

# 2Q 2011 Earnings Presentation

*July 18, 2011*

[www.ibm.com/investor](http://www.ibm.com/investor)





## Forward Looking Statements and Non-GAAP Information

Certain comments made in this presentation may be characterized as forward looking under 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. Those statements by their nature address matters that are uncertain to different degrees. 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. Any forward-looking statement made during this presentation speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements. 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 financial results and other financial information as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and earnings presentation materials, certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are 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/2q11/>. The Non-GAAP Supplementary Materials are also included as Attachment II to the Company's Form 8-K dated July 18, 2011.

## 2Q 2011 Highlights

Revenue	\$26.7B	+12%, 5% yr/yr @CC
Operating (Non-GAAP) EPS	\$3.09	+18% yr/yr

- 12% revenue growth driven by:
  - Key Branded Middleware +21% yr/yr
  - Systems +20% yr/yr, strong performance across all three server lines
  - Services +10% yr/yr, led by growth markets +22% (+10% @CC)
- Momentum in all four growth initiatives:
  - Growth Markets
  - Cloud
  - Business Analytics
  - Smarter Planet
- Double-digit growth in Operating Net Income
- Returned \$5B to shareholders

*Increasing 2011 Operating (Non-GAAP) EPS expectations to at least \$13.25*



# Key Financial Metrics

\$ in Billions, except EPS

## P&L Highlights

	<u>2Q11</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$26.7	12%
@CC		5%
PTI – Operating	\$5.0	10%
EPS – Operating	\$3.09	18%

## P&L Ratios (Operating)

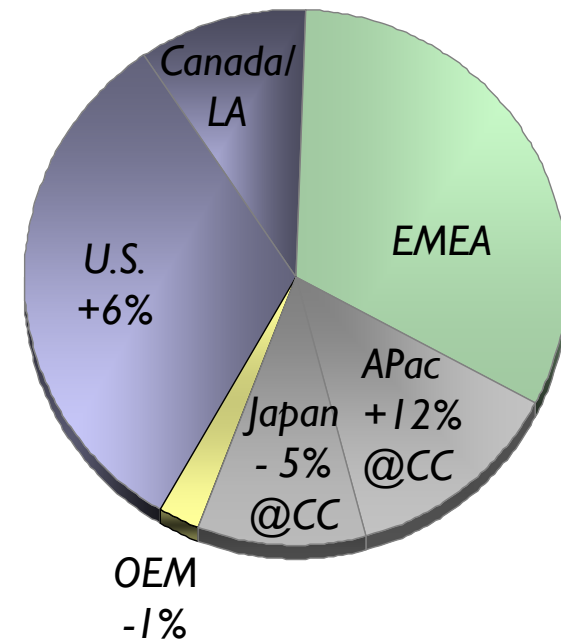
	<u>2Q11</u>	<u>B/(W) Yr/Yr</u>
GP Margin	46.8%	1.2 pts
PTI Margin	18.9%	(0.4 pts)
NI Margin	14.2%	(0.2 pts)
Tax Rate	25.0%	0.8 pts

## Cash Highlights

	<u>2Q11</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$3.4	\$16.0
Share Repurchase	4.0	15.3
Dividends	0.9	3.3
Cash Balance @ June 30	11.8	

# Revenue by Geography

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q11</u>	<u>Rptd</u>	<u>@CC</u>
Americas	\$11.2	10%	8%
Europe/ME/A	8.6	16%	3%
Asia Pacific	6.2	14%	3%
OEM	0.7	Flat	(1%)
<b>IBM</b>	<b>\$26.7</b>	<b>12%</b>	<b>5%</b>
<i>Major Markets</i>		<i>10%</i>	<i>3%</i>
<i>Growth Markets</i>		<i>23%</i>	<i>13%</i>
<i>BRIC Countries</i>		<i>27%</i>	<i>21%</i>



*Performance led by Growth Markets and North America*



## Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Gross Profit Margin	
	<u>2Q11</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>	<u>2Q11</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	\$10.2	11%	3%	34.0%	(0.3 pts)
Global Business Services	4.9	9%	1%	28.9%	0.6 pts
Software	6.2	17%	10%	88.4%	0.4 pts
Systems & Technology	4.7	17%	12%	40.6%	4.9 pts
Global Financing	0.5	(5%)	(11%)	48.7%	(1.4 pts)
Total Revenue & Operating GP Margin	\$26.7	12%	5%	46.8%	1.2 pts

*Transaction businesses drove revenue performance  
Margin expansion led by Systems & Technology*



## Expense Summary

\$ in Billions	<u>2Q11</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>B/(W) Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Base</u>
SG&A – Operating	\$5.9	(18%)	(8 pts)	(4 pts)	(7 pts)
RD&E – Operating	1.6	(6%)	(3 pts)	(5 pts)	2 pts
IP and Development Income	(0.3)	(1%)			
Other (Income)/Expense	0.1	nm			
Interest Expense	<u>0.1</u>	(8%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$7.4</b>	<b>(20%)</b>	<b>(10 pts)</b>	<b>(4 pts)</b>	<b>(6 pts)</b>

\* Includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges



# Services Segments

## Global Technology Services (GTS)

## Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$10.2	11%	3%
Gross Margin (External)	34.0%	(0.3 pts)	
Pre-Tax Income	\$1.4	1%	
PTI Margin	13.4%	(1.2 pts)	

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.9	9%	1%
Gross Margin (External)	28.9%	0.6 pts	
Pre-Tax Income	\$0.8	11%	
PTI Margin	14.8%	0.3 pts	

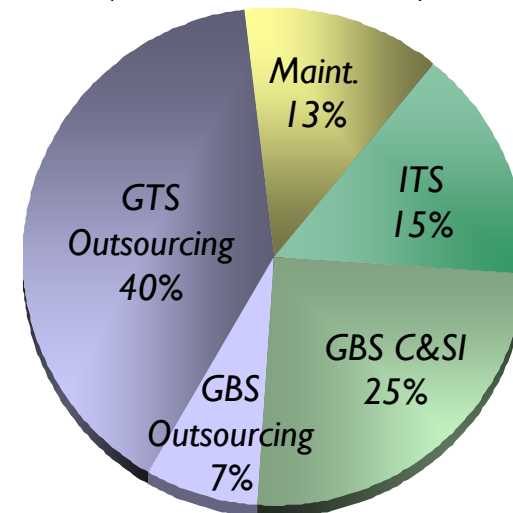
### 2Q11 Revenue

<u>GTS</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
GTS Outsourcing	12%	3%
Integrated Technology Services	11%	3%
Maintenance	7%	Flat

<u>GBS</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
GBS Outsourcing	12%	4%
Consulting & Systems Integration	7%	Flat

<u>Services Backlog</u>	<u>2Q11</u>		
	\$144B	+\$15B	+\$2B

2Q11 Revenues  
(% of Total Services)



*Growth Markets backlog up 50% over last two years*

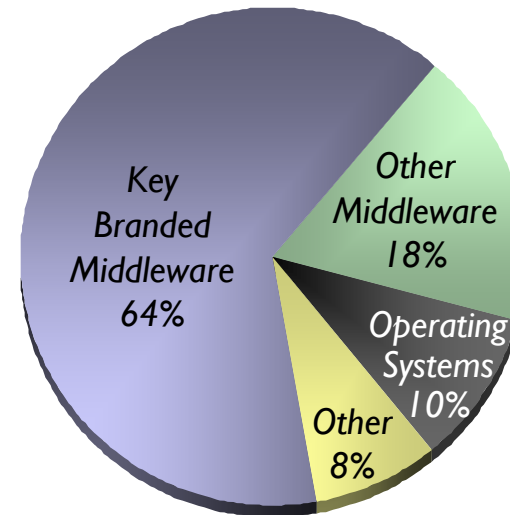


# Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$6.2	17%	10%
Gross Margin (External)	88.4%	0.4 pts	
Pre-Tax Income	\$2.3	12%	
PTI Margin	33.2%	(1.4 pts)	

<u>2Q11 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	55%	47%
Information Management	18%	11%
Tivoli	9%	3%
Lotus	12%	4%
Rational	4%	(2%)
<b>Key Branded Middleware</b>	<b>21%</b>	<b>14%</b>
<b>Total Middleware</b>	<b>17%</b>	<b>10%</b>
<b>Total Software</b>	<b>17%</b>	<b>10%</b>

2Q11 Revenue  
(% of Total Software)



**Branded Middleware grew 21%, represents 64% of total Software**



# Systems & Technology Segment

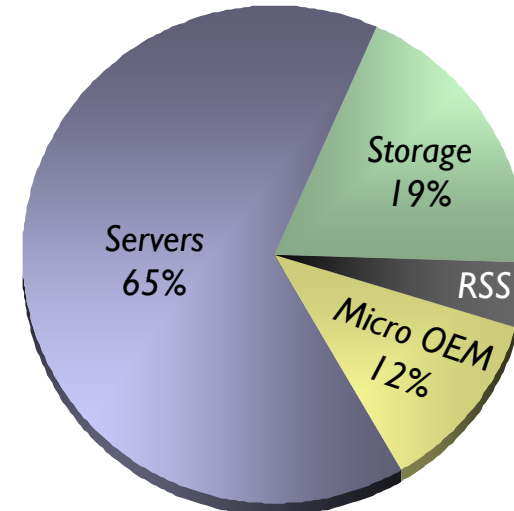
\$ in Billions

	<u>2Q11</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.7	17%	12%
Gross Margin (External)	40.6%	4.9 pts	
Pre-Tax Income	\$0.4	112%	
PTI Margin	8.0%	3.6 pts	

## 2Q11 Revenue

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	61%	53%
Power Systems	12%	7%
System x	15%	9%
Storage	10%	4%
Retail Store Solutions	8%	3%
<b>Total Systems</b>	<b>20%</b>	<b>13%</b>
Microelectronics OEM	4%	4%
<b>Total Systems &amp; Technology</b>	<b>17%</b>	<b>12%</b>

**2Q11 Revenue**  
(% of Total Sys & Tech)



**Strong growth in revenue, profit and margin**



## Cash Flow Analysis

\$ in Billions	<u>2Q11</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>YTD</u> <u>1H11</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.3	\$0.5	\$8.1	(\$0.1)
Less: Global Financing Receivables	<u>0.0</u>	<u>0.2</u>	<u>1.9</u>	<u>0.0</u>
Net Cash from Operations (excluding GF Receivables)	4.3	0.3	6.2	(0.2)
Net Capital Expenditures	<u>(1.0)</u>	<u>0.0</u>	<u>(2.0)</u>	<u>(0.1)</u>
Free Cash Flow (excluding GF Receivables)	3.4	0.3	4.2	(0.3)
Acquisitions	(0.1)	0.1	(0.2)	0.9
Divestitures	0.0	0.0	0.0	0.0
Dividends	(0.9)	(0.1)	(1.7)	(0.1)
Share Repurchases	(4.0)	0.1	(8.0)	0.1
Non-GF Debt	0.0	(0.9)	1.0	(0.3)
Other (includes GF A/R & GF Debt)	<u>0.2</u>	<u>0.7</u>	<u>4.8</u>	<u>1.6</u>
Change in Cash & Marketable Securities	(\$1.5)	\$0.3	\$0.1	\$1.8



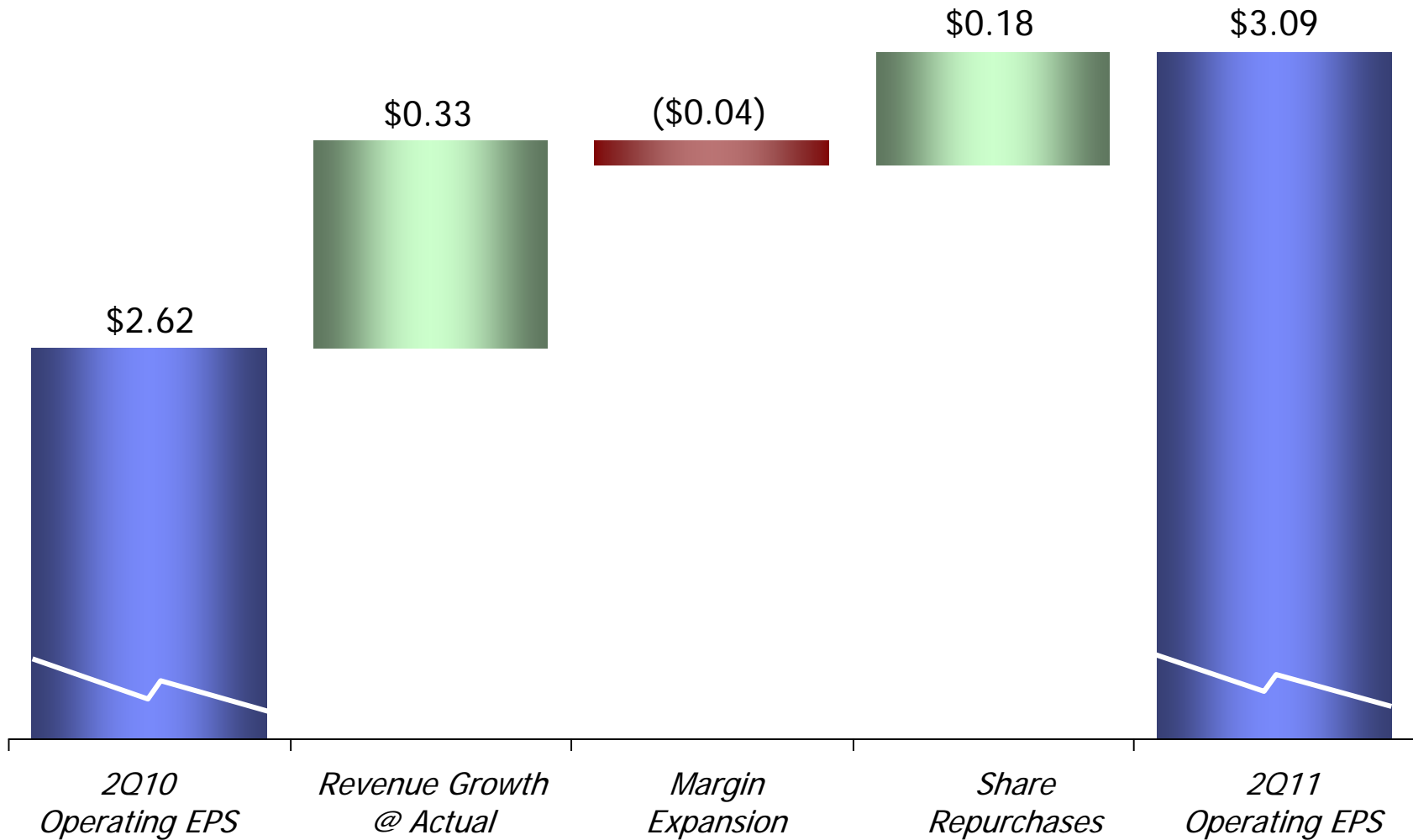
## Balance Sheet Summary

\$ in Billions	<u>June 10</u>	<u>Dec. 10</u>	<u>June 11</u>
Cash & Marketable Securities	\$12.2	\$11.7	\$11.8
Non-GF Assets*	61.6	67.3	68.8
Global Financing Assets	29.5	34.5	32.9
<b>Total Assets</b>	<b>103.4</b>	<b>113.5</b>	<b>113.5</b>
Other Liabilities	55.6	61.7	60.5
Non-GF Debt*	5.5	5.8	6.4
Global Financing Debt	21.2	22.8	23.4
<b>Total Debt</b>	<b>26.7</b>	<b>28.6</b>	<b>29.8</b>
<b>Total Liabilities</b>	<b>82.2</b>	<b>90.3</b>	<b>90.3</b>
<b>Equity</b>	<b>21.2</b>	<b>23.2</b>	<b>23.2</b>
<b>Non-GF Debt / Capital</b>	<b>23%</b>	<b>23%</b>	<b>24%</b>
<b>Global Financing Leverage</b>	<b>7.1</b>	<b>7.0</b>	<b>7.0</b>

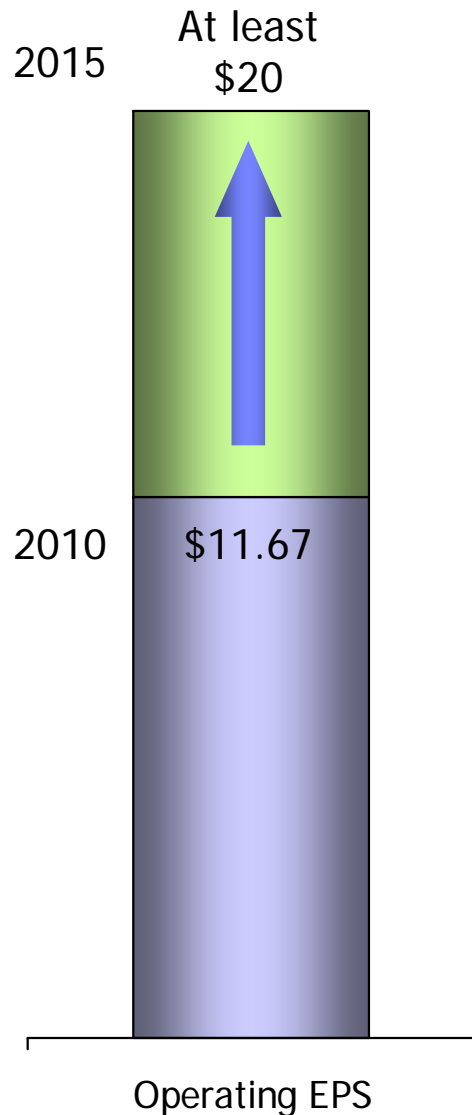
\* Includes eliminations of inter-company activity



# Operating EPS Bridge – 2Q10 to 2Q11

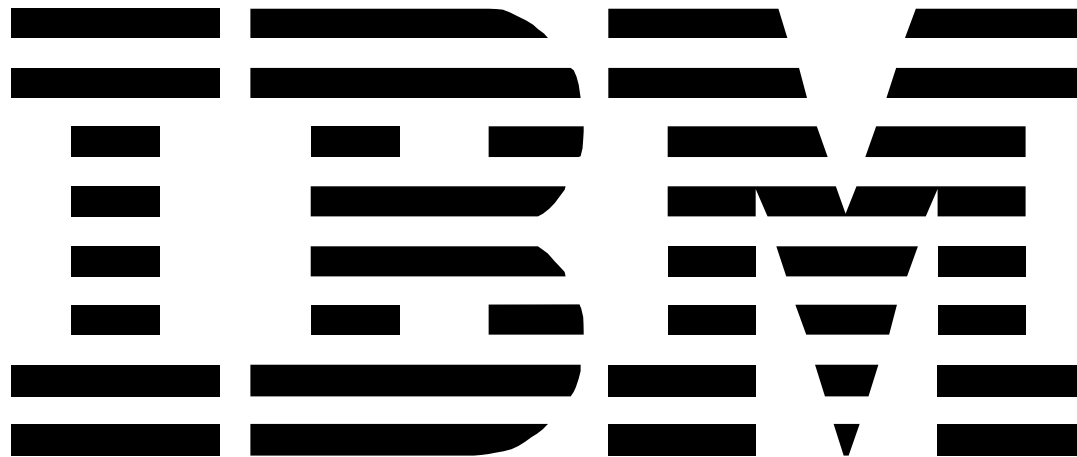


## 2Q 2011 Summary



- Revenue growth driven by transaction businesses
- Momentum in growth initiatives
  - Growth markets +13% yr/yr @CC for 2Q and YTD, half of geographic revenue growth
  - 1<sup>st</sup> half business analytics revenue up >20% yr/yr
  - Cloud revenue on track to double in 2011
  - 1<sup>st</sup> half Smarter Planet revenue up >50% yr/yr
- Double-digit growth in Operating Net Income
- Leveraging strong cash generation to return value to shareholders

*Increasing 2011 Operating (Non-GAAP) EPS expectations to at least \$13.25*



# Supplemental Materials

Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding

- Currency – Year/Year Comparison
- Supplemental Segment Information – Global Services
- Supplemental Segment Information – Systems & Technology, Software
- Global Financing Portfolio
- Revenue by Key Industry Sales Unit
- Cash Flow (FAS 95)
- Non-GAAP Supplementary Materials
  - Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items, Constant Currency
  - Cash Flow, Debt-to-Capital Ratio, Current Item (Workforce Rebalancing)
  - Reconciliation of Operating Earnings Per Share
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2011
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2010
  - Reconciliation of Free Cash Flow (excluding GF Receivables)
  - Reconciliation of Revenue Growth Rates – Geographies
  - Reconciliation of Revenue Growth Rates – Segments
  - Reconciliation of Revenue Growth – Growth Markets vs. Major Markets
  - Reconciliation of Yr/Yr Expense Drivers
  - Reconciliation of Debt-to-Capital Ratio
  - Reconciliation of Operating EPS Bridge 2Q10 to 2Q11





# Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q11</u>	<u>Yr/Yr</u>	<u>2Q11</u>	<u>Yr/Yr</u>	<u>7/15 Spot</u>	<u>Yr/Yr @ 7/15 Spot</u>		
						<u>3Q11</u>	<u>4Q11</u>	<u>FY11</u>
Euro	0.73	(1%)	0.69	12%	0.71	9%	4%	7%
Pound	0.62	3%	0.61	9%	0.62	4%	2%	5%
Yen	82	9%	82	11%	79	8%	4%	8%

IBM Revenue Impact	3 pts	7 pts	~5-6 pts	3 pts	~4-5 pts
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	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$26.7	12%
Currency Impact	1.7	7 pts
Revenue @CC	\$24.9	5%

# Supplemental Segment Information – 2Q 2011

## Supplemental Revenue Information

<i>Global Services</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
GTS Outsourcing	12%	3%
Integrated Tech Services	11%	3%
Maintenance	7%	Flat
<b>Total GTS</b>	<b>11%</b>	<b>3%</b>
GBS Outsourcing	12%	4%
GBS C&SI	7%	Flat
<b>Total GBS</b>	<b>9%</b>	<b>1%</b>
<b>Total Outsourcing</b>	<b>12%</b>	<b>3%</b>
<b>Total Transactional</b>	<b>9%</b>	<b>1%</b>
<b>Maintenance</b>	<b>7%</b>	<b>Flat</b>

## Supplemental Backlog / Signings Information

<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>2Q11</u>	<u>Yr/Yr</u>	<u>Backlog</u> <u>@CC</u>
<b>Total Backlog</b>	<b>\$144</b>	<b>+\$15</b>	<b>+\$2</b>
<b>Outsourcing Backlog</b>	<b>96</b>	<b>+8</b>	<b>(1)</b>
<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>2Q11</u>	<u>Yr/Yr</u>	<u>Signings</u> <u>@CC</u>
<b>Outsourcing</b>	<b>\$7.1</b>	<b>17%</b>	<b>8%</b>
- GTS O/S, GBS O/S (AMS)			
<b>Transactional</b>	<b>7.1</b>	<b>15%</b>	<b>7%</b>
- ITS, Consulting & AMS SI (incl. US Federal)			
<b>Total Signings</b>	<b>\$14.3</b>	<b>16%</b>	<b>8%</b>

Note: YTY signings growth reflects 2010 signings categories consistent with 2011

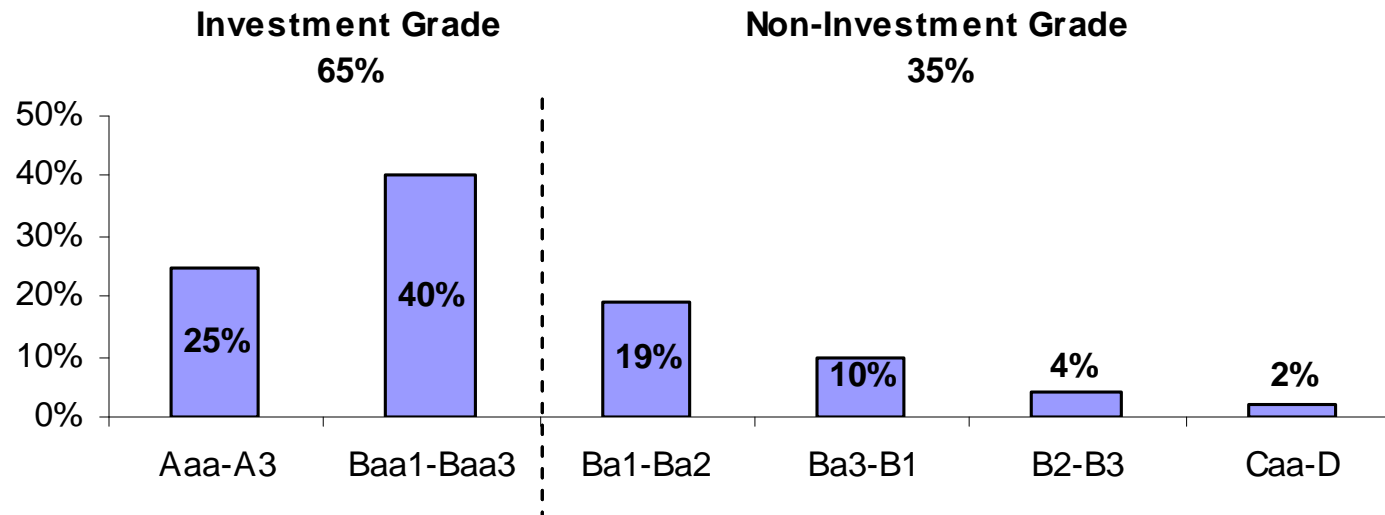
# Supplemental Segment Information – 2Q 2011

<i>Systems &amp; Technology</i>	<u>Revenue Growth</u>				<i>Software</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>	<u>GP%</u>	<u>Share</u>		<u>Yr/Yr</u>	<u>@CC</u>
System z	61%	53%	↑	↑	WebSphere Family	55%	47%
Power Systems	12%	7%	↑	↑	Information Management	18%	11%
System x	15%	9%	↑	=	Tivoli	9%	3%
Storage	10%	4%	↑	=	Lotus	12%	4%
Retail Store Solutions	8%	3%	↑	=	Rational	<u>4%</u>	<u>(2%)</u>
<b>Total Systems</b>	<b>20%</b>	<b>13%</b>	<b>↑</b>		<b>Key Branded Middleware</b>	<b>21%</b>	<b>14%</b>
Microelectronics OEM	4%	4%	↓		Other Middleware	<u>5%</u>	<u>Flat</u>
<b>Total Systems &amp; Technology</b>	<b>17%</b>	<b>12%</b>	<b>↑</b>		<b>Total Middleware</b>	<b>17%</b>	<b>10%</b>
					Operating Systems	16%	9%
					Other Software/Services	<u>19%</u>	<u>12%</u>
					<b>Total Software</b>	<b>17%</b>	<b>10%</b>



# Global Financing Portfolio

2Q11 – \$24.4B Net External Receivables



	<u>2Q11</u>	<u>1Q11</u>	<u>2Q10</u>
Identified Loss Rate	1.0%	1.2%	1.8%
Anticipated Loss Rate	0.3%	0.3%	0.3%
<b>Reserve Coverage</b>	<b>1.3%</b>	<b>1.5%</b>	<b>2.1%</b>
Client Days Delinquent Outstanding	<b>2.4</b>	<b>3.3</b>	<b>3.7</b>
Commercial A/R > 30 Days	\$32M	\$25M	\$27M



## Revenue by Key Industry Sales Unit

\$ in Billions

	<u>2Q11</u>	<u>B/(W) Yr/Yr</u> <u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.8	17%	8%
Public	4.0	6%	Flat
Industrial	2.6	9%	1%
Distribution	2.6	9%	3%
Communications	2.7	16%	10%
General Business	5.4	16%	8%
<b>Total IBM</b>	<b>\$26.7</b>	<b>12%</b>	<b>5%</b>





## Cash Flow (FAS 95)

\$ in Billions	<u>QTD</u> <u>2Q11</u>	<u>QTD</u> <u>2Q10</u>	<u>YTD</u> <u>1H11</u>	<u>YTD</u> <u>1H10</u>
Net Income from Operations	\$3.7	\$3.4	\$6.5	\$6.0
Depreciation / Amortization of Intangibles	1.2	1.2	2.4	2.4
Stock-based Compensation	0.2	0.2	0.3	0.3
Working Capital / Other	(0.7)	(0.7)	(3.1)	(2.4)
Global Financing A/R	0.0	(0.2)	1.9	1.9
<b>Net Cash provided by Operating Activities</b>	<b>4.3</b>	<b>3.8</b>	<b>8.1</b>	<b>8.2</b>
Capital Expenditures, net of payments & proceeds	(1.0)	(1.0)	(2.0)	(1.9)
Divestitures, net of cash transferred	0.0	0.0	0.0	0.0
Acquisitions, net of cash acquired	(0.1)	(0.2)	(0.2)	(1.0)
Marketable Securities / Other Investments, net	0.5	(0.8)	2.1	0.2
<b>Net Cash used in Investing Activities</b>	<b>(0.6)</b>	<b>(1.9)</b>	<b>(0.1)</b>	<b>(2.6)</b>
Debt, net of payments & proceeds	(0.7)	0.2	1.0	0.7
Dividends	(0.9)	(0.8)	(1.7)	(1.6)
Common Stock Repurchases	(4.0)	(4.1)	(8.0)	(8.1)
Common Stock Transactions - Other	0.7	0.9	1.6	1.8
<b>Net Cash used in Financing Activities</b>	<b>(4.9)</b>	<b>(3.7)</b>	<b>(7.2)</b>	<b>(7.1)</b>
Effect of Exchange Rate changes on Cash	0.2	(0.2)	0.3	(0.3)
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>(\$1.0)</b>	<b>(\$2.1)</b>	<b>\$1.1</b>	<b>(\$1.9)</b>

## Non-GAAP Supplementary Materials

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and earnings presentation materials, the following Non-GAAP information which management believes provides useful information to investors.

### Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items

Management presents certain financial measures excluding the effects of certain acquisition-related charges, non-operating retirement-related costs, and any related tax impacts. Management uses the term "operating" to describe this view of the company's financial results and other financial information. For acquisitions, these measures exclude the amortization of purchased intangible assets and acquisition-related charges such as in-process research and development, transaction costs, applicable restructuring and related expenses, and tax charges related to acquisition integration. For retirement-related costs, the company has characterized certain items as operating and others as non-operating. The company includes service cost, amortization of prior service cost and the cost of defined contribution plans in its operating results. Non-operating retirement-related costs include interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements, multi-employer plan costs, pension insolvency costs, and other costs. Non-operating costs primarily relate to changes in pension plan assets and liabilities which are tied to market performance, and management considers these costs to be outside the operational performance of the business. Management's calculation of these operating measures, as presented, may differ from similarly titled measures reported by other companies.

Overall, management believes that providing investors with an operating view as described above provides increased transparency and clarity into both the operational results of the business and the performance of the company's pension plans, improves visibility to management decisions and their impacts on operational performance, enables better comparison to peer companies, and allows the company to provide a long term strategic view of the business going forward. For the 2015 earnings per share roadmap, the company is utilizing an operating view to establish its objectives and track its progress. Effective January 1, 2011, the company's segment financial results and performance reflect operating earnings, consistent with the company's management and measurement system.

### Constant Currency

Management refers to growth rates at constant currency or adjusting for currency so that certain financial results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the company's business performance. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior year period's currency conversion rate. This approach is used for countries where the functional currency is the local currency. Generally, when the dollar either strengthens or weakens against other currencies, the growth at constant currency rates or adjusting for currency will be higher or lower than growth reported at actual exchange rates.

## Non-GAAP Supplementary Materials

### Cash Flow

Management uses a free cash flow measure to evaluate the company's operating results, plan share repurchase levels, evaluate strategic investments and assess the company's ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. The company defines free cash flow as net cash from operating activities less the change in Global Financing receivables and net capital expenditures, including the investment in software. A key objective of the Global Financing business is to generate strong returns on equity, and increasing receivables is the basis for growth. Accordingly, management considers Global Financing receivables as a profit-generating investment, not as working capital that should be minimized for efficiency. Therefore, management includes presentations of both free cash flow and cash flow from operations that exclude the effect of Global Financing receivables.

### Debt-to-Capital Ratio

Management presents its debt-to-capital ratio excluding the Global Financing business. A financing business is managed on a leveraged basis. The company funds its Global Financing segment using a debt-to-equity ratio target of approximately 7 to 1. Given this significant leverage, the company presents a debt-to-capital ratio which excludes the Global Financing segment debt and equity because the company believes this is more representative of the company's core business operations.

### Current Item (Workforce Rebalancing)

Management presents certain financial results excluding the effects of certain charges in connection with workforce rebalancing actions. Management believes that presenting certain financial information without this item is more representative of the company's operational performance and provides additional insight into, and clarifies the basis for, historical and/or future performance, which may be more useful for investors.



# Non-GAAP Supplementary Materials

## *Reconciliation of Operating Earnings Per Share*

	<b>2011 <u>Expectations</u></b>
<b>IBM GAAP EPS</b>	<b>\$12.87+</b>
<b>IBM Operating EPS (Non-GAAP)</b>	<b>\$13.25+</b>
<b>Adjustments</b>	
<b>Acquisition-Related Charges *</b>	<b>\$0.40</b>
Amortization of Purchased Intangibles	\$0.39
Other Acquisition-Related Charges	\$0.01
<b>Non-Operating Retirement-Related Items</b>	<b>(\$0.02)</b>

\* Includes acquisitions as of 6/30/2011

The above serves to reconcile the Non-GAAP financial information contained in the "2Q 2011 Highlights" and "2Q 2011 Summary" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## GAAP to Operating (Non-GAAP) Bridge – 2Q 2011

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$12,385	\$87	\$6	\$12,477
SG&A	6,030	(76)	(5)	5,950
RD&E	1,569	0	24	1,593
Other Income & Expense	97	(1)	0	96
Total Operating Expense & Other Income	7,500	(77)	18	7,441
Pre-Tax Income	4,885	163	(12)	5,036
Tax ***	1,221	38	0	1,259
Net Income	3,664	126	(13)	3,777
Diluted Earnings Per Share	\$3.00	\$0.10	(\$0.01)	\$3.09

\* Includes amortization of purchased intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, and deal costs

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "2Q 2011 Highlights," "Key Financial Metrics" and "Expense Summary" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## GAAP to Operating (Non-GAAP) Bridge – 2Q 2010

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$10,809	\$58	(\$56)	\$10,811
SG&A	5,061	(62)	25	5,024
RD&E	1,475	0	32	1,507
Other Income & Expense	(95)	(3)	0	(97)
Total Operating Expense & Other Income	6,234	(64)	57	6,227
Pre-Tax Income	4,575	122	(113)	4,584
Tax ***	1,190	38	(45)	1,183
Net Income	3,386	84	(68)	3,402
Diluted Earnings Per Share	\$2.61	\$0.06	(\$0.05)	\$2.62

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, and deal costs

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "2Q 2011 Highlights," "Key Financial Metrics" and "Expense Summary" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## *Reconciliation of Free Cash Flow (excluding GF Receivables)*

\$ in Billions	<u>12 months ended 6/30/11</u>
Net Cash from Operations	\$19.4
Less: Global Financing Receivables	<u>(0.7)</u>
Net Cash from Operations (excluding GF Receivables)	20.1
Net Capital Expenditures	<u>(4.1)</u>
Free Cash Flow (excluding GF Receivables)	\$16.0

The above serves to reconcile the Non-GAAP financial information contained in the "Key Financial Metrics" discussion in the company's earnings presentation. See Slide 24 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## Reconciliation of Geography Revenue Growth

	<u>2Q11 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Canada	18%	11%
Japan	7%	(5%)
Asia Pacific, other than Japan	22%	12%
Growth Markets		
Hardware	30%	24%
WebSphere	50%	39%
Services	22%	10%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## Reconciliation of Segment Revenue Growth

	<u>2Q11 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Global Technology Services		
Outsourcing – Growth Markets	23%	10%
Integrated Technology Services – Growth Markets	23%	14%
Global Business Services		
Growth Markets	21%	10%
Major Markets	7%	(1%)
Systems and Technology		
Growth Markets	29%	24%
Major Markets	12%	7%
System x – Growth Markets	35%	27%

The above serves to reconcile the Non-GAAP financial information contained in the “Services Segments,” and “Systems and Technology Segment” discussion in the company’s earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplementary Materials

## *Reconciliation of Revenue Growth*

	<u>Average 1Q 2008 to 2Q 2011</u>	
	<u>As Rptd</u>	<u>@CC</u>
Growth Markets vs. Major Markets	9%	9%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## *Reconciliation of Yr/Yr Expense Drivers*

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
SG&A			
Currency	(8 pts)	0 pts	(8 pts)
Acquisitions	(4 pts)	0 pts	(4 pts)
Base	(7 pts)	0 pts	(7 pts)
RD&E			
Currency	(3 pts)	0 pts	(3 pts)
Acquisitions	(5 pts)	0 pts	(5 pts)
Base	2 pts	1 pt	2 pts
Operating Expense & Other Income			
Currency	(10 pts)	0 pts	(10 pts)
Acquisitions	(5 pts)	0 pts	(4 pts)
Base	(6 pts)	0 pts	(6 pts)

The above serves to reconcile the Non-GAAP financial information contained in the "Expense Summary" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## *Reconciliation of Debt-to-Capital Ratio*

	<u>2Q11</u>	<u>FY10</u>	<u>2Q10</u>
Non-Global Financing Debt / Capital	24%	23%	23%
IBM Consolidated Debt / Capital	56%	55%	56%

The above serves to reconcile the Non-GAAP financial information contained in the "Balance Sheet" discussion regarding the non-Global Financing debt to capital ratio in the company's earnings presentation. See Slide 24 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## Reconciliation of Operating EPS Bridge 2Q10 to 2Q11

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
2Q10 EPS	\$2.61	\$0.06	(\$0.05)	\$2.62
Revenue growth @ actual	0.32	0.01	0.00	0.33
Margin expansion	(0.10)	0.02	0.04	(0.04)
Share repurchases	0.17	0.01	0.00	0.18
2Q11 EPS	\$3.00	\$0.10	(\$0.01)	\$3.09

\* Includes amortization of purchased intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

The above serves to reconcile the Non-GAAP financial information contained in the "Operating EPS Bridge – 2Q10 to 2Q11" discussion in the company's earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

