

3Q 2011 Earnings Presentation

October 17, 2011

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/3q11/>. The Non-GAAP Supplementary Materials are also included as Attachment II to the Company's Form 8-K dated October 17, 2011.

3Q 2011 Highlights

Revenue	\$26.2B	+8%, 3% yr/yr @CC
Operating (Non-GAAP) EPS	\$3.28	+15% yr/yr

- Performance driven by:
 - Software PTI +12% yr/yr; Key Branded Middleware revenue +17%
 - Hardware PTI +8% yr/yr; Power Systems revenue +15%
 - Services PTI +13% yr/yr; revenue led by Growth Markets
 - Growth Markets revenue +19%, +13% @CC
- Continued strength across growth initiatives
- Expanded operating gross, pre-tax and net margins
- Returned over \$4B to shareholders

Increasing 2011 Operating (Non-GAAP) EPS expectations to at least \$13.35



Key Financial Metrics

\$ in Billions, except EPS

P&L Highlights

	<u>3Q11</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$26.2	8%
@CC		3%
PTI – Operating	\$5.2	10%
EPS – Operating	\$3.28	15%

P&L Ratios (Operating)

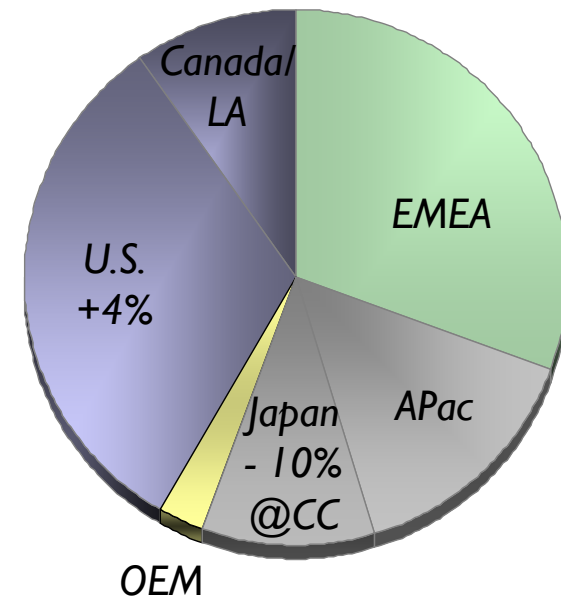
	<u>3Q11</u>	<u>B/(W) Yr/Yr</u>
GP Margin	46.8%	1.5 pts
PTI Margin	19.8%	0.4 pts
NI Margin	15.1%	0.2 pts
Tax Rate	23.6%	(0.6 pts)

Cash Highlights

	<u>3Q11</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$3.5	\$16.3
Share Repurchase	3.4	15.1
Dividends	0.9	3.4
Cash Balance @ Sept. 30	11.3	

Revenue by Geography

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q11</u>	<u>Rptd</u>	<u>@CC</u>
Americas	\$10.9	7%	6%
Europe/ME/A	8.0	9%	Flat
Asia Pacific	6.5	10%	1%
OEM	0.7	(8%)	(8%)
IBM	\$26.2	8%	3%
<i>Major Markets</i>		<i>5%</i>	<i>Flat</i>
<i>Growth Markets</i>		<i>19%</i>	<i>13%</i>
<i>BRIC Countries</i>		<i>17%</i>	<i>13%</i>



Performance led by Growth Markets and North America



Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Operating Gross Profit Margin	
	3Q11	B/(W) Yr/Yr		3Q11	B/(W) Yr/Yr Pts
		Rptd	@CC		
Global Technology Services	\$10.3	9%	3%	35.7%	0.6 pts
Global Business Services	4.8	6%	Flat	29.4%	0.8 pts
Software	5.8	13%	8%	88.1%	0.2 pts
Systems & Technology	4.5	4%	1%	39.8%	3.4 pts
Global Financing	0.5	(2%)	(6%)	47.4%	(5.9 pts)
Total Revenue & Operating GP Margin	\$26.2	8%	3%	46.8%	1.5 pts

Revenue growth led by Software; broad-based margin expansion



Expense Summary

\$ in Billions	<u>3Q11</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	\$5.6	(10%)	(5 pts)	(2 pts)	(3 pts)
RD&E – Operating	1.6	(5%)	(2 pts)	(4 pts)	2 pts
IP and Development Income	(0.3)	7%			
Other (Income)/Expense	0.1	nm			
Interest Expense	<u>0.1</u>	(14%)			
Operating Expense & Other Income	\$7.1	(12%)	(7 pts)	(3 pts)	(2 pts)

* 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>3Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$10.3	9%	3%
Gross Margin (External)	35.7%	0.6 pts	
Pre-Tax Income	\$1.7	13%	
PTI Margin	15.9%	0.7 pts	

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.8	6%	Flat
Gross Margin (External)	29.4%	0.8 pts	
Pre-Tax Income	\$0.8	13%	
PTI Margin	15.4%	1.0 pts	

3Q11 Revenue

Yr/Yr

GTS

Rptd @CC

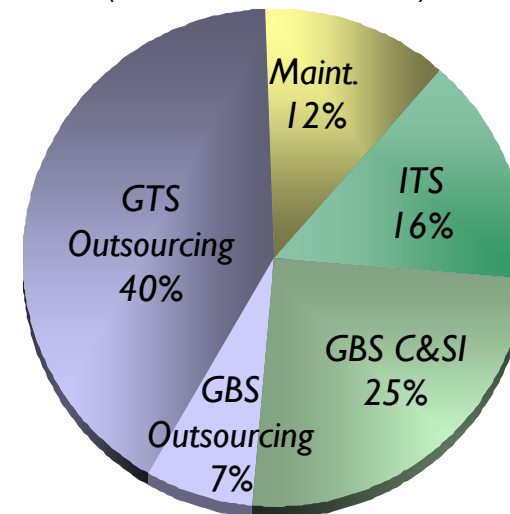
GTS Outsourcing	9%	3%
Integrated Technology Services	11%	5%
Maintenance	5%	(1%)

GBS

GBS Outsourcing	11%	5%
Consulting & Systems Integration	4%	(1%)

<u>3Q11</u>		
<u>Services Backlog</u>	\$137B	+\$2B +\$2B

3Q11 Revenues
(% of Total Services)

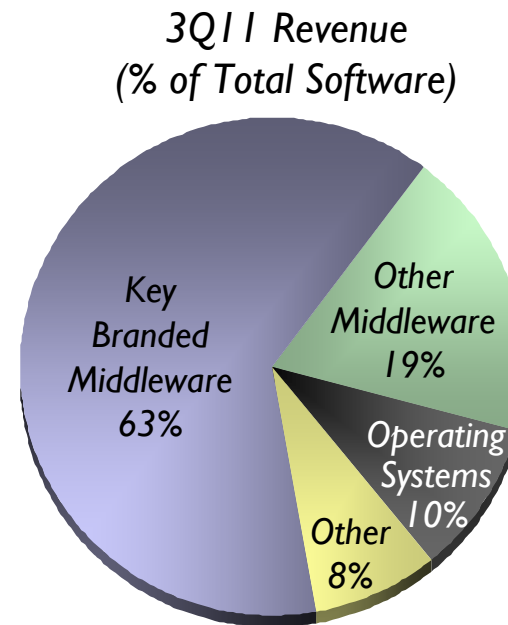


Profit growth and margin expansion

Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q11</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.8	13%	8%
Gross Margin (External)	88.1%	0.2 pts	
Pre-Tax Income	\$2.2	12%	
PTI Margin	33.4%	(0.2 pts)	

<u>3Q11 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	52%	46%
Information Management	12%	7%
Tivoli	8%	3%
Lotus	6%	1%
Rational	7%	3%
Key Branded Middleware	17%	12%
Total Middleware	13%	8%
Total Software	13%	8%



Middleware share gains for 16th consecutive quarter



Systems & Technology Segment

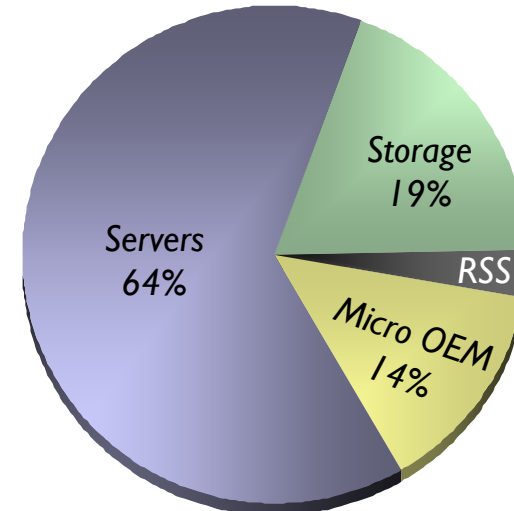
\$ in Billions

	<u>3Q11</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.5	4%	1%
Gross Margin (External)	39.8%	3.4 pts	
Pre-Tax Income	\$0.3	8%	
PTI Margin	6.8%	0.3 pts	

3Q11 Revenue

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	(5%)	(7%)
Power Systems	15%	12%
System x	1%	(3%)
Storage	8%	5%
Retail Store Solutions	14%	11%
Total Systems	6%	2%
Microelectronics OEM	(6%)	(6%)
Total Systems & Technology	4%	1%

3Q11 Revenue
(% of Total Sys & Tech)



Power Systems extend Unix leadership



Cash Flow Analysis

\$ in Billions	<u>3Q11</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>YTD</u> <u>3Q11</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.7	\$0.1	\$12.7	\$0.0
Less: Global Financing Receivables	<u>0.2</u>	<u>(0.2)</u>	<u>2.1</u>	<u>(0.1)</u>
Net Cash from Operations (excluding GF Receivables)	4.5	0.3	10.6	0.1
Net Capital Expenditures	<u>(1.0)</u>	<u>0.0</u>	<u>(3.0)</u>	<u>(0.1)</u>
Free Cash Flow (excluding GF Receivables)	3.5	0.3	7.6	0.0
Acquisitions	(0.1)	1.9	(0.2)	2.8
Divestitures	0.0	0.0	0.0	0.0
Dividends	(0.9)	(0.1)	(2.6)	(0.2)
Share Repurchases	(3.4)	0.2	(11.5)	0.3
Non-GF Debt	0.1	(0.2)	1.1	(0.4)
Other (includes GF A/R & GF Debt)	<u>0.4</u>	<u>(1.5)</u>	<u>5.2</u>	<u>0.1</u>
Change in Cash & Marketable Securities	(\$0.5)	\$0.7	(\$0.3)	\$2.5

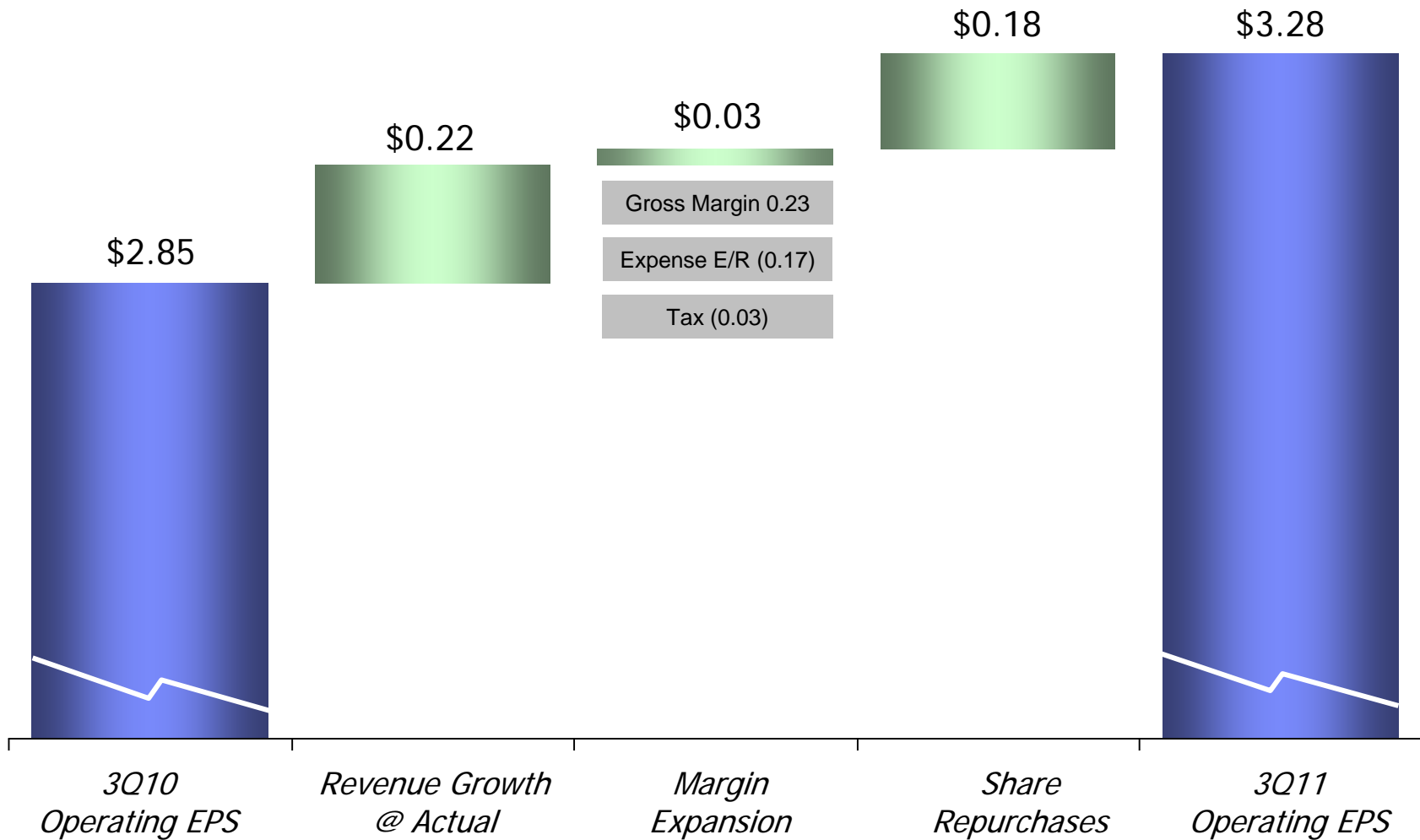


Balance Sheet Summary

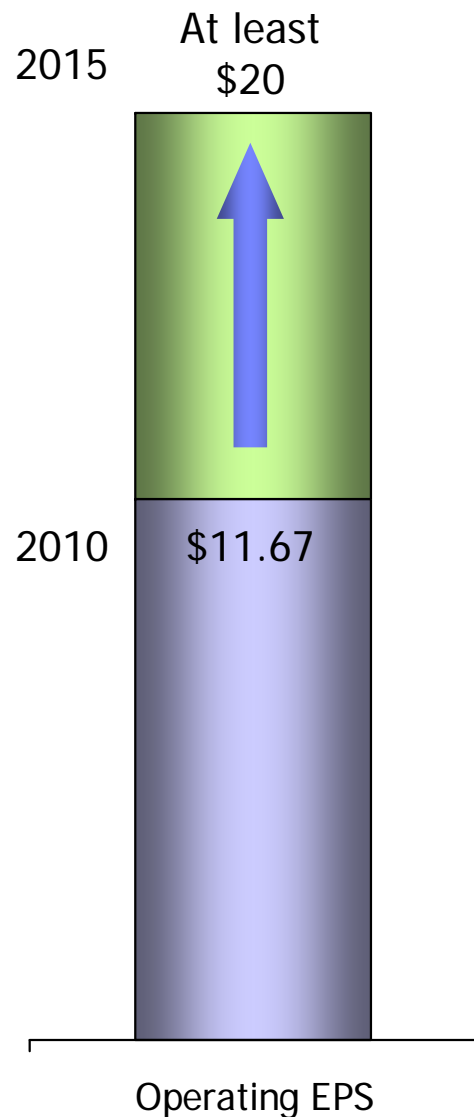
\$ in Billions	<u>Sept. 10</u>	<u>Dec. 10</u>	<u>Sept. 11</u>
Cash & Marketable Securities	\$11.1	\$11.7	\$11.3
Non-GF Assets*	65.7	67.3	67.5
Global Financing Assets	30.4	34.5	31.4
Total Assets	107.2	113.5	110.2
Other Liabilities	57.4	61.7	57.6
Non-GF Debt*	5.5	5.8	7.4
Global Financing Debt	22.0	22.8	22.8
Total Debt	27.5	28.6	30.2
Total Liabilities	84.8	90.3	87.8
Equity	22.4	23.2	22.4
Non-GF Debt / Capital	22%	23%	28%
Global Financing Leverage	7.1	7.0	7.1

* Includes eliminations of inter-company activity

Operating EPS Bridge – 3Q10 to 3Q11

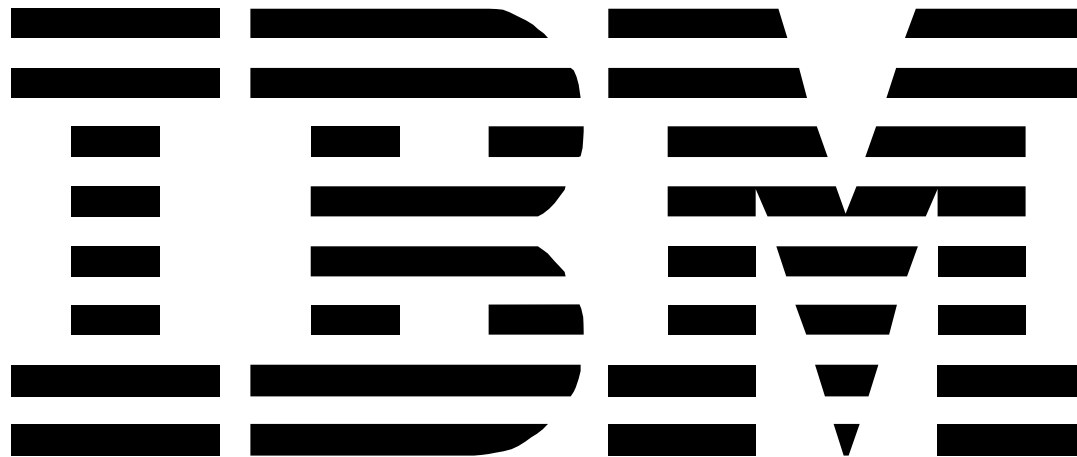


3Q 2011 Summary



- Continued strength in growth initiatives
 - Growth markets YTD revenue up 20% yr/yr, 13% @CC, more than half of IBM's revenue growth @CC
 - Business analytics YTD revenue up 19% yr/yr
 - Cloud YTD revenue doubled full year 2010 revenue
 - Smarter Planet YTD revenue up ~50% yr/yr
- Expanded operating gross, pre-tax and net income margins
- Leveraging cash generation to return value to shareholders

Increasing 2011 Operating (Non-GAAP) EPS expectations to at least \$13.35



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, Income Tax Settlement
 - Reconciliation of Operating Earnings Per Share
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2011
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2010
 - GAAP to Operating (Non-GAAP) Bridge – YTD
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2011
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2010
 - GAAP to Operating (Non-GAAP) Bridge – YTD 3Q 2011
 - GAAP to Operating (Non-GAAP) Bridge – YTD 3Q 2010
 - Reconciliation of Free Cash Flow (excluding GF Receivables)
 - Reconciliation of Revenue Growth Rates – Geographies
 - Reconciliation of B/(W) Yr/Yr Expense Drivers
 - Reconciliation of Debt-to-Capital Ratio
 - Reconciliation of Operating EPS Bridge 3Q10 to 3Q11

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q11</u>	<u>Yr/Yr</u>	<u>2Q11</u>	<u>Yr/Yr</u>	<u>3Q11</u>	<u>Yr/Yr</u>	<u>10/14 Spot</u>	<u>@ 10/14 Spot</u>	
								<u>4Q11</u>	<u>FY11</u>
Euro	0.73	(1%)	0.69	12%	0.71	8%	0.72	2%	5%
Pound	0.62	3%	0.61	9%	0.62	4%	0.63	0%	4%
Yen	82	9%	82	11%	78	9%	77	6%	9%

Revenue Impact - Pts	3 pts	7 pts	5 pts	1 pts	4 pts
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Vs. 7/18 View - Pts B/(W) (0.3 pts) (1.7 pts)
 - \$B B/(W) (\$0.1) (\$0.5)

	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$26.2	8%
Currency Impact	1.2	5 pts
Revenue @CC	\$24.9	3%

Supplemental Segment Information – 3Q 2011

Supplemental Revenue Information

<i>Global Services</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
GTS Outsourcing	9%	3%
Integrated Tech Services	11%	5%
Maintenance	5%	(1%)
Total GTS	9%	3%
GBS Outsourcing	11%	5%
GBS C&SI	4%	(1%)
Total GBS	6%	Flat
Total Outsourcing	9%	3%
Total Transactional	7%	1%
Maintenance	5%	(1%)

Supplemental Backlog / Signings Information

<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>3Q11</u>	<u>Yr/Yr</u>	<u>@CC</u>
Total Backlog	\$137	+2	+2
Outsourcing Backlog	90	Flat	Flat
<i>Global Services</i>	<u>\$ in Billions</u>		
	<u>3Q11</u>	<u>Yr/Yr</u>	<u>@CC</u>
Outsourcing	\$5.8	16%	10%
- GTS O/S, GBS O/S (AMS)			
Transactional	6.5	8%	3%
- ITS, Consulting & AMS SI (incl. US Federal)			
Total Signings	\$12.3	12%	6%

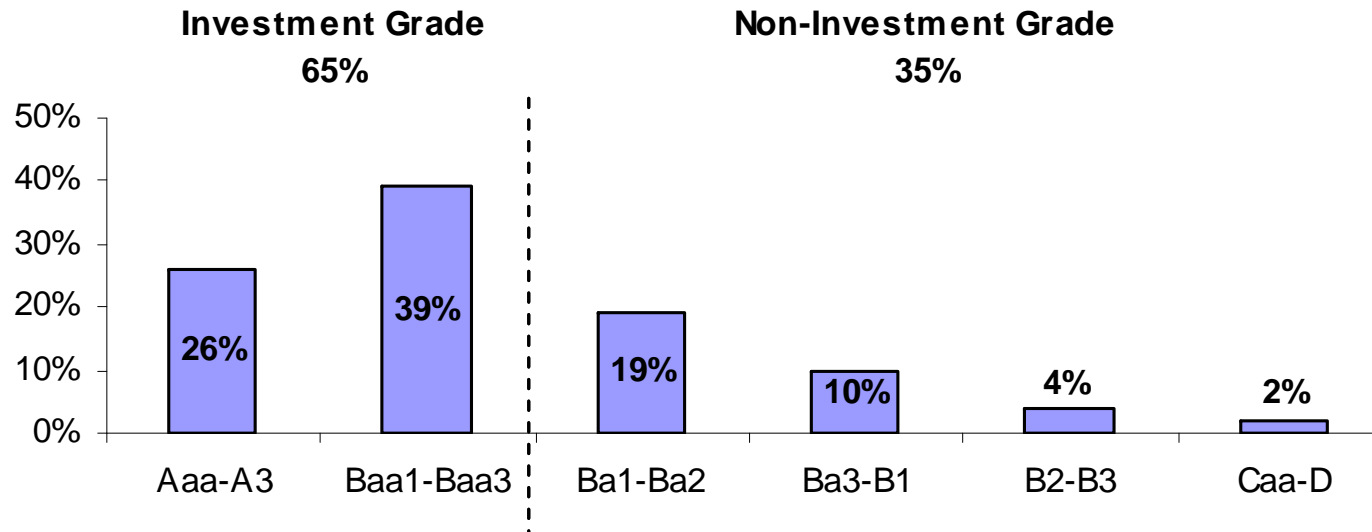
Note: YTY signings growth reflects 2010 signings categories consistent with 2011
Actual backlog calculated using September 30 currency spot rates

Supplemental Segment Information – 3Q 2011

<i>Systems & 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	(5%)	(7%)	↑	↓	WebSphere Family	52%	46%
Power Systems	15%	12%	↑	↑	Information Management	12%	7%
System x	1%	(3%)	↑	↓	Tivoli	8%	3%
Storage	8%	5%	↓	=	Lotus	6%	1%
Retail Store Solutions	14%	11%	↓	=	Rational	<u>7%</u>	<u>3%</u>
Total Systems	6%	2%	↑		Key Branded Middleware	17%	12%
Microelectronics OEM	(6%)	(6%)	↓		Other Middleware	<u>4%</u>	<u>(1%)</u>
Total Systems & Technology	4%	1%	↑		Total Middleware	13%	8%
					Operating Systems	9%	4%
					Other Software/Services	<u>14%</u>	<u>10%</u>
					Total Software	13%	8%

Global Financing Portfolio

3Q11 – \$23.3B Net External Receivables



	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Identified Loss Rate	1.0%	1.0%	1.6%
Anticipated Loss Rate	0.3%	0.3%	0.3%
Reserve Coverage	1.3%	1.3%	1.9%
Client Days Delinquent Outstanding	2.7	2.4	3.2
Commercial A/R > 30 Days	\$46M	\$32M	\$36M

Revenue by Key Industry Sales Unit

\$ in Billions

	<u>3Q11</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.7	10%	3%
Public	4.0	5%	1%
Industrial	2.6	8%	2%
Distribution	2.6	11%	7%
Communications	2.6	9%	5%
General Business	5.4	16%	11%
Total IBM	\$26.2	8%	3%



Cash Flow (FAS 95)

\$ in Billions	QTD <u>3Q11</u>	QTD <u>3Q10</u>	YTD <u>3Q11</u>	YTD <u>3Q10</u>
Net Income from Operations	\$3.8	\$3.6	\$10.4	\$9.6
Depreciation / Amortization of Intangibles	1.2	1.2	3.6	3.6
Stock-based Compensation	0.2	0.2	0.5	0.5
Working Capital / Other	(0.7)	(0.8)	(3.9)	(3.1)
Global Financing A/R	0.2	0.4	2.1	2.3
Net Cash provided by Operating Activities	4.7	4.6	12.7	12.8
Capital Expenditures, net of payments & proceeds	(1.0)	(1.0)	(3.0)	(2.9)
Divestitures, net of cash transferred	0.0	0.0	0.0	0.0
Acquisitions, net of cash acquired	(0.1)	(2.0)	(0.2)	(3.0)
Marketable Securities / Other Investments, net	0.2	1.2	2.3	1.4
Net Cash used in Investing Activities	(0.8)	(1.8)	(0.9)	(4.4)
Debt, net of payments & proceeds	0.2	0.2	1.1	0.9
Dividends	(0.9)	(0.8)	(2.6)	(2.4)
Common Stock Repurchases	(3.4)	(3.7)	(11.5)	(11.8)
Common Stock Transactions - Other	0.5	0.8	2.0	2.6
Net Cash used in Financing Activities	(3.7)	(3.5)	(10.9)	(10.6)
Effect of Exchange Rate changes on Cash	(0.6)	0.2	(0.3)	(0.1)
Net Change in Cash & Cash Equivalents	(\$0.4)	(\$0.5)	\$0.6	(\$2.3)

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.

Income Tax Settlement

Management presents free cash flow excluding the effects of certain income tax settlement payments. Management believes that presenting free cash flow 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

	2011 <u>Expectations</u>
IBM GAAP EPS	\$12.95+
IBM Operating EPS (Non-GAAP)	\$13.35+
Adjustments	
Acquisition-Related Charges *	\$0.42
Amortization of Purchased Intangibles	\$0.39
Other Acquisition-Related Charges	\$0.03
Non-Operating Retirement-Related Items	(\$0.02)

* Includes acquisitions closed as of 9/30/2011

The above serves to reconcile the Non-GAAP financial information contained in the "3Q 2011 Highlights" and "3Q 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 – 3Q 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	\$12,173	\$87	(\$7)	\$12,253
SG&A	5,662	(75)	0	5,587
RD&E	1,546	0	22	1,568
Other Income & Expense	128	(18)	0	111
Total Operating Expense & Other Income	7,146	(92)	21	7,075
Pre-Tax Income	5,027	180	(29)	5,178
Tax ***	1,188	47	(11)	1,224
Net Income	3,839	133	(17)	3,954
Diluted Earnings Per Share	\$3.19	\$0.11	(\$0.01)	\$3.28

* 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 "3Q 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 – 3Q 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	\$11,001	\$65	(\$53)	\$11,013
SG&A	5,149	(76)	20	5,094
RD&E	1,464	0	31	1,495
Other Income & Expense	(106)	1	0	(105)
Total Operating Expense & Other Income	6,324	(75)	51	6,301
Pre-Tax Income	4,677	139	(104)	4,712
Tax ***	1,088	34	(38)	1,084
Net Income	3,589	105	(66)	3,628
Diluted Earnings Per Share	\$2.82	\$0.08	(\$0.05)	\$2.85

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

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Non-GAAP Supplementary Materials

GAAP to Operating (Non-GAAP) Bridge – YTD

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
YTD 3Q 2011				
Total Operating Expense & Other Income	21,687	(249)	49	21,487
Pre-Tax Income	13,729	508	(37)	14,200
Net Income	10,365	376	(20)	10,721
Diluted Earnings Per Share	\$8.48	\$0.31	(\$0.02)	\$8.77
YTD 3Q 2010				
Total Operating Expense & Other Income	19,019	(200)	149	18,968
Pre-Tax Income	12,767	378	(293)	12,853
Net Income	9,576	272	(179)	9,669
Diluted Earnings Per Share	\$7.38	\$0.21	(\$0.14)	\$7.45

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

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Non-GAAP Supplementary Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q 2011

	<u>GAAP</u>	<u>Acquisition- related *</u> <u>adjustments</u>	<u>Retirement- related **</u> <u>adjustments</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	46.5%	0.3 pts	0.0 pts	46.8%
PTI Margin	19.2%	0.7 pts	(0.1) pts	19.8%
Tax Rate ***	23.6%	0.1 pts	(0.1) pts	23.6%
Net Income Margin	14.7 %	0.5 pts	(0.1) pts	15.1%

* 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 ROA, 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.

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Non-GAAP Supplementary Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q 2010

	<u>GAAP</u>	<u>Acquisition- related *</u> <u>adjustments</u>	<u>Retirement- related **</u> <u>adjustments</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	45.3%	0.3 pts	(0.2) pts	45.4 %
PTI Margin	19.3%	0.6 pts	(0.4) pts	19.4 %
Tax Rate ***	23.3 %	0.0 pts	(0.3) pts	23.0 %
Net Income Margin	14.8 %	0.4 pts	(0.3) pts	14.9 %

* 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 ROA, Recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

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Non-GAAP Supplementary Materials

GAAP to Operating (Non-GAAP) Bridge – YTD 3Q 2011

	<u>GAAP</u>	<u>Acquisition- related *</u> <u>adjustments</u>	<u>Retirement- related **</u> <u>adjustments</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	45.7%	0.3 pts	0.0 pts	46.1 %
PTI Margin	17.7%	0.7 pts	0.0 pts	18.3 %
Tax Rate ***	24.5 %	0.1 pts	(0.1) pts	24.5 %
Net Income Margin	13.4 %	0.5 pts	0.0 pts	13.8%

* 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 ROA, 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.

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Non-GAAP Supplementary Materials

GAAP to Operating (Non-GAAP) Bridge – YTD 3Q 2010

	<u>GAAP</u>	<u>Acquisition- related *</u> <u>adjustments</u>	<u>Retirement- related **</u> <u>adjustments</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	44.9%	0.3 pts	(0.2) pts	44.9 %
PTI Margin	18.0%	0.5 pts	(0.4) pts	18.1 %
Tax Rate ***	25.0 %	0.1 pts	(0.3) pts	24.8 %
Net Income Margin	13.5 %	0.4 pts	(0.3) pts	13.6 %

* 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 ROA, 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.

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Non-GAAP Supplementary Materials

Reconciliation of Free Cash Flow (excluding GF Receivables)

\$ in Billions	<u>12 months ended 9/30/11</u>
Net Cash from Operations	\$19.5
Less: Global Financing Receivables	<u>(0.9)</u>
Net Cash from Operations (excluding GF Receivables)	20.4
Net Capital Expenditures	<u>(4.1)</u>
Free Cash Flow (excluding GF Receivables)	\$16.3

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 Revenue Growth

	<u>3Q11 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Canada	14%	7%
Spain	19%	9%
UK	9%	5%
Japan	(0%)	(10%)
Growth Markets		
GTS Outsourcing	20%	10%
Systems & Technology	16%	12%
System x	21%	15%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography," "Services Segments," and "Systems & 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 BI(W) Yr/Yr Expense Drivers

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
SG&A			
Currency	(5 pts)	0 pts	(5 pts)
Acquisitions	(3 pts)	0 pts	(2 pts)
Base	(2 pts)	0 pts	(3 pts)
RD&E			
Currency	(2 pts)	0 pts	(2 pts)
Acquisitions	(4 pts)	0 pts	(4 pts)
Base	1 pts	1 pt	2 pts
Operating Expense & Other Income			
Currency	(7 pts)	0 pts	(7 pts)
Acquisitions	(3 pts)	0 pts	(3 pts)
Base	(2 pts)	0 pts	(2 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>3Q11</u>	<u>FY10</u>	<u>3Q10</u>
Non-Global Financing Debt / Capital	28%	23%	22%
IBM Consolidated Debt / Capital	57%	55%	55%

The above serves to reconcile the Non-GAAP financial information contained in the "Balance Sheet Summary" 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 3Q10 to 3Q11

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
3Q10 EPS	\$2.82	\$0.08	(\$0.05)	\$2.85
Revenue growth @ actual	0.22	0.01	(0.01)	0.22
Margin expansion				
Gross Margin	0.19	0.01	0.04	0.23
Expense	(0.20)	0.01	0.02	(0.17)
Tax	(0.01)	(0.01)	(0.01)	(0.03)
Share repurchases	0.17	0.01	0.00	0.18
3Q11 EPS	\$3.19	\$0.11	(\$0.01)	\$3.28

* 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 – 3Q10 to 3Q11" 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.

