

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 22, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: **January 22, 2013**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated January 22, 2013, regarding its financial results for the periods ended December 31, 2012, including consolidated financial statements for the periods ended December 31, 2012, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's fourth quarter earnings presentation on January 22, 2013, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachment I and II is hereby filed.

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: January 22, 2013

By:

/s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2012 FOURTH-QUARTER AND FULL-YEAR RESULTS

Fourth-Quarter 2012:

- Diluted EPS:
 - GAAP: \$5.13, up 11 percent;
 - Operating (non-GAAP): \$5.39, up 14 percent;
- Net income:
 - GAAP: \$5.8 billion, up 6 percent;
 - Operating (non-GAAP): \$6.1 billion, up 10 percent;
- Gross profit margin:
 - GAAP: 51.8 percent, up 1.8 points;
 - Operating (non-GAAP): 52.3 percent, up 2.1 points;
- Revenue of \$29.3 billion, down 1 percent, flat adjusting for currency:
 - Up 1 percent excluding divested RSS business adjusting for currency;
- Free cash flow of \$9.5 billion, up \$0.6 billion;
- Software revenue up 3 percent, up 4 percent adjusting for currency;
- Services revenue down 2 percent, down 1 percent adjusting for currency;
- Services backlog of \$140 billion, flat, up \$1 billion adjusting for currency;
- Systems and Technology revenue down 1 percent, up 4 percent excluding RSS:
 - System z mainframe up 56 percent.

Full-Year 2012:

- Diluted EPS, up double-digits for 10th consecutive year:

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- GAAP: \$14.37, up 10 percent;
- Operating (non-GAAP): \$15.25, up 13 percent;
- Net income:
- GAAP: \$16.6 billion, up 5 percent;
- Operating (non-GAAP): \$17.6 billion, up 8 percent;
- Revenue of \$104.5 billion, down 2 percent, flat adjusting for currency;
- Free cash flow of \$18.2 billion, up \$1.6 billion;
- Growth markets revenue up 4 percent, up 7 percent adjusting for currency:
- BRIC countries up 7 percent, up 12 percent adjusting for currency;
- Business analytics revenue up 13 percent;
- Smarter Planet revenue up more than 25 percent;
- Cloud revenue up 80 percent.

Full-Year 2013 Expectation:

- GAAP EPS of at least \$15.53 and operating (non-GAAP) EPS of at least \$16.70.

ARMONK, N.Y., January 22, 2013 . . . IBM (NYSE: IBM) today announced fourth-quarter 2012 diluted earnings of \$5.13 per share, compared with diluted earnings of \$4.62 per share in the fourth quarter of 2011, an increase of 11 percent. Operating (non-GAAP) diluted earnings were \$5.39 per share, compared with operating diluted earnings of \$4.71 per share in the fourth quarter of 2011, an increase of 14 percent.

Fourth-quarter net income was \$5.8 billion compared with \$5.5 billion in the fourth quarter of 2011, an increase of 6 percent. Operating (non-GAAP) net income was \$6.1 billion compared with \$5.6 billion in the fourth quarter of 2011, an increase of 10 percent.

Total revenues for the fourth quarter of 2012 of \$29.3 billion decreased 1 percent (flat adjusting for currency) from the fourth quarter of 2011. Without the impact of the divested Retail Store Solutions (RSS) business, revenue increased 1 percent, adjusting for currency.

We achieved record profit, earnings per share and free cash flow in 2012. Our performance in the fourth quarter and for the full year was driven by our strategic growth initiatives – growth markets, analytics, cloud computing, Smarter Planet solutions – which support our continued shift to higher-value businesses, said Ginni Rometty, IBM chairman, president and chief executive officer.

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Looking ahead, we continue to invest to deliver innovations for the enterprise in key areas such as big data, mobile solutions, social business and security, while

expanding into new markets and reaching new clients. We are well on track toward our long-term roadmap for operating EPS of at least \$20 in 2015.

Fourth-Quarter GAAP - Operating (non-GAAP) Reconciliation

Fourth-quarter operating (non-GAAP) diluted earnings exclude \$0.26 per share of net charges: \$0.21 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.05 per share for retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2013 Expectation

IBM said that it expects to deliver full-year 2013 GAAP earnings per share of at least \$15.53; and operating (non-GAAP) earnings per share of at least \$16.70. The 2013 operating (non-GAAP) earnings exclude \$1.17 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

The Americas fourth-quarter revenues were \$12.5 billion, flat (up 1 percent, adjusting for currency) from the 2011 period. Revenues from Europe/Middle East/Africa were \$9.1 billion, down 5 percent (down 3 percent, adjusting for currency). Asia-Pacific revenues increased 4 percent (up 5 percent, adjusting for currency) to \$7.0 billion. OEM revenues were \$679 million, down 5 percent compared with the 2011 fourth quarter.

Growth Markets

Revenues from the company's growth markets increased 7 percent. Revenues in the BRIC countries - Brazil, Russia, India and China - increased 11 percent (up 14 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 2 percent (flat adjusting for currency) to \$10.3 billion. Global Business Services segment revenues were down 3 percent (down 2 percent, adjusting for currency) at \$4.7 billion.

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Pre-tax income from Global Technology Services increased 5 percent; pre-tax margin increased to 19.2 percent. Global Business Services pre-tax income was flat; pre-tax margin increased to 17.2 percent.

The estimated services backlog at December 31 was \$140 billion, flat (up \$1 billion, adjusting for currency).

Software

Revenues from the Software segment were \$7.9 billion, an increase of 3 percent (up 4 percent, adjusting for currency) from the fourth quarter of 2011. Software pre-tax income of \$4.0 billion increased 8 percent year over year.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$5.5 billion, an increase of 5 percent (up 6 percent, adjusting for currency) versus the fourth quarter of 2011. Operating systems revenues of \$709 million were flat (up 1 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 11 percent year over year. Information Management software revenues increased 2 percent. Revenues from Tivoli software increased 4 percent. Revenues from Lotus software increased 9 percent, and Rational software increased 12 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$5.8 billion for the quarter, down 1 percent from the fourth quarter of 2011. Excluding Retail Store Solutions (RSS), revenues were up 4 percent. Systems and Technology pre-tax income was \$1.0 billion, an increase of 23 percent.

Total systems revenues, excluding RSS, increased 4 percent. Revenues from System z mainframe server products increased 56 percent compared with the year-ago period; revenue in the growth markets increased 68 percent. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 66 percent versus the prior year and represented the largest MIPS shipment quarter in the company's history. New workload specialty engines, including Linux, represented one-half of the MIPS shipped. Revenues from Power Systems decreased 19 percent compared with the 2011 period. Revenues from System x decreased 2 percent. Revenues from System Storage decreased 5 percent. Revenues from Retail Store Solutions decreased \$239 million year over year as a result of the divestiture in the third quarter. Revenues from Microelectronics OEM increased 4 percent.

Financing

Global Financing segment revenues were down 2 percent (down 1 percent, adjusting for currency) in the fourth quarter to \$535 million. Pre-tax income for the segment increased 1 percent to \$518 million.

Gross Profit

The company's total gross profit margin was 51.8 percent in the 2012 fourth quarter compared with 49.9 percent in the 2011 fourth-quarter period. Total operating (non-GAAP) gross profit margin was 52.3 percent in the 2012 fourth quarter compared with 50.2 percent in the 2011 fourth-quarter period, with increases in Services, Software and Hardware.

Expense

Total expense and other income decreased 2 percent to \$7.3 billion compared with the prior-year period. S,G&A expense of \$5.9 billion decreased 3 percent year over year compared with prior-year expense. R,D&E expense of \$1.6 billion increased 2 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$227 million compared with \$253 million a year ago. Other (income) and expense was income of \$47 million compared with prior-year income of \$44 million. Interest expense decreased to \$109 million compared with \$113 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 2 percent to \$7.2 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.8 billion decreased 3 percent year over year 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 increased 8 percent to \$7.8 billion; total operating (non-GAAP) pre-tax income increased 10 percent to \$8.1 billion. Pre-tax margin was 26.7 percent, up 2.1 points; total operating (non-GAAP) pre-tax margin was 27.7 percent, up 2.6 points.

IBM's tax rate was 25.5 percent, up 1.0 points year over year; total operating (non-GAAP) tax rate was 24.4 percent, flat compared to the year-ago period.

Net income margin increased 1.3 points to 19.9 percent; total operating (non-GAAP) net income margin was 20.9 percent, an increase of 1.9 points.

The weighted-average number of diluted common shares outstanding in the fourth-quarter 2012 was 1.14 billion compared with 1.19 billion shares in the same period of 2011.

In the quarter, IBM generated free cash flow of \$9.5 billion excluding Global Financing receivables, up \$0.6 billion year over year.

Full-Year 2012 Results

Net income for the year ended December 31, 2012 was \$16.6 billion compared with \$15.9 billion in the prior year, an increase of 5 percent. Operating (non-GAAP) net income was \$17.6 billion compared with \$16.3 billion in 2011, an increase of 8 percent.

Diluted earnings were \$14.37 per share compared with \$13.06 per diluted share in 2011, an increase of 10 percent. Operating (non-GAAP) diluted earnings were \$15.25 per share, compared with operating diluted earnings of \$13.44 per share in 2011, an increase of 13 percent. This was the company's 10th consecutive year of double-digit EPS growth.

Revenues for 2012 totaled \$104.5 billion, a decrease of 2 percent (flat adjusting for currency), compared with \$106.9 billion in 2011.

GAAP - Operating (non-GAAP) Reconciliation

Operating (non-GAAP) diluted earnings for the year exclude \$0.88 per share of net charges: \$0.55 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.33 per share for retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

From a geographic perspective, the Americas' full-year revenues were \$44.6 billion, a decrease of 1 percent (flat adjusting for currency) from the 2011 period. Revenues from Europe/Middle East/Africa were \$31.8 billion, a decrease of 6 percent (down 1 percent, adjusting for currency). Asia-Pacific revenues increased 3 percent to \$25.9 billion. OEM revenues were \$2.2 billion, down 18 percent compared with 2011.

Growth Markets

Revenues from the company's growth markets increased 4 percent (up 7 percent, adjusting for currency), and represents 24 percent of IBM's total geographic revenue. Revenues in the BRIC countries (Brazil, Russia, India and China) increased 7 percent (up 12 percent, adjusting for currency).

Segments

Total Global Services revenues decreased 2 percent (flat adjusting for currency). Revenues from the Global Technology Services segment totaled \$40.2 billion, a decrease of 2 percent (up 1 percent, adjusting for currency) compared with 2011. Revenues from the Global Business Services segment were \$18.6 billion, down 4 percent (down 2 percent, adjusting for currency). Software segment revenues in 2012 totaled \$25.4 billion, an increase of 2 percent (up 4 percent, adjusting for currency). Systems and Technology segment revenues were \$17.7 billion, a decrease of 7 percent (down 6 percent, adjusting for currency); excluding Retail Store Solutions, revenues were down 5 percent (down 4 percent adjusting for currency). Global Financing segment revenues totaled \$2.0 billion, a decrease of 4 percent (down 1 percent, adjusting for currency).

The company's total gross profit margin was 48.1 percent in 2012 compared with 46.9 percent in 2011. Overall gross profit margins improved year over year for the 9th consecutive year. Total operating (non-GAAP) gross profit margin was 48.7 percent in the 2012 period compared with 47.2 percent in the 2011 period, with increases in Services and Software.

The weighted-average number of diluted common shares outstanding in 2012 was 1.16 billion compared with 1.21 billion shares in 2011. As of December 31, 2012, there were 1.12 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$33.3 billion, compared with \$31.3 billion at year-end 2011. From a management segment view, Global Financing debt totaled \$24.5 billion versus \$23.3 billion at year-end 2011, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global financing debt totaled \$8.8 billion, an increase of \$0.8 billion since year-end 2011, resulting in a debt-to-capitalization ratio of 36.1 percent from 32.0 percent.

IBM ended 2012 with \$11.1 billion of cash on hand and generated free cash flow of \$18.2 billion excluding Global Financing receivables, up approximately \$1.6 billion year over year. The company returned \$15.8 billion to shareholders through \$3.8 billion in dividends and \$12.0 billion of share repurchases. The company's balance

sheet remains strong and 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

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

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the fourth-quarter earnings materials. These materials are available on the IBM investor relations Web site at 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. EST, today. The Webcast may be viewed at www.ibm.com/investor/4q12. Presentation charts will be available on the Web site 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

(Dollars in millions except per share amounts)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|--|------------------------------------|---------------|-------------------|-------------------------------------|----------------|-------------------|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 10,284 | \$ 10,452 | -1.6% | \$ 40,236 | \$ 40,879 | -1.6% |
| Gross profit margin | 37.6% | 36.6% | | 36.6% | 35.0% | |
| Global Business Services | 4,720 | 4,877 | -3.2% | 18,566 | 19,284 | -3.7% |
| Gross profit margin | 29.9% | 29.3% | | 30.0% | 28.8% | |
| Software | 7,915 | 7,648 | 3.5% | 25,448 | 24,944 | 2.0% |
| Gross profit margin | 90.6% | 89.8% | | 88.7% | 88.5% | |
| System and Technology | 5,763 | 5,803 | -0.7% | 17,667 | 18,985 | -6.9% |
| Gross profit margin | 44.1% | 40.5% | | 39.1% | 39.8% | |
| Global Financing | 535 | 548 | -2.3% | 2,013 | 2,102 | -4.2% |
| Gross profit margin | 43.8% | 49.7% | | 46.5% | 49.8% | |
| Other | 87 | 159 | -45.3% | 577 | 722 | -20.1% |
| Gross profit margin | -73.2% | -11.0% | | -71.6% | -54.5% | |
| TOTAL REVENUE | 29,304 | 29,486 | -0.6% | 104,507 | 106,916 | -2.3% |
| GROSS PROFIT | | | | | | |
| Gross profit margin | 51.8% | 49.9% | | 48.1% | 46.9% | |
| EXPENSE AND OTHER INCOME | | | | | | |
| S,G&A | 5,921 | 6,076 | -2.6% | 23,553 | 23,594 | -0.2% |
| Expense to revenue | 20.2% | 20.6% | | 22.5% | 22.1% | |
| R,D&E | 1,580 | 1,555 | 1.6% | 6,302 | 6,258 | 0.7% |
| Expense to revenue | 5.4% | 5.3% | | 6.0% | 5.9% | |
| Intellectual property and custom development income | (227) | (253) | -10.1% | (1,074) | (1,108) | -3.0% |
| Other (income) and expense | (47) | (44) | 7.3% | (843) | (20) | NM |
| Interest expense | 109 | 113 | -3.8% | 459 | 411 | 11.8% |
| TOTAL EXPENSE AND OTHER INCOME | | | | | | |
| Expense to revenue | 25.0% | 25.3% | | 27.2% | 27.3% | |
| INCOME BEFORE INCOME TAXES | | | | | | |
| Pre-tax margin | 26.7% | 24.7% | | 21.0% | 19.6% | |

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| | | | | | | |
|--|----------|----------|-------|-----------|-----------|-------|
| Provision for income taxes | 1,998 | 1,784 | 12.0% | 5,298 | 5,148 | 2.9% |
| Effective tax rate | 25.5% | 24.5% | | 24.2% | 24.5% | |
| NET INCOME | \$ 5,833 | \$ 5,490 | 6.3% | \$ 16,604 | \$ 15,855 | 4.7% |
| Net income margin | 19.9% | 18.6% | | 15.9% | 14.8% | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | |
| ASSUMING DILUTION | \$ 5.13 | \$ 4.62 | 11.0% | \$ 14.37 | \$ 13.06 | 10.0% |
| BASIC | \$ 5.19 | \$ 4.68 | 10.9% | \$ 14.53 | \$ 13.25 | 9.7% |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s): | | | | | | |
| ASSUMING DILUTION | 1,136.4 | 1,188.7 | | 1,155.4 | 1,213.8 | |
| BASIC | 1,124.7 | 1,172.2 | | 1,142.5 | 1,197.0 | |

NM Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (Dollars in Millions) | At December 31, 2012 | At December 31, 2011 |
|---|----------------------------|----------------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,412 | \$ 11,922 |
| Marketable securities | 717 | |
| Notes and accounts receivable - trade (net of allowances of \$255 in 2012 and \$256 in 2011) | 10,667 | 11,179 |
| Short-term financing receivables (net of allowances of \$288 in 2012 and \$311 in 2011) | 18,038 | 16,901 |
| Other accounts receivable (net of allowances of \$17 in 2012 and \$11 in 2011) | 1,873 | 1,481 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 475 | 589 |
| Work in process and raw materials | 1,812 | 2,007 |
| Total inventories | 2,287 | 2,595 |
| Deferred taxes | 1,415 | 1,601 |
| Prepaid expenses and other current assets | 4,024 | 5,249 |
| Total Current Assets | 49,433 | 50,928 |
| Property, plant and equipment | 40,501 | 40,124 |
| Less: Accumulated depreciation | 26,505 | 26,241 |
| Property, plant and equipment - net | 13,996 | 13,883 |
| Long-term financing receivables (net of allowances of \$66 in 2012 and \$38 in 2011) | 12,812 | 10,776 |
| Prepaid pension assets | 945 | 2,843 |
| Deferred taxes | 3,973 | 3,503 |
| Goodwill | 29,247 | 26,213 |
| Intangible assets - net | 3,787 | 3,392 |
| Investments and sundry assets | 5,021 | 4,895 |
| Total Assets | \$ 119,213 | \$ 116,433 |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Taxes | \$ 4,948 | \$ 3,313 |
| Short-term debt | 9,181 | 8,463 |
| Accounts payable | 7,952 | 8,517 |
| Compensation and benefits | 4,745 | 5,099 |
| Deferred income | 11,952 | 12,197 |
| Other accrued expenses and liabilities | 4,847 | 4,535 |
| Total Current Liabilities | 43,625 | 42,123 |
| Long-term debt | 24,088 | 22,857 |
| Retirement and nonpension postretirement benefit obligations | 20,418 | 18,374 |

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| | | |
|---|-------------------|-------------------|
| Deferred income | 4,491 | 3,847 |
| Other liabilities | 7,607 | 8,996 |
| Total Liabilities | 100,229 | 96,197 |
| EQUITY: | | |
| IBM Stockholders' Equity: | | |
| Common stock | 50,110 | 48,129 |
| Retained earnings | 117,641 | 104,857 |
| Treasury stock at cost | (123,131) | (110,963) |
| Accumulated other comprehensive income/(loss) | (25,759) | (21,885) |
| Total IBM stockholders' equity | 18,860 | 20,138 |
| Noncontrolling interests | 124 | 97 |
| Total Equity | 18,984 | 20,236 |
| Total Liabilities and Equity | \$ 119,213 | \$ 116,433 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

| (Dollars in Millions) | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|----------|-------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net Cash from Operating Activities per GAAP: | \$ 6,346 | \$ 7,097 | \$ 19,586 | \$ 19,846 |
| Less: the change in Global Financing (GF) Receivables | (4,151) | (2,927) | (2,906) | (817) |
| Net Cash from Operating Activities (Excluding GF Receivables) | 10,497 | 10,024 | 22,492 | 20,663 |
| Capital Expenditures, Net | (981) | (1,059) | (4,307) | (4,059) |
| Free Cash Flow (Excluding GF Receivables) | 9,515 | 8,965 | 18,185 | 16,604 |
| Acquisitions | (1,455) | (1,588) | (3,722) | (1,811) |
| Divestitures | 13 | 10 | 599 | 14 |
| Dividends | (957) | (880) | (3,773) | (3,473) |
| Share Repurchase | (3,006) | (3,581) | (11,995) | (15,046) |
| Non-GF Debt | (1,571) | 599 | 713 | 1,692 |
| Other (includes GF Receivables, and GF Debt) | (3,664) | (2,906) | (802) | 2,291 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ (1,125) | \$ 619 | \$ (794) | \$ 271 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

FOURTH-QUARTER 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,284 | \$ 297 | \$ 10,581 | \$ 2,027 | 19.2% |
| Y-T-Y change | -1.6% | -0.6% | -1.6% | 5.0% | |
| Global Business Services | 4,720 | 181 | 4,901 | 841 | 17.2% |
| Y-T-Y change | -3.2% | -5.9% | -3.3% | 0.1% | |
| Software | 7,915 | 815 | 8,730 | 4,017 | 46.0% |
| Y-T-Y change | 3.5% | -4.2% | 2.7% | 8.3% | |
| Systems and Technology | 5,763 | 186 | 5,949 | 974 | 16.4% |
| Y-T-Y change | -0.7% | 0.0% | -0.7% | 23.2% | |
| Global Financing | 535 | 568 | 1,103 | 518 | 46.9% |
| Y-T-Y change | -2.3% | -0.1% | -1.2% | 0.7% | |
| TOTAL REPORTABLE SEGMENTS | \$ 29,217 | \$ 2,048 | \$ 31,265 | \$ 8,377 | 26.8% |
| Y-T-Y change | -0.4% | -2.4% | -0.5% | 7.6% | |
| Eliminations / Other | 87 | (2,048) | (1,961) | (546) | |
| TOTAL IBM CONSOLIDATED | \$ 29,304 | \$ 0 | \$ 29,304 | \$ 7,831 | 26.7% |
| Y-T-Y change | -0.6% | | -0.6% | 7.7% | |

FOURTH-QUARTER 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,452 | \$ 299 | \$ 10,751 | \$ 1,930 | 18.0% |
| Global Business Services | 4,877 | 193 | 5,069 | 841 | 16.6% |
| Software | 7,648 | 851 | 8,499 | 3,710 | 43.7% |
| Systems and Technology | 5,803 | 186 | 5,989 | 790 | 13.2% |
| Global Financing | 548 | 569 | 1,116 | 514 | 46.1% |
| TOTAL REPORTABLE SEGMENTS | \$ 29,328 | \$ 2,098 | \$ 31,425 | \$ 7,786 | 24.8% |
| Eliminations / Other | 159 | (2,098) | (1,939) | (512) | |
| TOTAL IBM CONSOLIDATED | \$ 29,486 | \$ 0 | \$ 29,486 | \$ 7,274 | 24.7% |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

TWELVE-MONTHS 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------|---------------------|------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 40,236 | \$ 1,166 | \$ 41,402 | \$ 6,961 | 16.8% |
| Y-T-Y change | -1.6% | -6.2% | -1.7% | 10.8% | |
| Global Business Services | 18,566 | 719 | 19,286 | 2,983 | 15.5% |
| Y-T-Y change | -3.7% | -9.7% | -4.0% | -0.8% | |
| Software | 25,448 | 3,274 | 28,722 | 10,810 | 37.6% |
| Y-T-Y change | 2.0% | -0.1% | 1.8% | 8.4% | |
| Systems and Technology | 17,667 | 676 | 18,343 | 1,227 | 6.7% |
| Y-T-Y change | -6.9% | -19.3% | -7.5% | -24.9% | |
| Global Financing | 2,013 | 2,060 | 4,073 | 2,034 | 49.9% |
| Y-T-Y change | -4.2% | -1.6% | -2.9% | 1.1% | |
| TOTAL REPORTABLE SEGMENTS | \$ 103,930 | \$ 7,896 | \$ 111,826 | \$ 24,015 | 21.5% |
| Y-T-Y change | -2.1% | -4.3% | -2.3% | 4.8% | |
| Eliminations / Other | 577 | (7,896) | (7,319) | (2,113) | |
| TOTAL IBM CONSOLIDATED | \$ 104,507 | \$ 0 | \$ 104,507 | \$ 21,902 | 21.0% |
| Y-T-Y change | -2.3% | | -2.3% | 4.3% | |

TWELVE-MONTHS 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------|---------------------|------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 40,879 | \$ 1,242 | \$ 42,121 | \$ 6,284 | 14.9% |
| Global Business Services | 19,284 | 797 | 20,081 | 3,006 | 15.0% |
| Software | 24,944 | 3,276 | 28,219 | 9,970 | 35.3% |
| Systems and Technology | 18,985 | 838 | 19,823 | 1,633 | 8.2% |
| Global Financing | 2,102 | 2,092 | 4,195 | 2,011 | 47.9% |
| TOTAL REPORTABLE SEGMENTS | \$ 106,194 | \$ 8,246 | \$ 114,440 | \$ 22,904 | 20.0% |
| Eliminations / Other | 722 | (8,246) | (7,524) | (1,901) | |
| TOTAL IBM CONSOLIDATED | \$ 106,916 | \$ 0 | \$ 106,916 | \$ 21,003 | 19.6% |

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Dollars in millions except per share amounts)

| | FOURTH-QUARTER 2012 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 15,167 | \$ 100 | \$ 60 | \$ 15,327 |
| Gross Profit Margin | 51.8% | 0.3Pts | 0.2Pts | 52.3% |
| S,G&A | 5,921 | (91) | (29) | 5,801 |
| R,D&E | 1,580 | 0 | 6 | 1,586 |
| Other (Income) & Expense | (47) | (7) | 0 | (54) |
| Total Expense & Other (Income) | 7,336 | (98) | (23) | 7,215 |
| Pre-Tax Income | 7,831 | 198 | 83 | 8,112 |
| Pre-Tax Income Margin | 26.7% | 0.7Pts | 0.3Pts | 27.7% |
| Provision for Income Taxes*** | 1,998 | (45) | 30 | 1,983 |
| Effective Tax Rate | 25.5% | -1.2Pts | 0.1Pts | 24.4% |
| Net Income | 5,833 | 243 | 53 | 6,129 |
| Net Income Margin | 19.9% | 0.8Pts | 0.2Pts | 20.9% |
| Diluted Earnings Per Share | \$ 5.13 | \$ 0.21 | \$ 0.05 | \$ 5.39 |

| | FOURTH-QUARTER 2011 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 14,722 | \$ 81 | \$ (10) | \$ 14,793 |
| Gross Profit Margin | 49.9% | 0.3Pts | -0.0Pts | 50.2% |
| S,G&A | 6,076 | (82) | 2 | 5,996 |
| R,D&E | 1,555 | 0 | 23 | 1,578 |
| Other (Income) & Expense | (44) | (2) | 0 | (46) |
| Total Expense & Other (Income) | 7,448 | (85) | 25 | 7,388 |
| Pre-Tax Income | 7,274 | 166 | (35) | 7,405 |
| Pre-Tax Income Margin | 24.7% | 0.6Pts | -0.1Pts | 25.1% |

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| | | | | |
|--------------------------------------|---------|---------|-----------|---------|
| Provision for Income Taxes*** | 1,784 | 47 | (24) | 1,808 |
| Effective Tax Rate | 24.5% | 0.1Pts | -0.2Pts | 24.4% |
| Net Income | 5,490 | 119 | (12) | 5,597 |
| Net Income Margin | 18.6% | 0.4Pts | -0.0Pts | 19.0% |
| Diluted Earnings Per Share | \$ 4.62 | \$ 0.10 | \$ (0.01) | \$ 4.71 |

* 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.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Dollars in millions except per share amounts)

| | TWELVE-MONTHS 2012 | | | |
|---|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 50,298 | \$ 376 | \$ 264 | \$ 50,938 |
| Gross Profit Margin | 48.1% | 0.4Pts | 0.3Pts | 48.7% |
| S,G&A | 23,553 | (349) | (294) | 22,910 |
| R,D&E | 6,302 | 0 | 20 | 6,322 |
| Other (Income) & Expense | (843) | (13) | 0 | (857) |
| Total Expense & Other (Income) | 28,396 | (363) | (274) | 27,760 |
| Pre-Tax Income | 21,902 | 739 | 538 | 23,179 |
| Pre-Tax Income Margin | 21.0% | 0.7Pts | 0.5Pts | 22.2% |
| Provision for Income Taxes*** | 5,298 | 98 | 156 | 5,552 |
| Effective Tax Rate | 24.2% | -0.4Pts | 0.1Pts | 24.0% |
| Net Income | 16,604 | 641 | 381 | 17,627 |
| Net Income Margin | 15.9% | 0.6Pts | 0.4Pts | 16.9% |
| Diluted Earnings Per Share | \$ 14.37 | \$ 0.55 | \$ 0.33 | \$ 15.25 |

| | TWELVE-MONTHS 2011 | | | |
|---|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 50,138 | \$ 341 | \$ 2 | \$ 50,481 |
| Gross Profit Margin | 46.9% | 0.3Pts | 0.0Pts | 47.2% |
| S,G&A | 23,594 | (309) | (13) | 23,272 |
| R,D&E | 6,258 | 0 | 88 | 6,345 |
| Other (Income) & Expense | (20) | (25) | 0 | (45) |
| Total Expense & Other (Income) | 29,135 | (334) | 74 | 28,875 |
| Pre-Tax Income | 21,003 | 675 | (72) | 21,605 |
| Pre-Tax Income Margin | 19.6% | 0.6Pts | -0.1Pts | 20.2% |

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| | | | | |
|--------------------------------------|----------|---------|-----------|----------|
| Provision for Income Taxes*** | 5,148 | 179 | (40) | 5,287 |
| Effective Tax Rate | 24.5% | 0.1Pts | -0.1Pts | 24.5% |
| Net Income | 15,855 | 495 | (32) | 16,318 |
| Net Income Margin | 14.8% | 0.5Pts | -0.0Pts | 15.3% |
| Diluted Earnings Per Share | \$ 13.06 | \$ 0.41 | \$ (0.03) | \$ 13.44 |

* 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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