

The IBM Difference

January 17, 2008

One of the most pressing questions being asked about companies today is what distinguishes them from their competitors in an uncertain economic environment.

In the case of IBM, here are some of the key answers:

1. Global Reach and Scale--- In addition to doing business in 170 countries, IBM also enjoys an increasingly broad-based geographic distribution of revenue. In the fourth quarter of 2007, revenue from outside the United States grew to 65 percent of the company's total. While revenue in the often-referenced BRIC --- Brazil, Russia, India and China --- countries increased 29 percent, IBM's emerging country growth profile extends much wider.

During the fourth quarter, 51 countries --- including South Africa, Malaysia, Poland, Ecuador, Singapore, Peru, the Czech Republic, and Australia --- had year-to-year revenue growth of greater than 10 percent at constant currency. Collectively these countries comprised 22 percent of IBM's total revenue and grew at a rate of more than 20 percent, making a significant impact on the current growth of the company and contributing to IBM's strength as it enters 2008.

2. Capabilities that Create Value for Customers – In the latter half of the 20th century IBM helped build much of the business and IT infrastructure for many of the developed nations around the world. Today the company is designing, building and operating the infrastructure for the public and private sectors in many of the emerging nations.

This growing scope of work is a manifestation of IBM's focus on higher-value offerings, as it delivers capabilities to enterprise customers that they simply cannot get from companies whose emphasis is on more commoditized products.

Even in periods of uncertain economic conditions, clients continue to make investments that provide them with benefits they can measure and that ensure the operation of the most critical elements of their business --- such as data security, operational resiliency, real-time business analytics, risk management, cost reduction, cash flow improvement, capital assurance and energy management.

In the fourth quarter of 2007, clients around the world and in every business sector turned to IBM for such vital support, and the company's strong short-term signings growth is a sign that IBM remains a trusted business and technology partner in a demanding economic climate.

For example, earlier this year IBM introduced a series of Green Data Center offerings to help customers maximize power utilization and reduce energy costs for their data centers, enabling them to continue to operate their business while expanding capacity. In the

fourth quarter of 2007, this offering generated about \$300 million in signings, nearly half of which came from clients in the Financial Services sector.

In addition, as a measure of how customers in that same Financial Services sector continue to value IBM's operation-critical capabilities, IBM's fourth-quarter short-term services signings in the sector were up 22 percent worldwide, and up 78 percent to more than \$500 million in the United States.

3. Technology Leadership – In 2007, for the 15th consecutive year, IBM was issued more U.S. patents (3125) than any other company. This is just one example of the company's technology leadership that continues to be reflected in its products and services. In the first quarter of 2008 IBM will launch its next generation System z mainframe, delivering 50 percent more capacity than the current model and offering customers unmatched levels of workload consolidation.

Also this quarter, new System p servers will bring POWER6 innovation to the entry level, and POWER-based virtualization offerings will improve energy and space efficiency for UNIX customers.

In the last five years IBM has aggressively complemented its own research and development prowess with more than 60 acquisitions of hardware, services and software companies. The company will have invested more than \$20 billion during this period when the recent acquisitions of XIV (storage), Cognos (information management software) and Telelogic (business optimization software) are all completed in early 2008.

4. Financial Flexibility to Thrive in All Conditions – The company's focus on higher-value offerings helps drive profitable growth and strong cash generation --- \$16.1 billion cash balance at the end of 2007, \$12.4 in free cash flow --- that enabled IBM to not only return value to shareholders through stock repurchases and dividends, but also to invest opportunistically for growth despite near-term business conditions. This financial flexibility is made possible by a business model in which about 50 percent of the company's revenue and profit are recurring streams far less subject to volatility in uncertain economic conditions.

These materials contain certain non-GAAP information. The rationale for management's use of this non-GAAP information, reconciliation of that information to GAAP, and other related information is included in supplementary materials entitled "Non-GAAP Supplementary Materials" in Attachment II of IBM's Form 8K submitted to the SEC on January 17, 2008.