

# 2Q 2012 Earnings Presentation

*July 18, 2012*

[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 supplemental materials entitled "Non-GAAP Supplemental Materials" that are posted on the Company's investor relations web site at <http://www.ibm.com/investor/2q12/>. The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated July 18, 2012.

## 2Q 2012 Highlights

Revenue	\$25.8B	(3%), +1% yr/yr @CC
Operating Net Income	\$4.1B	+8% yr/yr
Operating (Non-GAAP) EPS	\$3.51	+14% yr/yr
Free Cash Flow	\$3.7B	+9% yr/yr

- 2Q Segment highlights:
  - Software revenue @CC led by Europe, Japan, Growth Markets
  - Services profit +18%; backlog flat @CC
  - Systems & Technology impacted by product cycle; gained share in Power
- Expanded gross, pre-tax, and net operating margins
- Strong cash flow supports investment and shareholder returns

*Increasing expectations to at least \$15.10 of Operating EPS in 2012*



## Key Financial Metrics

\$ in Billions, except EPS

### P&L Highlights

	<u>2Q12</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Revenue	\$25.8	(3%)
@CC		1%
NI – Operating	\$4.1	8%
EPS – Operating	\$3.51	14%

### P&L Ratios (Operating)

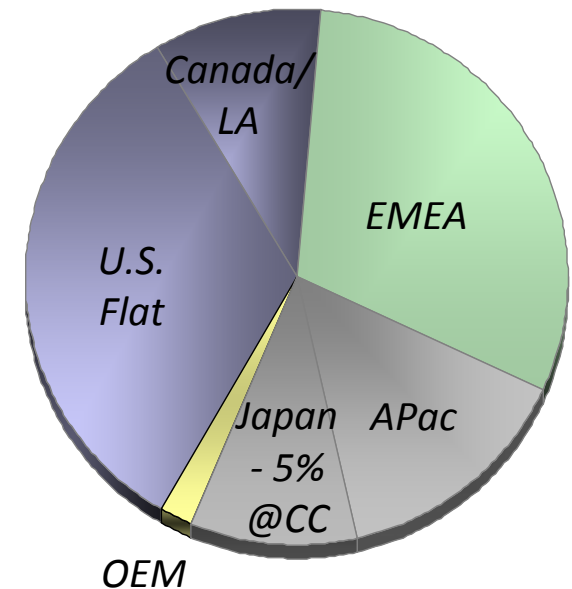
	<u>2Q12</u>	<u>B/(W)</u> <u>Yr/Yr</u>
GP Margin	48.2%	1.5 pts
PTI Margin	21.1%	2.2 pts
Tax Rate	25.0%	Flat
NI Margin	15.8%	1.6 pts

### Cash Highlights

	<u>2Q12</u>	<u>Last</u> <u>12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$3.7	\$18.0
Share Repurchase	3.0	13.0
Dividends	1.0	3.6
Cash Balance @ June 30	11.2	

# Revenue by Geography

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q12</u>	<u>Rptd</u>	<u>@CC</u>
Americas	\$11.1	(1%)	1%
Europe/ME/A	7.9	(9%)	Flat
Asia Pacific	6.3	2%	4%
OEM	0.5	(24%)	(24%)
<b>IBM</b>	<b>\$25.8</b>	<b>(3%)</b>	<b>1%</b>
<i>Major Markets</i>		<i>(4%)</i>	<i>(1%)</i>
<i>Growth Markets</i>		<i>2%</i>	<i>8%</i>
<i>BRIC Countries</i>		<i>5%</i>	<i>12%</i>



*Performance led by Growth Markets*



# Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Operating Gross Profit Margin	
	<u>2Q12</u>	<u>B/(W) Yr/Yr</u>		<u>2Q12</u>	<u>B/(W) Yr/Yr Pts</u>
		<u>Rptd</u>	<u>@CC</u>		
Global Technology Services	\$10.0	(2%)	2%	36.3%	2.3 pts
Global Business Services	4.7	(4%)	(1%)	30.7%	1.9 pts
Software	6.2	Flat	4%	88.4%	Flat
Systems & Technology	4.3	(9%)	(7%)	38.3%	(2.3 pts)
Global Financing	0.5	Flat	4%	46.0%	(2.7 pts)
<b>Total Revenue &amp; Operating GP Margin</b>	<b>\$25.8</b>	<b>(3%)</b>	<b>1%</b>	<b>48.2%</b>	<b>1.5 pts</b>



## Expense Summary

\$ in Billions	<u>2Q12</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	\$5.7	4%	5 pts	(2 pts)	1 pts
RD&E – Operating	1.6	Flat	3 pts	(3 pts)	1 pts
IP and Development Income	(0.3)	(2%)			
Other (Income)/Expense	(0.1)	nm			
Interest Expense	<u>0.1</u>	(20%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$7.0</b>	<b>6%</b>	<b>7 pts</b>	<b>(2 pts)</b>	<b>1 pts</b>

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



# Services Segments

## Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$10.0	(2%)	2%
Gross Margin (External)	36.3%	2.3 pts	
Pre-Tax Income	\$1.8	24%	
PTI Margin	17.1%	3.6 pts	

### 2Q12 Revenue

#### GTS

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
GTS Outsourcing	(3%)	2%
Integrated Technology Services	Flat	4%
Maintenance	(3%)	2%

#### GBS

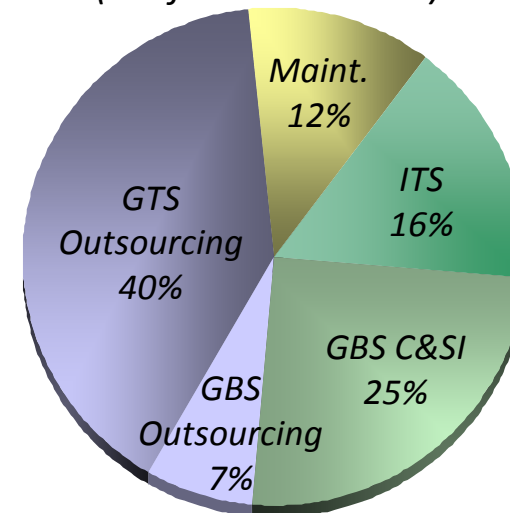
GBS Outsourcing	(5%)	(1%)
Consulting & Systems Integration	(4%)	Flat

<u>Services Backlog</u>	<u>2Q12</u>		
	\$136B	(6%)	Flat

## Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.7	(4%)	(1%)
Gross Margin (External)	30.7%	1.9 pts	
Pre-Tax Income	\$0.8	7%	
PTI Margin	16.6%	1.8 pts	

2Q12 Revenue  
(% of Total Services)



**Total Services Pre-Tax Income +18% yr/yr**



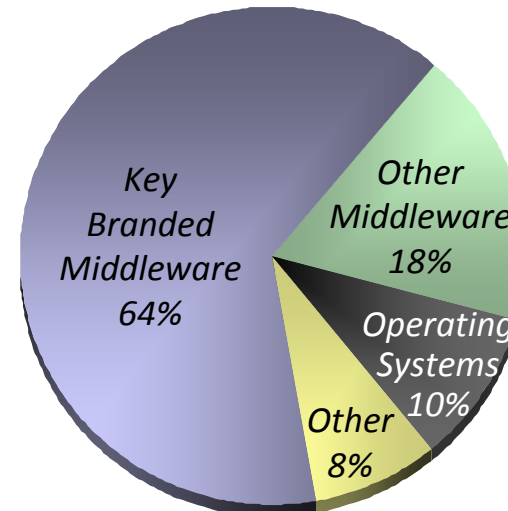


# Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$6.2	Flat	4%
Gross Margin (External)	88.4%	Flat	
Pre-Tax Income	\$2.5	8%	
PTI Margin	35.9%	2.7 pts	

<u>2Q12 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	3%	7%
Information Management	(1%)	3%
Tivoli	2%	6%
Lotus	(8%)	(4%)
Rational	(7%)	(3%)
Key Branded Middleware	Flat	4%
Total Middleware	(1%)	3%
Total Software	Flat	4%

2Q12 Revenue  
(% of Total Software)



*Share gains in WebSphere and Tivoli*



# Systems & Technology Segment

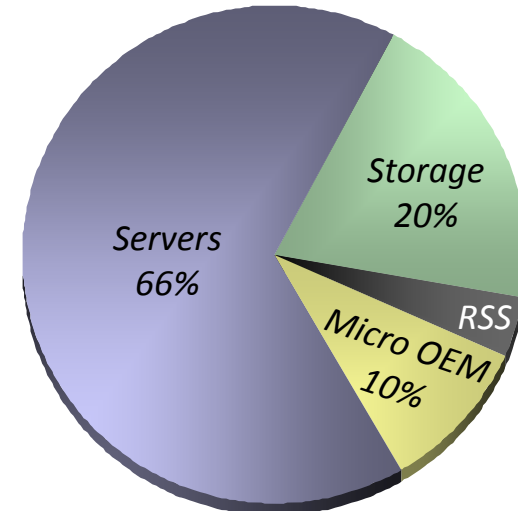
\$ in Billions

		<u>B/(W) Yr/Yr</u>	
	<u>2Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.3	(9%)	(7%)
Gross Margin (External)	38.3%	(2.3 pts)	
Pre-Tax Income	\$0.2	(40%)	
PTI Margin	5.3%	(2.7 pts)	

## 2Q12 Revenue

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	(11%)	(9%)
Power Systems	(7%)	(4%)
System x	(8%)	(5%)
Storage	(4%)	Flat
Retail Store Solutions	(4%)	(1%)
<b>Total Systems</b>	<b>(7%)</b>	<b>(5%)</b>
Microelectronics OEM	(22%)	(22%)
<b>Total Systems &amp; Technology</b>	<b>(9%)</b>	<b>(7%)</b>

2Q12 Revenue  
(% of Total Sys & Tech)



*Continued share gains in Power driven by competitive displacements*



## Cash Flow Analysis

\$ in Billions	<u>2Q12</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>YTD</u> <u>1H12</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.4	\$0.2	\$8.7	\$0.7
Less: Global Financing Receivables	<u>(0.5)</u>	<u>(0.5)</u>	<u>0.9</u>	<u>(1.0)</u>
Net Cash from Operations (excluding GF Receivables)	4.9	0.6	7.8	1.6
Net Capital Expenditures	<u>(1.3)</u>	<u>(0.3)</u>	<u>(2.3)</u>	<u>(0.3)</u>
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>3.7</b>	<b>0.3</b>	<b>5.5</b>	<b>1.4</b>
Acquisitions	(0.6)	(0.5)	(1.9)	(1.8)
Divestitures	0.0	0.0	0.0	0.0
Dividends	(1.0)	(0.1)	(1.8)	(0.1)
Share Repurchases	(3.0)	1.0	(6.0)	2.0
Non-GF Debt	0.9	1.0	1.6	0.6
Other (includes GF A/R & GF Debt)	<u>(1.2)</u>	<u>(1.3)</u>	<u>1.9</u>	<u>(2.9)</u>
Change in Cash & Marketable Securities	(\$1.1)	\$0.3	(\$0.7)	(\$0.8)

*Strong Free Cash Flow performance*

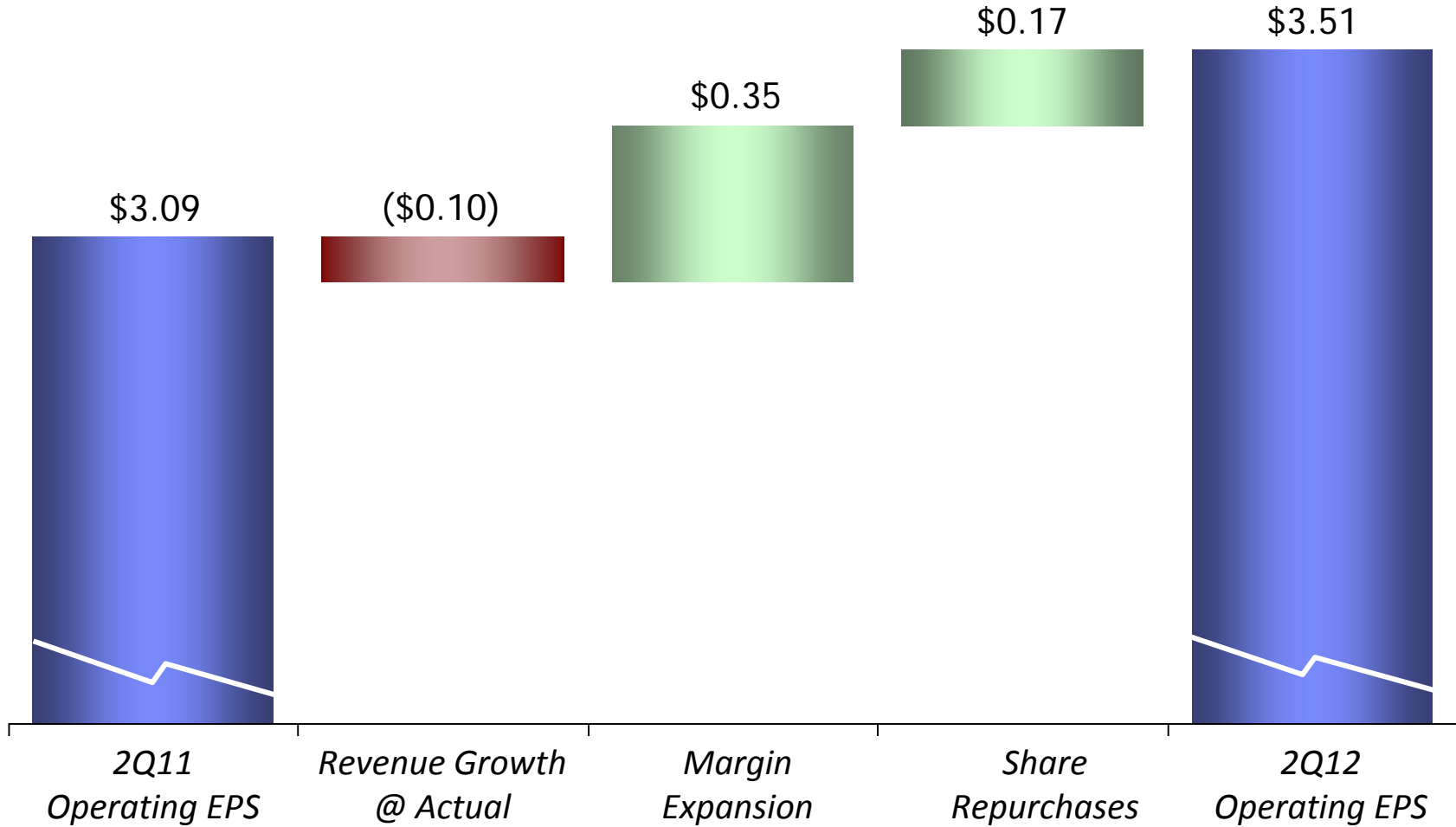


## Balance Sheet Summary

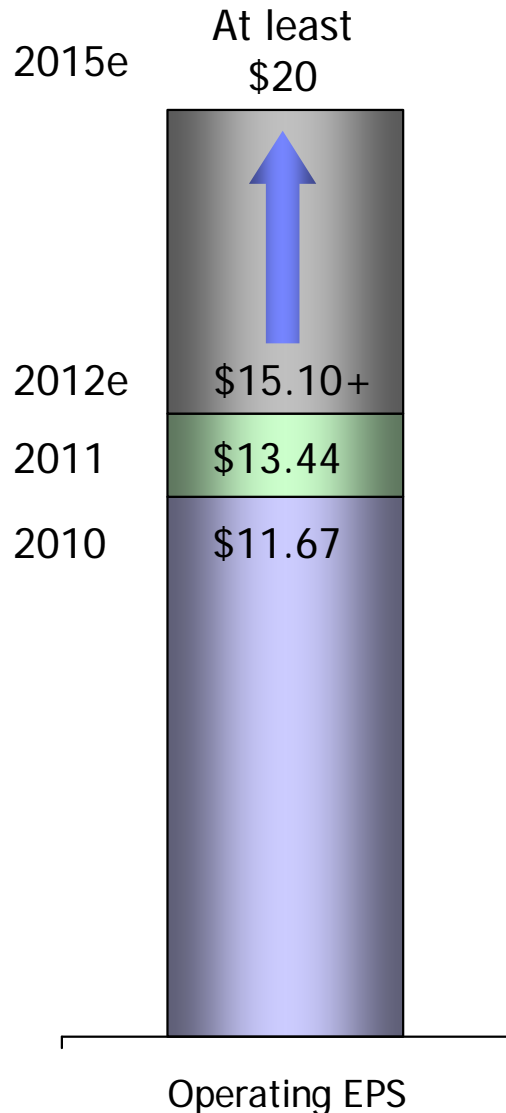
\$ in Billions	<u>June 11</u>	<u>Dec. 11</u>	<u>June 12</u>
Cash & Marketable Securities	\$11.8	\$11.9	\$11.2
Non-GF Assets*	68.8	69.4	70.2
Global Financing Assets	32.9	35.1	32.5
<b>Total Assets</b>	<b>113.5</b>	<b>116.4</b>	<b>113.8</b>
Other Liabilities	60.5	64.9	60.8
Non-GF Debt*	6.4	8.0	9.8
Global Financing Debt	23.4	23.3	22.6
<b>Total Debt</b>	<b>29.8</b>	<b>31.3</b>	<b>32.4</b>
<b>Total Liabilities</b>	<b>90.3</b>	<b>96.2</b>	<b>93.3</b>
<b>Equity</b>	<b>23.2</b>	<b>20.2</b>	<b>20.6</b>
<b>Non-GF Debt / Capital</b>	<b>24%</b>	<b>32%</b>	<b>36%</b>
<b>Global Financing Leverage</b>	<b>7.0</b>	<b>7.2</b>	<b>7.0</b>

\* Includes eliminations of inter-company activity

# Operating EPS Bridge – 2Q11 to 2Q12

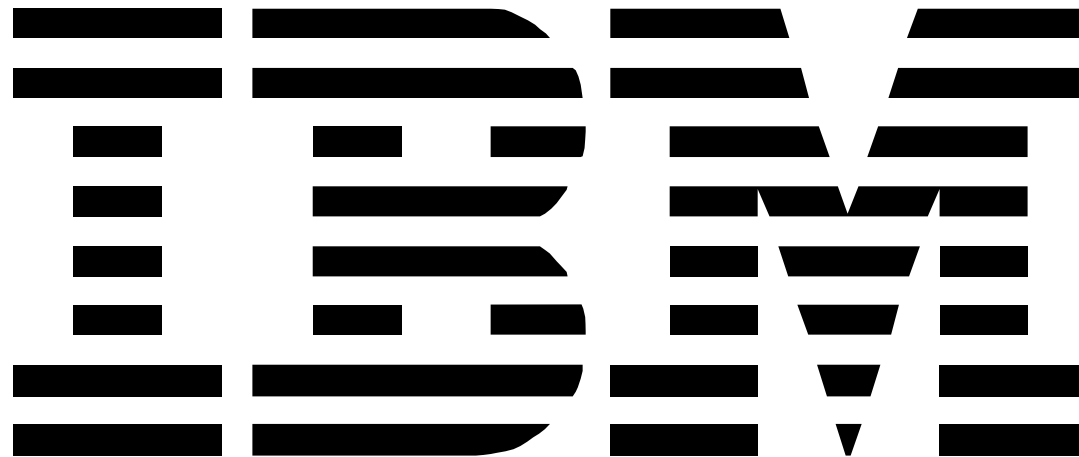


## 2Q 2012 Summary



- Continued strength in growth initiatives
  - Growth markets YTD revenue up 9% yr/yr @CC
  - Business analytics YTD revenue up 13% yr/yr
  - Cloud YTD revenue doubled yr/yr
  - Smarter Planet YTD revenue >20% yr/yr
- Annuity businesses provide solid base of revenue, profit and cash
- Productivity initiatives drive structural improvements and contribute to margin expansion
- Strong cash performance supports investment and shareholder returns

*Increasing expectations to at least \$15.10 of Operating EPS in 2012*



# 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 Supplemental Materials
  - Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items, Constant Currency
  - Cash Flow, Debt-to-Capital Ratio
  - Reconciliation of Operating Earnings Per Share
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2012
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2011
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2012
  - GAAP to Operating (Non-GAAP) Bridge – 2Q 2011
  - Reconciliation of Free Cash Flow (excluding GF Receivables)
  - Reconciliation of Revenue Growth
  - Reconciliation of B/(W) Yr/Yr Expense Drivers – 2Q12
  - Reconciliation of Debt-to-Capital Ratio
  - Reconciliation of Operating EPS Bridge 2Q11 to 2Q12





# Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q12</u>	<u>Yr/Yr</u>	<u>2Q12</u>	<u>Yr/Yr</u>	<u>7/17 Spot</u>	<u>Yr/Yr @ 7/17 Spot</u>		
						<u>3Q12</u>	<u>4Q12</u>	<u>FY12</u>
Euro	0.76	(4%)	0.78	(12%)	0.82	(15%)	(10%)	(10%)
Pound	0.64	(2%)	0.63	(3%)	0.64	(3%)	(1%)	(2%)
Yen	79	4%	80	2%	79	(2%)	(2%)	0%

IBM Revenue Impact	(1 pts)	(4 pts)	~(4-5 pts)	~(2-3 pts)	~(3 pts)	
April 17 View		~(3 pts)	~(3 pts)	~(0-1 pts)	(2 pts)	
<u>2Q12</u>		<u>(US\$B)</u>	<u>Yr/Yr</u>	<u>(US\$B)</u>	<u>(US\$B)</u>	<u>(US\$B)</u>
Revenue As Reported		\$25.8	(3%)			
Currency Impact		(1.0)	(4 pts)	(\$1.2)	(\$0.8)	(\$3.1)
Revenue @CC			1%			

# Supplemental Segment Information – 2Q 2012

## Supplemental Revenue Information

<i>Global Services</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
GTS Outsourcing	(3%)	2%
Integrated Tech Services	Flat	4%
Maintenance	(3%)	2%
<b>Total GTS</b>	<b>(2%)</b>	<b>2%</b>
GBS Outsourcing	(5%)	(1%)
GBS C&SI	(4%)	Flat
<b>Total GBS</b>	<b>(4%)</b>	<b>(1%)</b>
<b>Total Outsourcing</b>	<b>(3%)</b>	<b>1%</b>
<b>Total Transactional</b>	<b>(3%)</b>	<b>1%</b>
<b>Maintenance</b>	<b>(3%)</b>	<b>2%</b>

## Supplemental Backlog / Signings Information

<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>2Q12</u>	<u>Yr/Yr</u>	<u>Backlog</u> <u>@CC</u>
Total Backlog	\$136	(\$8)	\$1
<u>Change in Backlog due to Currency</u>			
Quarter-to-Quarter	(\$3)		
Year-to-Year	(\$9)		
Outsourcing Backlog	\$88	(\$8)	(\$2)
<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>2Q12</u>	<u>Yr/Yr</u>	<u>Signings</u> <u>@CC</u>
Outsourcing	\$6.8	(5%)	(1%)
- GTS O/S, GBS O/S (AMS)			
Transactional	6.9	(3%)	1%
- ITS, Consulting & AMS SI (incl. US Federal)			
<b>Total Signings</b>	<b>\$13.7</b>	<b>(4%)</b>	<b>Flat</b>

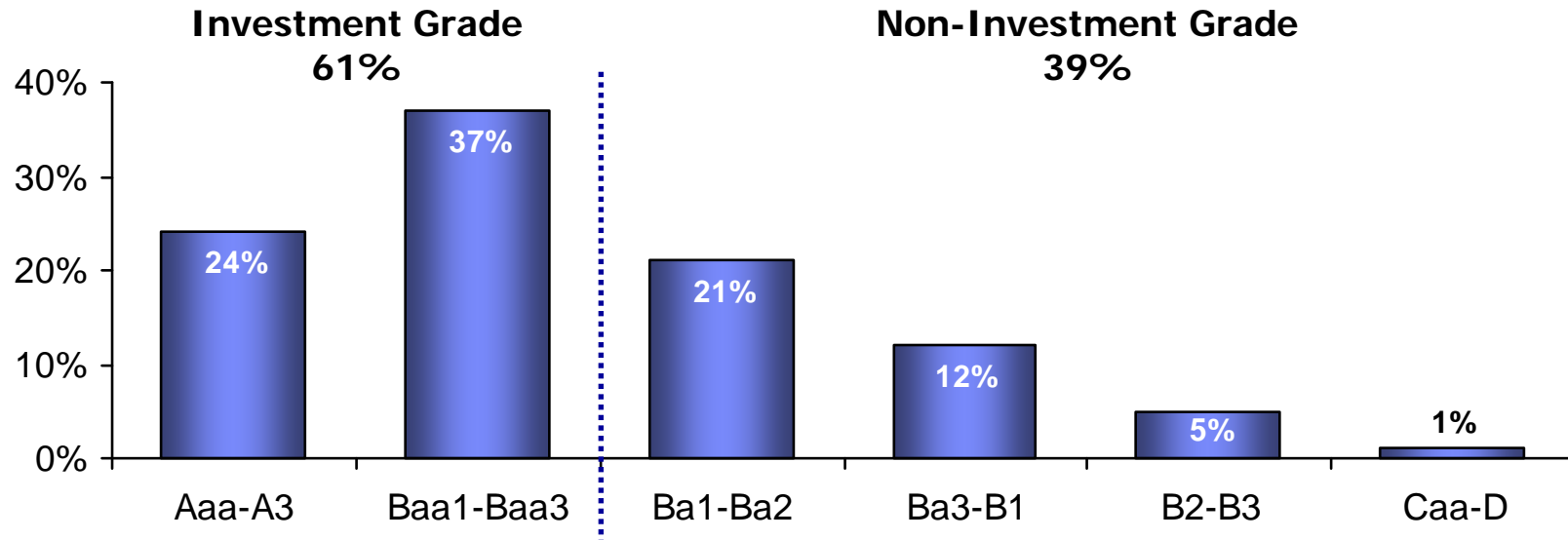
Note: Actual backlog calculated using June 30 currency spot rates

# Supplemental Segment Information – 2Q 2012

<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	(11%)	(9%)	↑	↑	WebSphere Family	3%	7%
Power Systems	(7%)	(4%)	↓	↑	Information Management	(1%)	3%
System x	(8%)	(5%)	↓	↓	Tivoli	2%	6%
Storage	(4%)	Flat	↓	↓	Lotus	(8%)	(4%)
Retail Store Solutions	(4%)	(1%)	↓	=	Rational	<u>(7%)</u>	<u>(3%)</u>
<b>Total Systems</b>	<b>(7%)</b>	<b>(5%)</b>	<b>↓</b>		<b>Key Branded Middleware</b>	<b>Flat</b>	<b>4%</b>
Microelectronics OEM	(22%)	(22%)	↓		Other Middleware	<u>(3%)</u>	<u>1%</u>
<b>Total Systems &amp; Technology</b>	<b>(9%)</b>	<b>(7%)</b>	<b>↓</b>		<b>Total Middleware</b>	<b>(1%)</b>	<b>3%</b>
					Operating Systems	Flat	3%
					Other Software/Services	<u>8%</u>	<u>12%</u>
					<b>Total Software</b>	<b>Flat</b>	<b>4%</b>

# Global Financing Portfolio

2Q12 – \$25.1B Net External Receivables

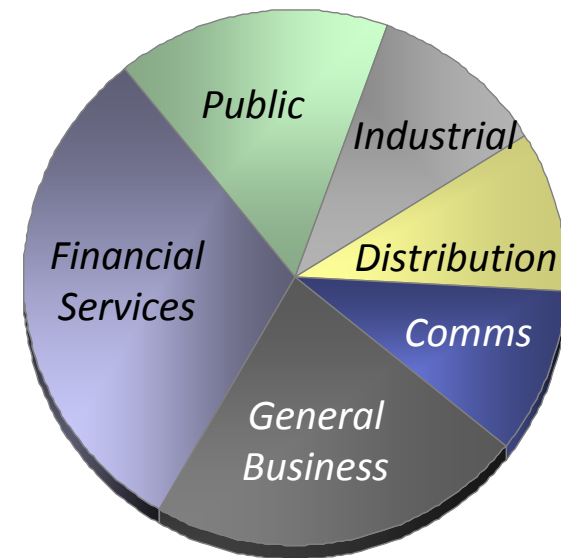


	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Identified Loss Rate	0.8%	0.8%	1.0%
Anticipated Loss Rate	0.5%	0.5%	0.3%
<b>Reserve Coverage</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.3%</b>
Client Days Delinquent Outstanding	2.6	2.8	2.4
Commercial A/R > 30 days	\$33M	\$68M	\$32M

# Revenue by Key Industry Sales Unit

\$ in Billions

	<u>2Q12</u>	<u>B/(W) Yr/Yr</u> <u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.5	(3%)	1%
Public	4.0	1%	4%
Industrial	2.6	(1%)	3%
Distribution	2.4	(7%)	(4%)
Communications	2.4	(9%)	(5%)
General Business	5.5	Flat	5%
<b>Total IBM</b>	<b>\$25.8</b>	<b>(3%)</b>	<b>1%</b>



## Cash Flow (FAS 95)

\$ in Billions	QTD <u>2Q12</u>	QTD <u>2Q11</u>	YTD <u>1H12</u>	YTD <u>1H11</u>
Net Income from Operations	\$3.9	\$3.7	\$6.9	\$6.5
Depreciation / Amortization of Intangibles	1.2	1.2	2.3	2.4
Stock-based Compensation	0.2	0.2	0.3	0.3
Working Capital / Other	(0.3)	(0.7)	(1.8)	(3.1)
Global Financing A/R	(0.5)	0.0	0.9	1.9
<b>Net Cash provided by Operating Activities</b>	<b>4.4</b>	<b>4.3</b>	<b>8.7</b>	<b>8.1</b>
Capital Expenditures, net of payments & proceeds	(1.3)	(1.0)	(2.3)	(2.0)
Divestitures, net of cash transferred	0.0	0.0	0.0	0.0
Acquisitions, net of cash acquired	(0.6)	(0.1)	(1.9)	(0.2)
Marketable Securities / Other Investments, net	0.2	0.5	0.3	2.1
<b>Net Cash used in Investing Activities</b>	<b>(1.7)</b>	<b>(0.6)</b>	<b>(3.9)</b>	<b>(0.1)</b>
Debt, net of payments & proceeds	0.3	(0.7)	1.3	1.0
Dividends	(1.0)	(0.9)	(1.8)	(1.7)
Common Stock Repurchases	(3.0)	(4.0)	(6.0)	(8.0)
Common Stock Transactions - Other	0.3	0.7	0.9	1.6
<b>Net Cash used in Financing Activities</b>	<b>(3.4)</b>	<b>(4.9)</b>	<b>(5.7)</b>	<b>(7.2)</b>
Effect of Exchange Rate changes on Cash	(0.4)	0.2	(0.2)	0.3
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>(\$1.0)</b>	<b>(\$1.0)</b>	<b>(\$1.1)</b>	<b>\$1.1</b>

## Non-GAAP Supplemental 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 Supplemental 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.



# Non-GAAP Supplemental Materials

## *Reconciliation of Operating Earnings Per Share*

	<b>2012 <u>Expectations</u></b>
<b>IBM GAAP EPS</b>	<b>\$14.40+</b>
<b>IBM Operating EPS (Non-GAAP)</b>	<b>\$15.10+</b>
<b>Adjustments</b>	
<b>Acquisition-Related Charges *</b>	<b>\$0.46</b>
Amortization of Purchased Intangibles	\$0.43
Other Acquisition-Related Charges	\$0.03
<b>Non-Operating Retirement-Related Items</b>	<b>\$0.24</b>

\* Includes acquisitions closed as of 6/30/2012

The above serves to reconcile the Non-GAAP financial information contained in the "2Q 2012 Highlights" and "2Q 2012 Summary" discussions 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 Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – 2Q 2012

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$12,281	\$93	\$66	\$12,440
SG&A	5,837	(87)	(33)	5,717
RD&E	1,587	0	5	1,592
Other Income & Expense	(132)	(1)	0	(133)
Total Operating Expense & Other Income	7,120	(88)	(28)	7,004
Pre-Tax Income	5,161	181	94	5,436
Tax ***	1,280	49	30	1,359
Net Income	3,881	132	64	4,077
Diluted Earnings Per Share	\$3.34	\$0.11	\$0.06	\$3.51

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

\*\* 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 2012 Highlights," "Key Financial Metrics" and "Expense Summary" discussions 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 Supplemental 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, deal costs and acquisition integration tax charges

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# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – 2Q 2012

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	47.6%	0.4 pts	0.3 pts	48.2%
PTI Margin	20.0%	0.7 pts	0.4 pts	21.1%
Tax Rate ***	24.8%	0.1 pts	0.1 pts	25.0%
Net Income Margin	15.1%	0.5 pts	0.2 pts	15.8%

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

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\*\*\*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 "Key Financial Metrics" discussions 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 Supplemental Materials

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

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	46.4%	0.3 pts	0.0 pts	46.8%
PTI Margin	18.3%	0.6 pts	(0.0 pts)	18.9%
Tax Rate ***	25.0%	(0.1 pts)	0.1 pts	25.0%
Net Income Margin	13.7%	0.5 pts	(0.0 pts)	14.2%

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

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\*\*\*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 "Key Financial Metrics" discussions 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 Supplemental Materials

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

\$ in Billions	12 months ended <u>6/30/12</u>
Net Cash from Operations	\$20.5
Less: Global Financing Receivables	<u>(1.8)</u>
Net Cash from Operations (excluding GF Receivables)	22.3
Net Capital Expenditures	<u>(4.3)</u>
Free Cash Flow (excluding GF Receivables)	\$18.0

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 Supplemental Materials

## *Reconciliation of Revenue Growth*

	<u>2Q12 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
China	26%	24%
Japan	(3%)	(5%)
Major Markets – Services	(4%)	(1%)
Growth Markets – Services	3%	10%
Growth Markets – ITS	10%	16%
Europe – GBS	(11%)	(3%)
Storage Software	9%	13%
	<u>1H12 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Growth Markets	5%	9%

The above serves to reconcile the Non-GAAP financial information contained in the “Revenue by Geography,” “Services Segments,” “Software Segment,” “Systems and Technology Segment,” and “2Q 2012 Summary” discussions 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 Supplemental Materials

## *Reconciliation of B/(W) Yr/Yr Expense Drivers – 2Q12*

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

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

	<u>2Q11</u>	<u>FY11</u>	<u>2Q12</u>
Non-Global Financing Debt / Capital	24%	32%	36%
IBM Consolidated Debt / Capital	56%	61%	61%

The above serves to reconcile the Non-GAAP financial information contained in the "Balance Sheet" 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 Supplemental Materials

## *Reconciliation of Operating EPS Bridge 2Q11 to 2Q12*

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
2Q11 EPS	\$3.00	\$0.10	(\$0.01)	\$3.09
Revenue growth @ actual	(0.10)	-	-	(0.10)
Margin expansion	0.28	-	0.07	0.35
Share repurchases	0.16	0.01	-	0.17
2Q12 EPS	\$3.34	\$0.11	\$0.06	\$3.51

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

\*\* 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 – 2Q11 to 2Q12" 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.

