

Power Systems revenue declined 23.7 percent as reported (23 percent adjusted for currency) year to year, as a result of strong performance in the fourth-quarter 2018 with the introduction of our next generation high-end POWER9 processors and the completion of the roll-out of supercomputers to the U.S. Department of Energy.

Storage Systems revenue increased 2.8 percent as reported (3 percent adjusted for currency), reflecting growth in the high-end systems with the launch in November 2019 of the new DS8900 which offers industry-leading response times, availability and pervasive end-to-end encryption.

In the fourth quarter, Operating Systems Software revenue of \$482 million increased 7.9 percent as reported (8 percent adjusted for currency) driven primarily by growth in IBM Z operating systems.

Within Systems, cloud revenue of \$1.4 billion increased 21 percent year to year as reported and adjusted for currency.

The Systems gross profit margin increased 5.2 points to 56.0 percent in the fourth quarter of 2019 compared to the prior year. Pre-tax income of \$802 million increased 45.6 percent and pre-tax margin increased 5.5 points year to year to 24.8 percent. The Systems profit and margin expansion reflects the benefits from the new z15 mainframe and DS8900 high-end storage system launched in 2019.

### Global Financing

Global Financing revenue of \$301 million decreased 25.3 percent year to year, which reflects the company's wind down of the OEM IT commercial financing operations. Global Financing fourth-quarter pre-tax income decreased 20.9 percent to \$252 million and the pre-tax margin of 38.9 percent decreased 2.4 points year to year. The decrease in pre-tax income was driven by a decrease in gross profit, partially offset by a decrease in SG&A expense.

### Geographic Revenue

Total revenue of \$21,777 million increased 0.1 percent as reported (1 percent adjusted for currency) and 3 percent excluding divested businesses and adjusted for currency in the fourth quarter compared to the prior year. Americas revenue of \$10,461 million increased 2.3 percent as reported (3 percent adjusted for currency) and 6 percent excluding divested businesses and adjusted for currency. EMEA revenue of \$7,090 million increased 0.1 percent as reported (2 percent adjusted for currency) and 4 percent excluding divested businesses and adjusted for currency. Asia Pacific revenue of \$4,226 million declined 5.2 percent as reported (7 percent adjusted for currency) and 6 percent excluding divested businesses and adjusted for currency.

Within Americas, revenue in the U.S. increased 2.9 percent year to year, driven primarily by the strong performance of the new z15. Canada increased 4.1 percent as reported and 4 percent adjusted for currency. Latin America decreased 1.4 percent as reported, but increased 3 percent adjusted for currency. Within

Latin America, Brazil increased 7.3 percent as reported and 11 percent adjusted for currency, reflecting the strong acceptance of the new z15 in the financial sector.

In EMEA, France increased 9.5 percent as reported and 13 percent adjusted for currency and Italy increased 2.5 percent as reported and 5 percent adjusted for currency. Germany declined 3.7 percent as reported and 1 percent adjusted for currency and the U.K. decreased 2.4 percent as reported and 3 percent adjusted for currency. The Middle East and Africa region increased 1 percent as reported and 2 percent adjusted for currency.

Within Asia Pacific, Japan decreased 0.9 percent as reported and 4 percent adjusted for currency. China declined 11.4 percent as reported and 10 percent adjusted for currency. Australia decreased 22.0 percent as reported and 18 percent adjusted for currency. India decreased 5.2 percent as reported and 6 percent adjusted for currency.

### Total Expense and Other (Income)

(\$ in millions)

	2019	2018	Yr.-to-Yr. Percent/ Margin Change*
<b>For the fourth quarter:</b>			
<b>Total consolidated expense and other (income)</b>	<b>\$7,107</b>	<b>\$6,253</b>	<b>13.7%</b>
Non-operating adjustments			
Amortization of acquired intangible assets	(294)	(106)	176.0
Acquisition-related charges	(27)	(13)	104.7
Non-operating retirement-related (costs)/income	(196)	(387)	(49.4)
<b>Operating (non-GAAP) expense and other (income)</b>	<b>\$6,591</b>	<b>\$5,746</b>	<b>14.7%</b>
Total consolidated expense-to-revenue ratio	32.6%	28.7%	3.9 pts.
Operating (non-GAAP) expense-to-revenue ratio	30.3%	26.4%	3.9 pts.

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

Total expense and other (income) increased 13.7 percent in the fourth quarter with an expense-to-revenue ratio of 32.6 percent compared to 28.7 percent in the fourth quarter of 2018. The year-to-year increase was a result of higher spending (15 points) driven by Red Hat (15 points) and higher acquisition-related charges and amortization of acquired intangible assets associated with the Red Hat transaction (4 points), partially offset by higher divestiture gains (3 points) and lower non-operating retirement-related costs (3 points).

Total operating (non-GAAP) expense and other income increased 14.7 percent year to year primarily driven by the higher spending, partially offset by the divestiture gains, as described above.