



IBM Investor Briefing

Thomas J. Watson Research Center, May '07



IBM **Investor** Briefing

Financial Model

Mark Loughridge
Senior Vice President and Chief Financial Officer

Our Long-term Business Objectives

Drive revenue growth through new markets, new offerings and new products both developed and acquired

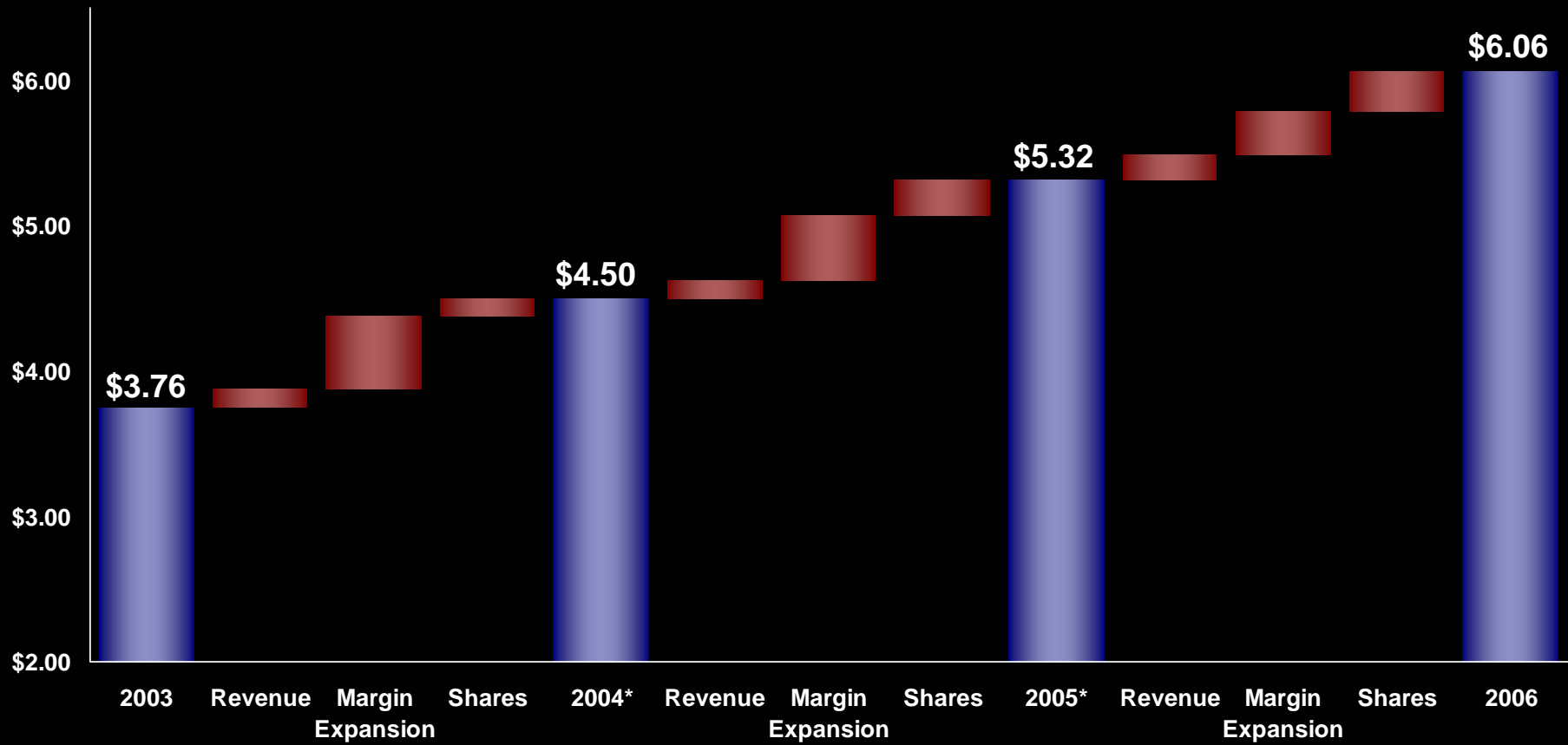
Focus on productivity to improve margins

Deploy cash to fund growth and provide shareholder returns via dividends and share buybacks

Deliver Double-Digit Earnings per Share Growth over the Long-Term

Historical EPS Roadmap 2003-2006

Earnings Per Share from Continuing Operations



* Excludes Non-recurring items

Key Financial Drivers of Long-Term EPS Growth

Roadmap to 2010

Historical
Revenue
Growth

Margin
Expansion

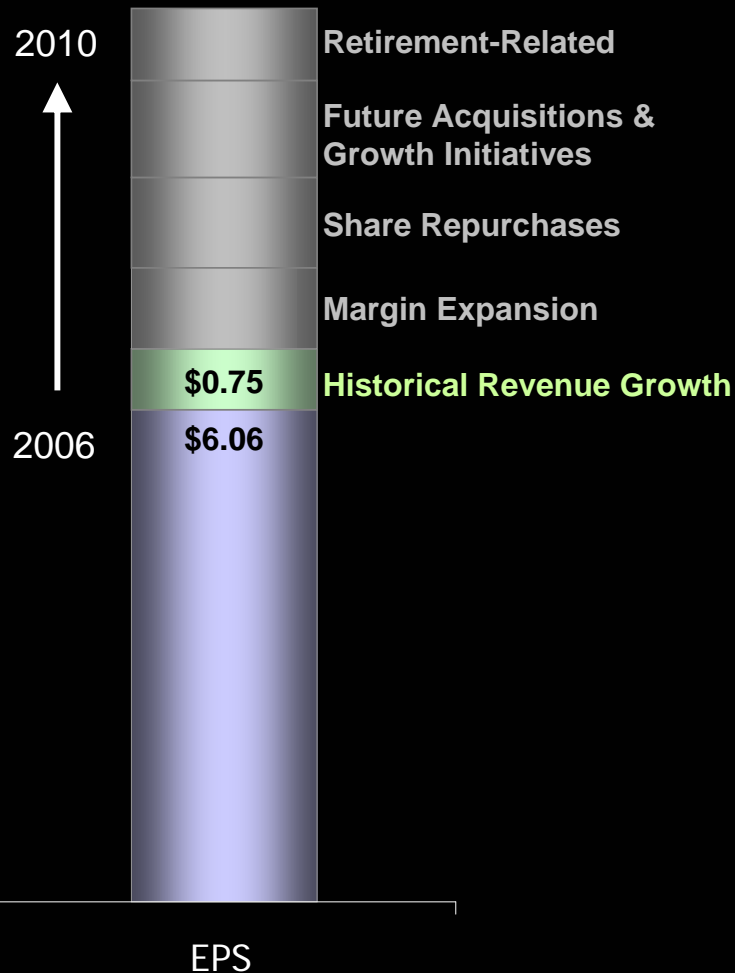
Share
Repurchase

Growth
Initiatives

Future
Acquisitions

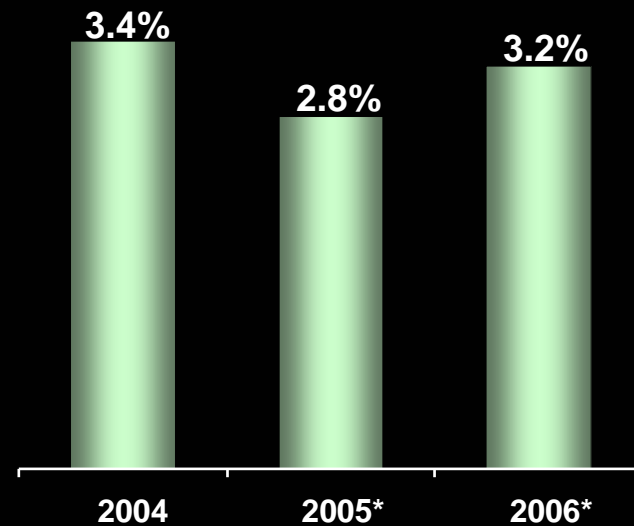
Retirement
Related
Costs

Long-Term EPS Roadmap – Revenue Growth



An extrapolation of recent revenue performance will yield approximately 3 points of annual EPS growth

Historical Revenue Growth Yr/Yr @ Constant Currency



* Excludes PCs

Long-Term EPS Roadmap – Margin Expansion



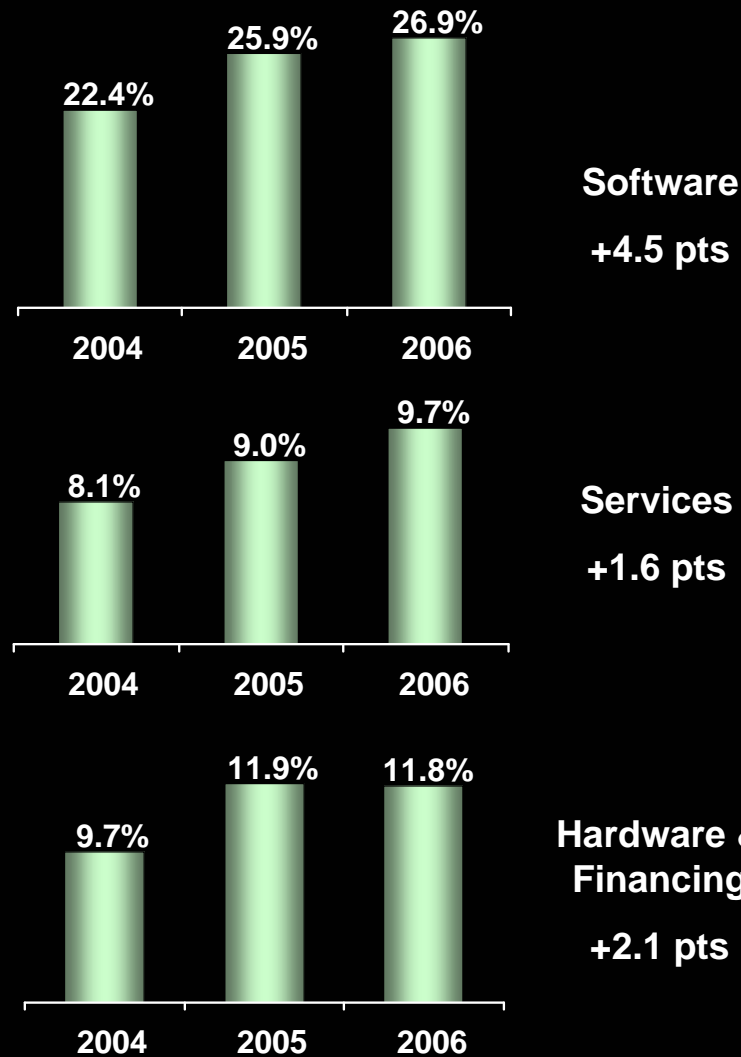
Continuing to drive productivity through global integration of:

- Service Delivery
- Supply Chain
- Support Functions

Long-Term EPS Roadmap – Margin Expansion

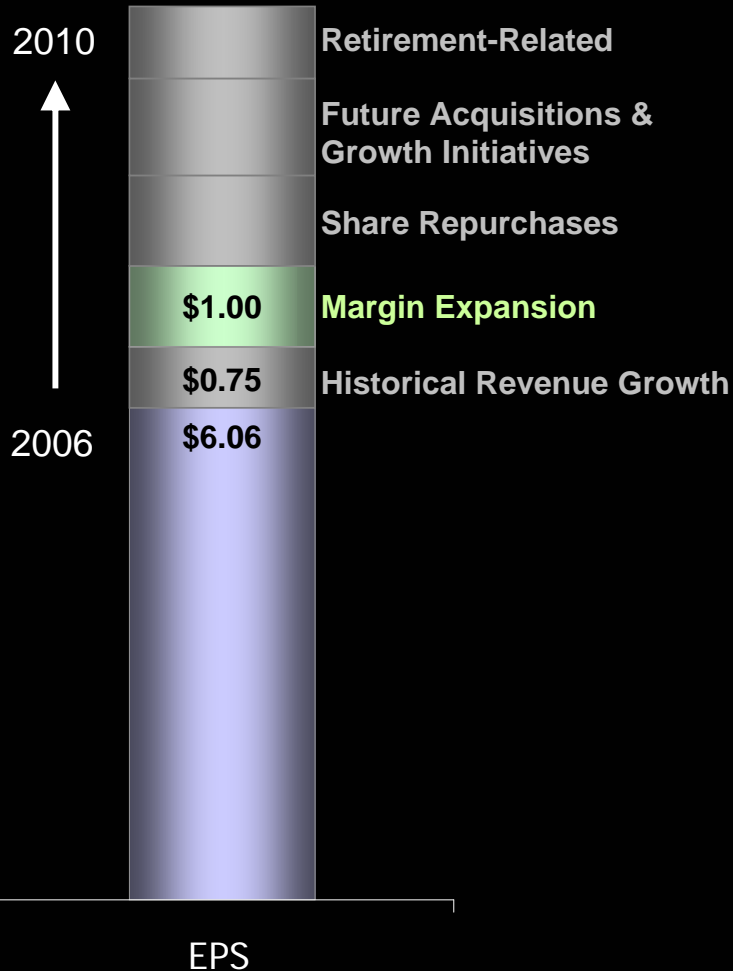


Segment Pre-Tax Income Margins



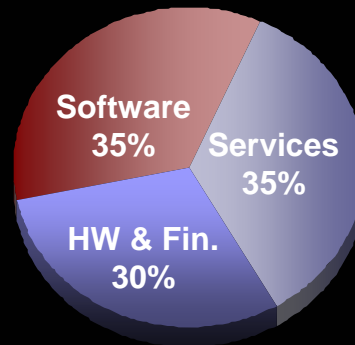
Note: 2005 Excludes Restructuring Actions

Long-Term EPS Roadmap – Margin Expansion

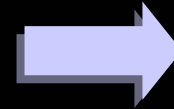
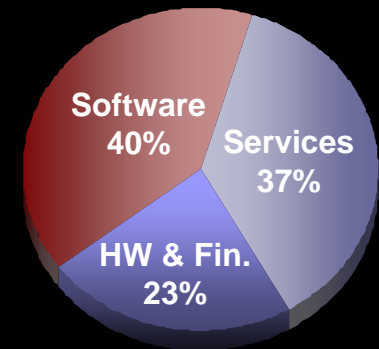


Segment Pre-Tax Income Mix

2004
IBM
PTI Margin
11.1%



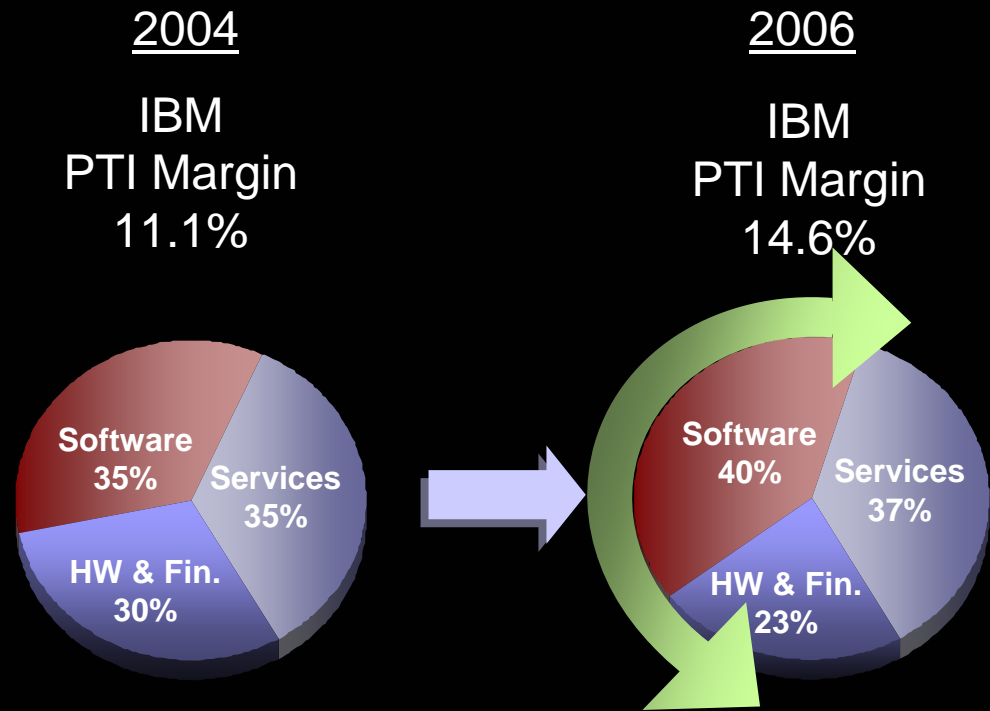
2006
IBM
PTI Margin
14.6%



Long-Term EPS Roadmap – Margin Expansion



Segment Pre-Tax Income Mix

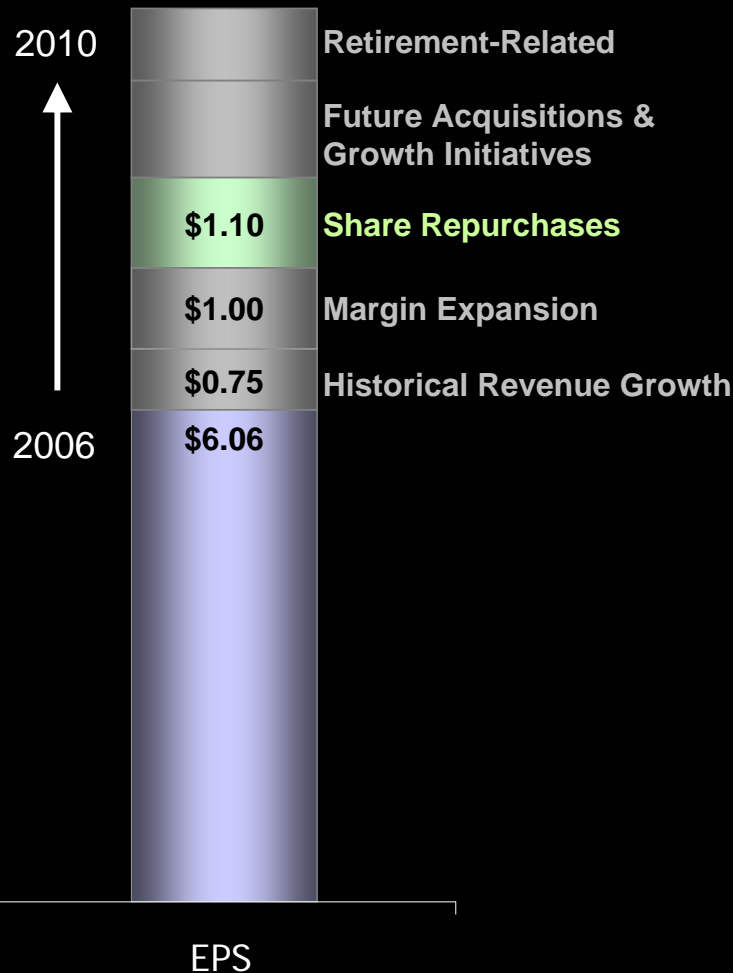


2004
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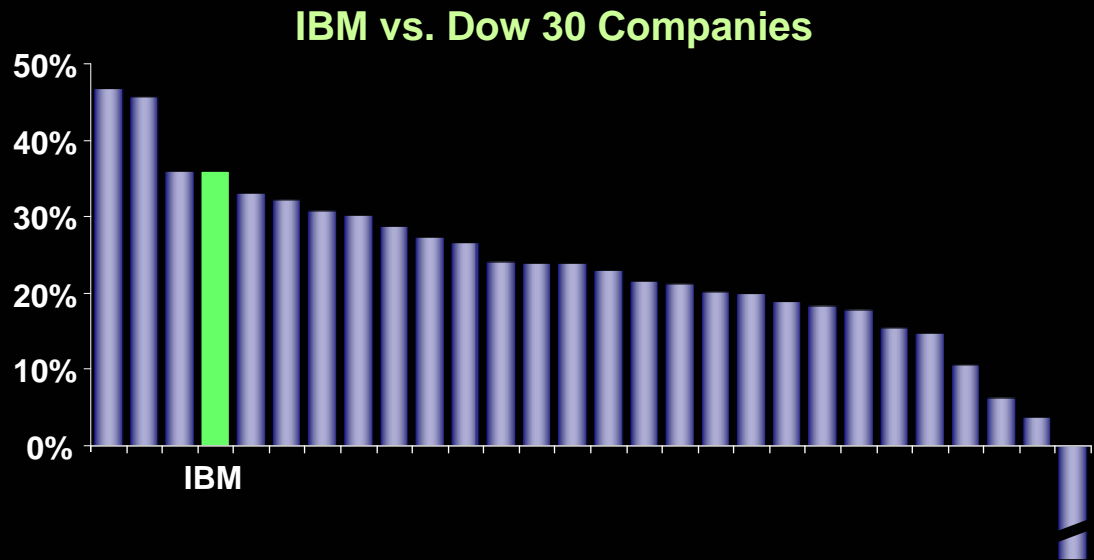
2006
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PTI Margin
14.6%

Software approaches half of IBM's profit by 2010

Long-Term EPS Roadmap – Share Repurchases

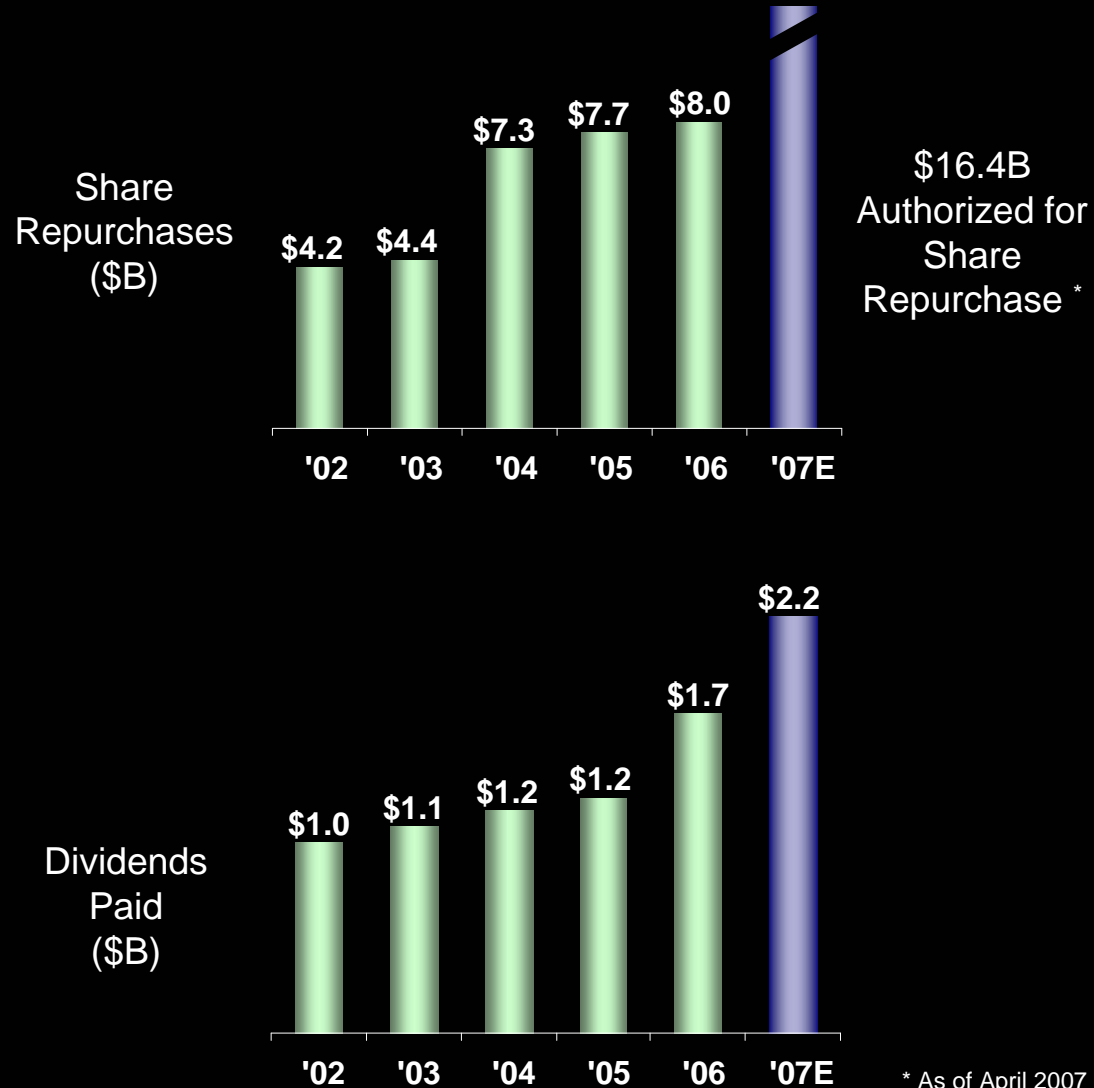


Free Cash Flow over the past 5 years / Market Cap



Free Cash Flow: Cash from Operations less Net Capital Expenditures
Source Data: Standard & Poor's Research Insight Web. Excludes banks.

Long-Term EPS Roadmap – Share Repurchases



Long-Term EPS Roadmap – Share Repurchases



- Analysis assumes over \$40B share repurchase spend for average annual share reduction of 3% through 2010
 - \$27B repurchased from 2003 - 2006
- April 2007 Buyback Authorization:
 - Board of Directors authorized an additional \$15B for share repurchases (\$16.4B total authorized)
 - May complete a substantial portion of repurchases over the next several months
 - Intend to increase borrowing and maintain higher financial leverage

Long-Term EPS Roadmap – Share Repurchases



Actions to Date

- Repurchased approximately \$1.6B since April Board meeting
- Repurchasing approximately \$100M per trading day and could complete entire authorization by YE 2007

Current Status

- Currently evaluating an Accelerated Share Repurchase (ASR)
- Given our authorized spend, would be largest ASR ever completed
- Additional details will be provided if we execute a transaction

2007 Impact

- EPS impact could be 1 to 3 points in 2007 (\$0.05 to \$0.20), depending on structure, timing and market conditions

Long-Term EPS Roadmap – Growth Initiatives



Segment	Key Initiatives
Emerging Country Revenues double by 2010	
Systems & Technology	<ul style="list-style-type: none"> Managing Infrastructure Complexities through Virtualization Delivering Technology Innovation
Global Services	<ul style="list-style-type: none"> Capitalizing on Market Shift to SOA Shifting to Service “Products” Delivered through Scalable IP Leveraging Global Delivery
Software	<ul style="list-style-type: none"> Integrating SOA/Services Offerings Driving Information on Demand through Hardware, Software & Services Accelerating Shift to Faster Growing Key Middleware Segments

Long-Term EPS Roadmap – Future Acquisitions

Over the past 5 years, IBM has invested nearly \$16B in acquiring more than 60 companies

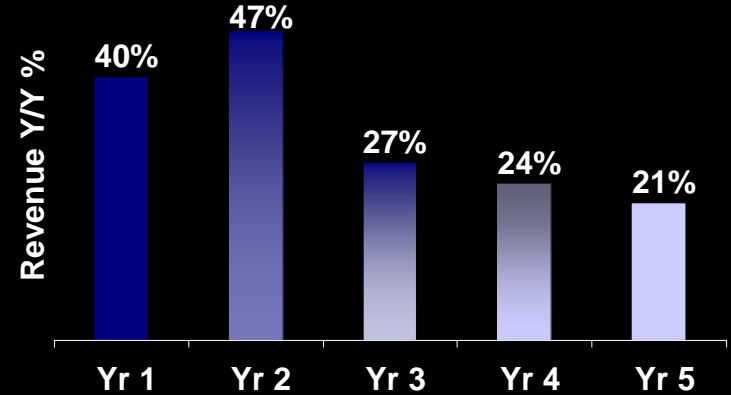


Long-Term EPS Roadmap – Future Acquisitions

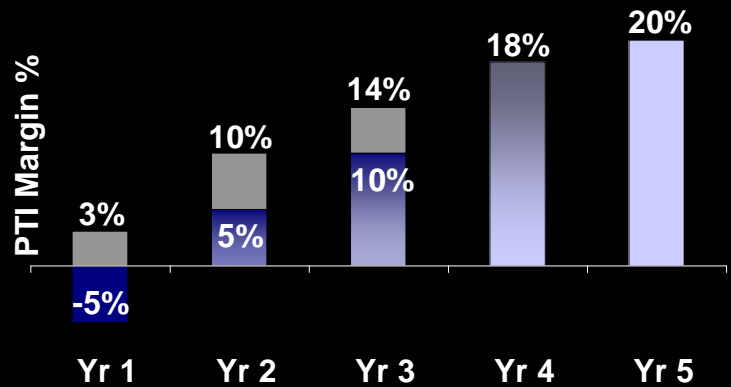
Financial performance of the 39 acquisitions priced below \$500M completed between 2002 - 2005



Estimated Acquisition Revenue Growth



Estimated Acquisition PTI Margin

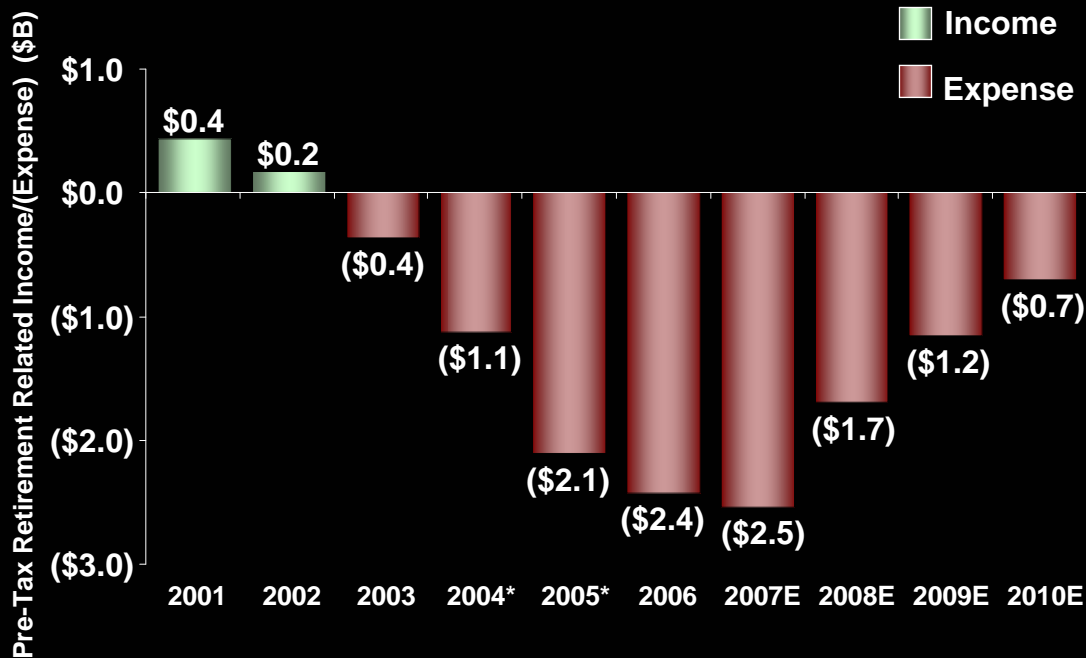


■ Actual
 ■ Projected
 ■ Excluding Amortization of Intangibles resulting from Acquisition

Long-Term EPS Roadmap – Retirement Related



- A wide range of outcomes for 2008-2010 is possible. Actual results will be dependent upon several factors including financial market performance, interest rate environment and actuarial assumptions
- Estimates through 2010 are based on December 31, 2006 assumptions



* Excluding one-time pension charges

Long-Term EPS Roadmap – Retirement Related



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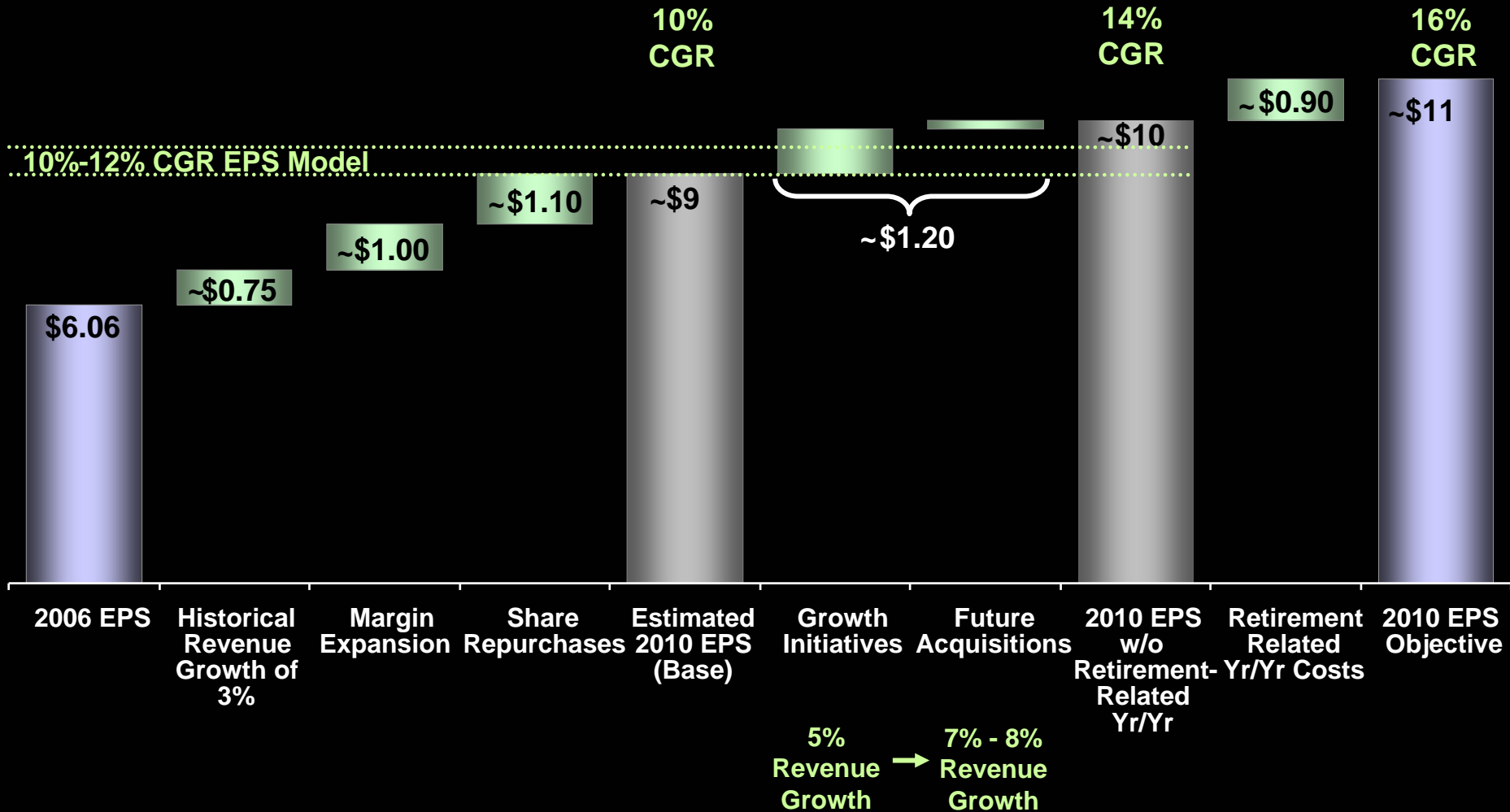
U.S. Sensitivity Analysis

Assumption	Basis Point Change	Pre-Tax Income Impact *
Discount Rate	+/- 25 BP	~ \$90M
Interest Crediting Rate	+/- 25 BP	~ \$30M
Expected Long-term Return on Plan Assets	+/- 25 BP	~ \$120M
Actual vs. Expected Return on Plan Assets	+/- 25 BP	~ \$5M

Worldwide impact approximately 2X U.S. impact for Discount Rate & Return on Asset Changes

*Estimated impact from U.S. IBM Personal Pension Plan based on current assumptions

Long-Term EPS Roadmap





Certain comments made in the presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995. Those statements involve a number of factors that could cause actual results to differ materially. Additional information concerning these factors is contained in the Company's filings with the SEC. Copies are available from the SEC, from the IBM web site, or from IBM Investor Relations.

These charts and the associated remarks and comments are integrally related, and are intended to be presented and understood together.

In an effort to provide additional and useful information regarding the company's results as determined by generally accepted accounting principles (GAAP), certain materials presented during this event include non-GAAP information. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information is included in supplementary materials entitled "Non-GAAP Supplementary Materials" that are posted on the Company's investor relations web site at <http://www.ibm.com/investor/events/analyst0507/webcastPdf.phtml>. The Non-GAAP Supplementary Materials are also included as Attachment II to the Company's Form 8-K dated today.

