Palmisano, IBM chairman, president and chief executive officer.

"We are well-positioned to continue to move aggressively and leverage our strong cash performance to make the most of the opportunities that arise, including smarter planet initiatives and other strategic options. We remain ahead of pace for our 2010 roadmap of \$10 to \$11 per share."

IBM said that it expects full-year 2009 earnings of at least \$9.20 per share.

From a geographic perspective, the Americas' first-quarter revenues were \$9.3 billion, a decrease of 7 percent (3 percent, adjusting for currency) from the 2008 period. Revenues from Europe/Middle East/Africa were \$7.2 billion, down 18 percent (3 percent, adjusting for currency). Asia-Pacific revenues decreased 6 percent (3 percent, adjusting for currency) to \$4.8 billion. OEM revenues were \$461 million, down 34 percent compared with the 2008 first quarter. Revenues from the company's growth markets organization decreased 12 percent (up 4 percent, adjusting for currency) and represented 17 percent of geographic revenues.

Total Global Services revenues decreased 10 percent (2 percent, adjusting for currency). Global Technology Services segment revenues decreased 10 percent (1 percent, adjusting for currency) to \$8.8 billion. Global Business Services segment revenues decreased 10 percent (4 percent, adjusting for currency) to \$4.4 billion. IBM signed services contracts totaling \$12.5 billion, at actual rates, a decrease of 1 percent (up 10 percent, adjusting for currency), including 16 contracts greater than \$100 million. Shorter-term signings were \$5.5 billion, a decrease of 14 percent (5 percent, adjusting for currency). Longer-term signings increased 14 percent (27 percent, adjusting for currency) to \$7.0 billion. The estimated services backlog at March 31 was \$126 billion at actual rates compared with \$130 billion at year-end 2008.

Revenues from the Software segment were \$4.5 billion, a decrease of 6 percent (up 2 percent, adjusting for currency) compared with the first quarter of 2008; pre-tax income increased 5 percent. Revenues from IBM's middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.6 billion, a decrease of 5 percent (up 4 percent, adjusting for currency) versus the first quarter of 2008. Operating systems revenues of \$492 million decreased 7 percent (flat, adjusting for currency) compared with the prior-year quarter.

For the WebSphere family of software products, which facilitate customers' ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, revenues increased 5 percent year over year. Revenues from Information Management software, which enables clients to leverage information on demand, decreased 8 percent. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, decreased 1 percent, and revenues from Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, decreased 12 percent. Revenues from Rational software, integrated tools to improve the processes of software development, increased 9 percent.

Revenues from the Systems and Technology segment totaled \$3.2 billion for the quarter, down 23 percent (18 percent, adjusting for currency). Systems revenues decreased 22 percent (15 percent, adjusting for currency). Revenues from the converged System p products decreased 2 percent compared with the 2008 period. Revenues from System z mainframe server products decreased 19 percent compared with the year-ago period. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), increased 18 percent. Revenues from the System x servers decreased 27 percent. Revenues from System Storage decreased 20 percent, and revenues from Retail Store Solutions decreased 38 percent. Revenues from Microelectronics OEM decreased 36 percent.

Global Financing segment revenues decreased 9 percent (flat, adjusting for currency) in the first quarter to \$578 million.

The company's total gross profit margin was 43.4 percent in the 2009 first quarter compared with 41.5 percent in the 2008 first-quarter period, led by improving margins in services and software.

Total expense and other income decreased 9 percent to \$6.3 billion compared with the prior-year period. SG&A expense decreased 6 percent to \$5.3 billion including workforce rebalancing charges of approximately \$265 million. RD&E expense of \$1.5 billion decreased 6 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$268 million compared with \$274 million a year ago. Other (income) and expense was income of \$304 million including a net gain of \$298 million relating to the sale of certain elements of the company's logistics process, compared with income of \$125 million from a year ago. Interest expense decreased to \$136 million compared with \$178 million in the prior year.

IBM's tax rate in the first-quarter 2009 was 26.5 percent compared with 27.5 percent in the first quarter of 2008, a decline of 1.0 point.

The weighted-average number of diluted common shares outstanding in the first-quarter 2009 was 1.35 billion compared with 1.41 billion shares in the same period of 2008. As of March 31, 2009, there were 1.32 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$31.0 billion, compared with \$33.9 billion at year-end 2008. From a management segment view, Global Financing debt decreased \$1.0 billion from year-end 2008 to a total of \$23.4 billion at March 31, 2009, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global financing debt totaled \$7.6 billion, a decrease of \$1.9 billion since year-end 2008, resulting in a debt-to-capitalization ratio of 42.4 percent from 48.7 percent, which reflects the adoption of SFAS No. 160 referenced in the Consolidated Statement of Financial Position.

IBM ended the first quarter of 2009 with \$12.3 billion of cash on hand and generated free cash flow of \$1.0 billion, up \$450 million year over year, excluding Global Financing receivables. The company returned nearly \$2.5 billion to shareholders through \$675 million in dividends and \$1.8 billion of share repurchases. The balance sheet remains strong, and the company is well positioned to take advantage of opportunities.

#### 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. 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 the 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; breaches of data protection; 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; competitive conditions; the company's ability to attract and retain key personnel and its reliance on critical skills; impact of relationships with critical suppliers; 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. 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 –

- showing non-Global Financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the first-quarter earnings materials. These materials are available 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 Supplementary 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. Investors may participate by viewing the Webcast at [www.ibm.com/investor/1q09](http://www.ibm.com/investor/1q09). Presentation charts will be available on the Web site prior to 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,     |                |
|----------------------------|--------------------|---------------|----------------|
|                            | 2009               | 2008          | Percent Change |
|                            | -----              | -----         | -----          |
| <b>REVENUE</b>             |                    |               |                |
| Global Technology Services | \$8,754            | \$9,677       | -9.5%          |
| Gross profit margin        | 33.9%              | 31.3%         |                |
| Global Business Services   | 4,397              | 4,911         | -10.5%         |
| Gross profit margin        | 26.5%              | 25.0%         |                |
| Software                   | 4,539              | 4,847         | -6.3%          |
| Gross profit margin        | 84.2%              | 83.9%         |                |
| Systems and Technology     | 3,228              | 4,219         | -23.5%         |
| Gross profit margin        | 34.0%              | 37.0%         |                |
| Global Financing           | 578                | 633           | -8.5%          |
| Gross profit margin        | 45.9%              | 50.8%         |                |
| Other                      | 213                | 216           | -0.9%          |
| Gross profit margin        | 52.7%              | -19.9%        |                |
| <b>TOTAL REVENUE</b>       | <b>21,711</b>      | <b>24,502</b> | <b>-11.4%</b>  |
| <b>GROSS PROFIT</b>        | <b>9,431</b>       | <b>10,166</b> | <b>-7.2%</b>   |

|  |         |          |        |
|--|---------|----------|--------|
| Gross profit margin  | 43.4%   | 41.5%    |        |
| EXPENSE AND OTHER INCOME   |         |          |        |
| S,G&A  | 5,264   | 5,620    | -6.3%  |
| Expense to revenue   | 24.2%   | 22.9%    |        |
| R,D&E  | 1,480   | 1,569    | -5.7%  |
| Expense to revenue   | 6.8%    | 6.4%     |        |
| Intellectual property<br>and custom development<br>income        | (268)   | (274)    | -2.2%  |
| Other (income) and expense                                       | (304)   | (125)    | 142.8% |
| Interest expense   | 136     | 178      | -23.2% |
| TOTAL EXPENSE AND<br>OTHER INCOME                                | 6,309   | 6,968    | -9.5%  |
| Expense to revenue   | 29.1%   | 28.4%    |        |
| INCOME BEFORE<br>INCOME TAXES                                    |         |          |        |
| Pre-tax margin   | 3,122   | 3,198    | -2.4%  |
|  | 14.4%   | 13.1%    |        |
| Provision for<br>income taxes                                    | 827     | 879      | -5.9%  |
| Effective tax rate   | 26.5%   | 27.5%    |        |
| NET INCOME   | \$2,295 | \$2,319  | -1.0%  |
|  | =====   | =====    |        |
| Net margin   | 10.6%   | 9.5%     |        |
| EARNINGS/(LOSS)PER SHARE<br>OF COMMON STOCK:                     |         |          |        |
| ASSUMING DILUTION  | \$1.70  | \$1.64*  | 3.7%   |
| BASIC  | \$1.71  | \$1.67*  | 2.4%   |
| WEIGHTED-AVERAGE NUMBER<br>OF COMMON SHARES<br>OUTSTANDING (M's) |         |          |        |
| ASSUMING DILUTION  | 1,349.5 | 1,411.4* |        |
| BASIC  | 1,344.3 | 1,394.3* |        |

\* Restated to reflect the implementation of FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities."

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

| (Dollars in Millions)  | At March 31, At December 31,<br>2009 2008 |           |
|--|---|-----------|
|  | -----                                     | -----     |
| ASSETS   |   |           |
| Current Assets:  |   |           |
| Cash & cash equivalents  | \$12,294                                  | \$12,741  |
| Marketable securities  | 1   | 166       |
| Notes and A/R ---- trade (net of allowances of<br>\$244 in 2009 and \$226 in 2008)         | 9,170                                     | 10,906    |
| Short-term financing receivables (net of allowances<br>of \$362 in 2009 and \$351 in 2008) | 12,952                                    | 15,477    |
| Other accounts receivable (net of allowances of<br>\$53 in 2009 and \$55 in 2008)          | 1,341                                     | 1,172     |
| Inventories, at lower of average cost or market:   |   |           |
| Finished goods   | 568                                       | 524       |
| Work in process and raw materials  | 2,191                                     | 2,176     |
|  | -----                                     | -----     |
| Total inventories  | 2,759                                     | 2,701     |
| Deferred taxes   | 1,410                                     | 1,542     |
| Prepaid expenses and other current assets  | 4,068                                     | 4,299     |
| Total Current Assets   | 43,995                                    | 49,004    |
| Plant, rental machines, and other property   | 37,592                                    | 38,445    |
| Less: Accumulated depreciation   | 23,865                                    | 24,140    |
|  | -----                                     | -----     |
| Plant, rental machines, and other property (net)   | 13,727                                    | 14,305    |
| Long-term financing receivables (net of allowances<br>of \$174 in 2009 and \$179 in 2008)  | 10,035                                    | 11,183    |
| Prepaid pension assets   | 1,946                                     | 1,601     |
| Deferred taxes   | 6,523                                     | 7,270     |
| Goodwill   | 18,070                                    | 18,226    |
| Intangible assets -- net   | 2,721                                     | 2,878     |
| Investments and sundry assets  | 4,928                                     | 5,058     |
| Total Assets   | \$101,944                                 | \$109,524 |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |                  |                  |
|---|------------------|------------------|
| Current Liabilities:                              |                  |                  |
| Taxes   | \$2,032          | \$2,743          |
| Short-term debt                                   | 9,870            | 11,236           |
| Accounts payable                                  | 5,878            | 7,014            |
| Compensation and benefits                         | 3,368            | 4,623            |
| Deferred income                                   | 10,407           | 10,239           |
| Other accrued expenses and liabilities            | 5,870            | 6,580            |
| <b>Total Current Liabilities</b>                  | <b>37,425</b>    | <b>42,435</b>    |
| Long-term Debt                                    |                  |                  |
| Retirement & nonpension postretirement            | 21,106           | 22,689           |
| Deferred income                                   | 18,276           | 19,452           |
| Other liabilities                                 | 3,230            | 3,171            |
|   | 8,214            | 8,192 *          |
| <b>Total Liabilities</b>                          | <b>88,252</b>    | <b>95,939 *</b>  |
| EQUITY  |                  |                  |
| Common Stock                                      | 39,430           | 39,129           |
| Retained Earnings                                 | 71,968           | 70,353           |
| Noncontrolling Interests*                         | 92               | 119 *            |
| Treasury Stock                                    | (76,148)         | (74,171)         |
| Accumulated G/L not in Retained Earnings          | (21,649)         | (21,845)         |
| <b>Total Stockholders' Equity</b>                 | <b>13,693</b>    | <b>13,584 *</b>  |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$101,944</b> | <b>\$109,524</b> |

\* Reflects implementation of SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51."

INTERNATIONAL BUSINESS MACHINES CORPORATION  
CASH FLOW ANALYSIS  
(Unaudited)

|  |                              |           |
|--|------------------------------|-----------|
| (Dollars in Millions)  | Three Months Ended March 31, |           |
|  | 2009                         | 2008      |
|  | -----                        | -----     |
| Net Cash from Operations                                       | \$4,386                      | \$4,202   |
| Less: Global Financing (GF) Accounts Receivable                | 2,584                        | 2,397     |
| Net Cash from Operations<br>(Excluding GF Accounts Receivable) | 1,802                        | 1,804     |
| Net Capital Expenditures                                       | (760)                        | (1,212)   |
| Free Cash Flow (excluding GF Accounts Receivable)              | 1,043                        | 593       |
| Acquisitions   | (21)                         | (4,962)   |
| Divestitures   | 356                          | 29        |
| Share Repurchase   | (1,765)                      | (2,427)   |
| Dividends  | (675)                        | (554)     |
| Non-GF Debt  | (1,915)                      | (1,720)   |
| Other (including GF Accounts Receivable,<br>GF Debt)           | 2,367                        | 4,921     |
| Change in Cash & Marketable Securities                         | (\$612)                      | (\$4,119) |

INTERNATIONAL BUSINESS MACHINES CORPORATION  
SEGMENT DATA  
(Unaudited)

|                            |                    |          |         |         |        |
|----------------------------|--------------------|----------|---------|---------|--------|
|                            | FIRST-QUARTER 2009 |          |         |         |        |
|                            | -----              |          |         |         |        |
| (Dollars in Millions)      | Revenue            |          | Pre-tax | Pre-tax |        |
|                            | External           | Internal | Total   | Income  | Margin |
|                            | -----              | -----    | -----   | -----   | -----  |
| SEGMENTS                   |                    |          |         |         |        |
| Global Technology Services | \$8,754            | \$342    | \$9,096 | \$1,104 | 12.1%  |
| % change                   | -9.5%              | -11.9%   | -9.6%   | 11.7%   |        |
| Global Business Services   | 4,397              | 232      | 4,629   | 521     | 11.3%  |
| % change                   | -10.5%             | -9.9%    | -10.4%  | -10.0%  |        |
| Software                   | 4,539              | 614      | 5,153   | 1,335   | 25.9%  |
| % change                   | -6.3%              | -8.0%    | -6.5%   | 5.4%    |        |
| Systems and Technology     | 3,228              | 176      | 3,404   | 28      | 0.8%   |
| % change                   | -23.5%             | -9.6%    | -22.9%  | -80.7%  |        |
| Global Financing           | 578                | 390      | 968     | 360     | 37.2%  |
| % change                   | -8.5%              | 0.9%     | -5.0%   | -7.2%   |        |

|                           |          |         |          |         |       |
|---------------------------|----------|---------|----------|---------|-------|
| TOTAL REPORTABLE SEGMENTS | 21,498   | 1,754   | 23,251   | 3,348   | 14.4% |
| % change                  | -11.5%   | -7.4%   | -11.2%   | -0.6%   |       |
| Eliminations / Other      | 213      | (1,754) | (1,540)  | (226)   |       |
| TOTAL IBM CONSOLIDATED    | \$21,711 | \$0     | \$21,711 | \$3,122 | 14.4% |
| % change                  | -11.4%   |         | -11.4%   | -2.4%   |       |

FIRST-QUARTER 2008

| (Dollars in Millions)      | Revenue  |          |          | Pre-tax<br>Income | Pre-tax<br>Margin |
|----------------------------|----------|----------|----------|-------------------|-------------------|
|                            | External | Internal | Total    |                   |                   |
| SEGMENTS                   |          |          |          |                   |                   |
| Global Technology Services | \$9,677  | \$388    | \$10,065 | \$988             | 9.8%              |
| Global Business Services   | 4,911    | 258      | 5,169    | 579               | 11.2%             |
| Software                   | 4,847    | 667      | 5,514    | 1,267             | 23.0%             |
| Systems and Technology     | 4,219    | 195      | 4,414    | 145               | 3.3%              |
| Global Financing           | 633      | 386      | 1,019    | 388               | 38.1%             |
| TOTAL REPORTABLE SEGMENTS  | 24,286   | 1,894    | 26,180   | 3,368             | 12.9%             |
| Eliminations / Other       | 216      | (1,894)  | (1,679)  | (170)             |                   |
| TOTAL IBM CONSOLIDATED     | \$24,502 | \$0      | \$24,502 | \$3,198           | 13.1%             |