

3Q 2012 Earnings Presentation

October 16, 2012

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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/3q12/>. The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated October 16, 2012.

3Q 2012

Revenue	\$24.7B	(5%), (2%) yr/yr @CC
Operating Pre-Tax Income	\$5.5B	+7% yr/yr
Operating (Non-GAAP) EPS	\$3.62	+10% yr/yr

- Revenue performance:
 - Europe consistent with 2Q
 - Japan stabilized
 - BRIC double-digit growth
 - North America declined
- Continued strong performance in key solution areas of Smarter Planet, Business Analytics and Cloud
- Annuity businesses provide solid base of revenue and profit
- Expanded gross, pre-tax, and net margins

Continue to expect at least \$15.10 of Operating EPS in 2012



Key Financial Metrics

\$ in Billions, except EPS

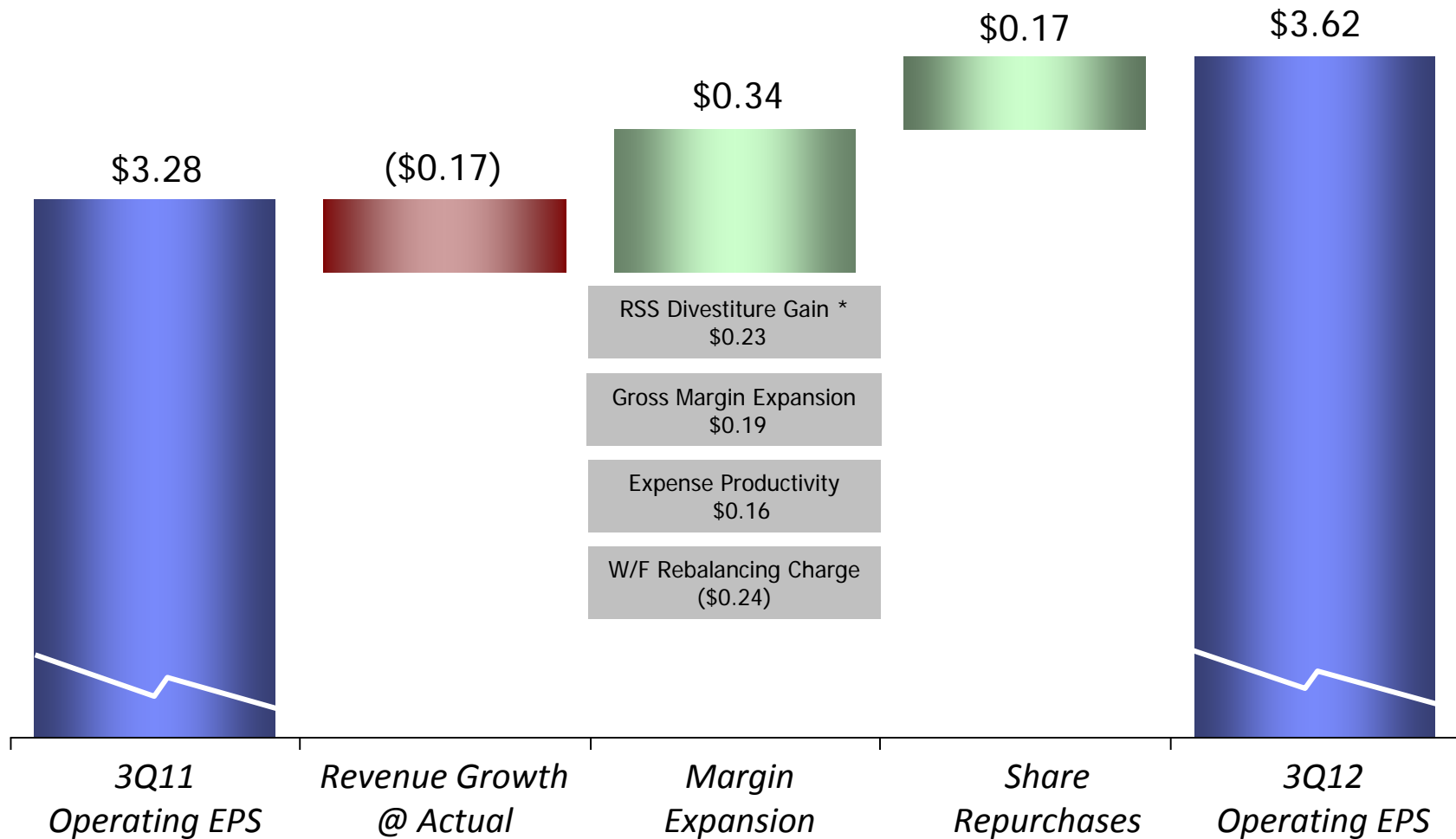
<u>P&L Highlights</u>	<u>3Q12</u>	<u>B/(W) Yr/Yr</u>	<u>P&L Ratios (Operating)</u>	<u>3Q12</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$24.7	(5%)	GP Margin	48.1%	1.2 pts
@CC		(2%)*	PTI Margin	22.3%	2.5 pts
NI – Operating	\$4.2	5%	Tax Rate	24.7%	(1.1 pts)
EPS – Operating	\$3.62	10%	NI Margin	16.8%	1.7 pts

Cash Highlights

	<u>3Q12</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$3.1	\$17.6
Share Repurchase	3.0	12.6
Dividends	1.0	3.7
Cash Balance @ Sept. 30	12.3	

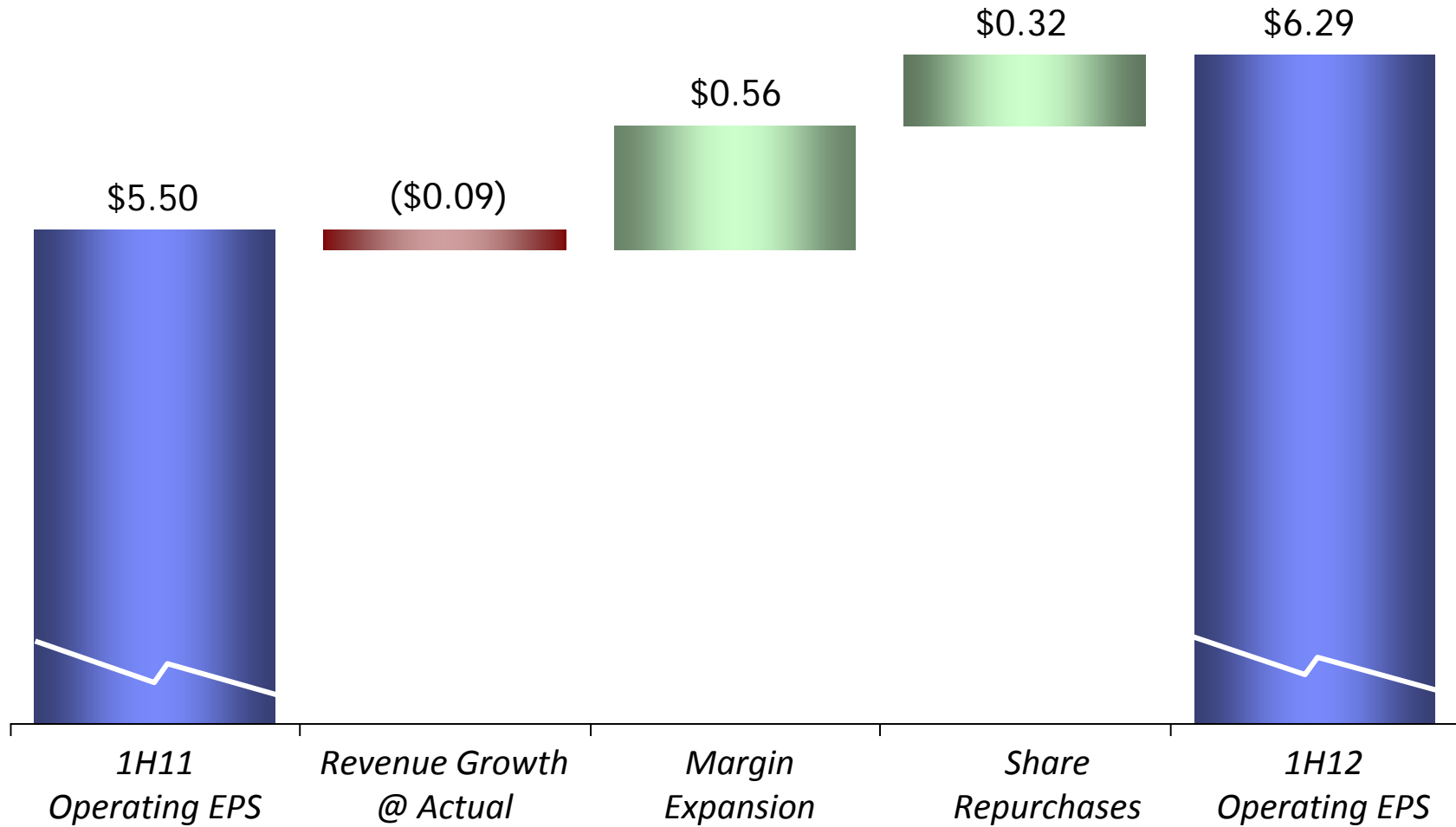
* Revenue down 1% @CC excluding impact of divested Retail Store Solutions business

Operating EPS Bridge – 3Q11 to 3Q12



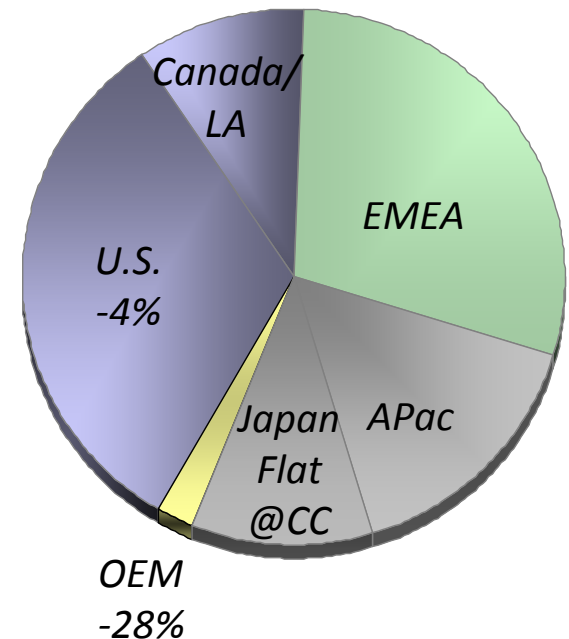
* Based on discrete tax rate

Operating EPS Bridge – 1H11 to 1H12



Revenue by Geography

\$ in Billions	B/(W) Yr/Yr		
	3Q12	Rptd	@CC
Americas	\$10.4	(4%)	(3%)
Europe/ME/A	7.2	(9%)	(1%)
Asia Pacific	6.5	1%	2%
Total Geographies <i>excl. Retail Store Solutions</i>	\$24.2	(5%) <i>(4%)</i>	(1%) <i>Flat</i>
IBM <i>excl. Retail Store Solutions</i>	\$24.7	(5%) <i>(5%)</i>	(2%) <i>(1%)</i>
<i>Major Markets</i>		<i>(6%)</i>	<i>(2%)</i>
<i>Growth Markets</i>		<i>(1%)</i>	<i>4%</i>
<i>BRIC Countries</i>		<i>4%</i>	<i>11%</i>



EMEA steady, Japan stabilized, BRIC strength, North America declined



Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Operating Gross Profit Margin	
	3Q12	B/(W) Rptd	Yr/Yr @CC	3Q12	B/(W) Yr/Yr Pts
Global Technology Services	\$9.9	(4%)	1%	37.3%	1.6 pts
Global Business Services	4.5	(6%)	(3%)	31.2%	1.7 pts
Software	5.8	(1%)	3%	88.0%	Flat
Systems & Technology <i>excl. Retail Store Solutions</i>	3.9	(13%) <i>(11%)</i>	(12%) <i>(9%)</i>	37.3%	(2.6 pts)
Global Financing	0.5	(9%)	(5%)	45.8%	(1.6 pts)
Total Revenue & Op. GP Margin <i>excl. RSS</i>	\$24.7	(5%) <i>(5%)</i>	(2%) <i>(1%)</i>	48.1%	1.2 pts



Expense Summary

\$ in Billions	<u>3Q12</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 <i>includes Workforce Rebalancing</i>	\$5.6 <i>0.4</i>	(1%)	4 pts	(2 pts)	(3 pts)
<i>SG&A excl. Workforce Rebalancing</i>	<i>5.2</i>	<i>6%</i>	<i>4 pts</i>	<i>(2 pts)</i>	<i>5 pts</i>
RD&E – Operating	1.5	2%	3 pts	(4 pts)	3 pts
IP and Development Income	(0.3)	1%			
Other (Income)/Expense <i>includes Retail Store Solutions Gain</i>	(0.6) <i>(0.4)</i>				
Interest Expense	<u>0.1</u>	(15%)			
Operating Expense & Other Income	\$6.4	10%	8 pts	(3 pts)	5 pts

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



Pre-Tax Income by Segment

\$ in Billions	<u>Segment PTI \$</u>			<u>Segment PTI Margin</u>		
	<u>PTI \$</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr w/o Wkfrce Rebal.*</u>	<u>PTI %</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr w/o Wkfrce Rebal.*</u>
Global Technology Services	\$1.7	Flat	9%	16.6%	0.7 pts	2.1 pts
Global Business Services	0.7	(5%)	9%	15.6%	0.2 pts	2.5 pts
Software	2.4	6%	10%	35.6%	2.2 pts	3.5 pts
Systems & Technology	0.1	(61%)	(47%)	3.0%	(3.8 pts)	(2.7 pts)
Global Financing	0.5	(1%)	(1%)	49.4%	1.2 pts	1.5 pts
Total Operating PTI	\$5.5	7%	14%	22.3%	2.5 pts	4.1 pts

* 3Q12 Workforce Rebalancing charge of \$407M, 3Q11 Workforce Rebalancing charge of \$21M

Services and Software profit growth and margin expansion



Services Segments

Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$9.9	(4%)	1%
Gross Margin (External)	37.3%	1.6 pts	
Pre-Tax Income	\$1.7	Flat	
<i>excluding Wkfrce Rebal.</i>	<i>\$1.8</i>	<i>9%</i>	
PTI Margin	16.6%	0.7 pts	
<i>excluding Wkfrce Rebal.</i>	<i>18.1%</i>	<i>2.1 pts</i>	

Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.5	(6%)	(3%)
Gross Margin (External)	31.2%	1.7 pts	
Pre-Tax Income	\$0.7	(5%)	
<i>excluding Wkfrce Rebal.</i>	<i>\$0.9</i>	<i>9%</i>	
PTI Margin	15.6%	0.2 pts	
<i>excluding Wkfrce Rebal.</i>	<i>18.0%</i>	<i>2.5 pts</i>	

3Q12 Revenue

GTS

	<u>Yr/Yr</u>	<u>Rptd</u>	<u>@CC</u>
GTS Outsourcing		(5%)	Flat
Integrated Technology Services		(1%)	3%
Maintenance		(5%)	Flat

GBS

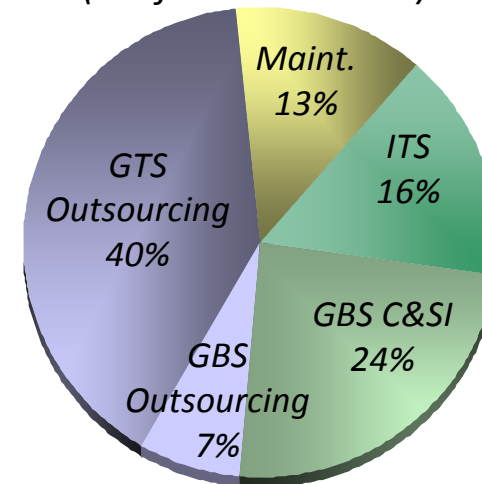
GBS Outsourcing	(7%)	(3%)
Consulting & Systems Integration	(6%)	(3%)

3Q12

Services Backlog

\$138B	1%	1%
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3Q12 Revenue
(% of Total Services)



Backlog growth and margin expansion

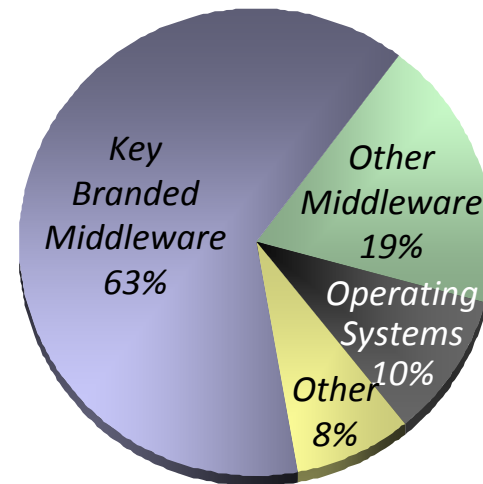


Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q12</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.8	(1%)	3%
Gross Margin (External)	88.0%	Flat	
Pre-Tax Income	\$2.4	6%	
<i>excluding Wkfrce Rebal.</i>	<i>\$2.4</i>	<i>10%</i>	
PTI Margin	35.6%	2.2 pts	
<i>excluding Wkfrce Rebal.</i>	<i>37.1%</i>	<i>3.5 pts</i>	

<u>3Q12 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	2%	5%
Information Management	(1%)	3%
Tivoli	5%	9%
Lotus	(10%)	(7%)
Rational	(16%)	(13%)
Key Branded Middleware	(1%)	3%
Total Middleware	(2%)	2%
Total Software	(1%)	3%

3Q12 Revenue
(% of Total Software)



Double-digit growth in Software Solutions



Systems & Technology Segment

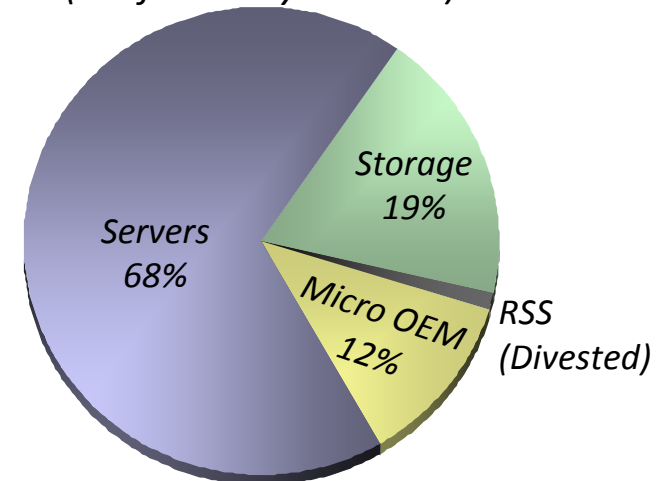
\$ in Billions

	<u>3Q12</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Revenue (External) – including RSS	\$3.9	(13%)	(12%)
<i>excluding RSS</i>		(11%)	(9%)
Gross Margin (External)	37.3%	(2.6 pts)	
Pre-Tax Income	\$0.1	(61%)	
<i>excluding Wkfrce Rebal.</i>	\$0.2	(47%)	
PTI Margin	3.0%	(3.8 pts)	
<i>excluding Wkfrce Rebal.</i>	4.1%	(2.7 pts)	

3Q12 Revenue

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	(20%)	(19%)
Power Systems	(2%)	(1%)
System x	(5%)	(3%)
Storage	(10%)	(8%)
Total Systems excl. RSS	(8%)	(6%)
Microelectronics OEM	(25%)	(25%)
Total Systems & Technology excl. RSS	(11%)	(9%)
Retail Store Solutions (Divested)	(79%)	(79%)

3Q12 Revenue
(% of Total Sys & Tech)



New Enterprise Servers and Storage in 4Q

Growth Initiatives

Smarter Planet

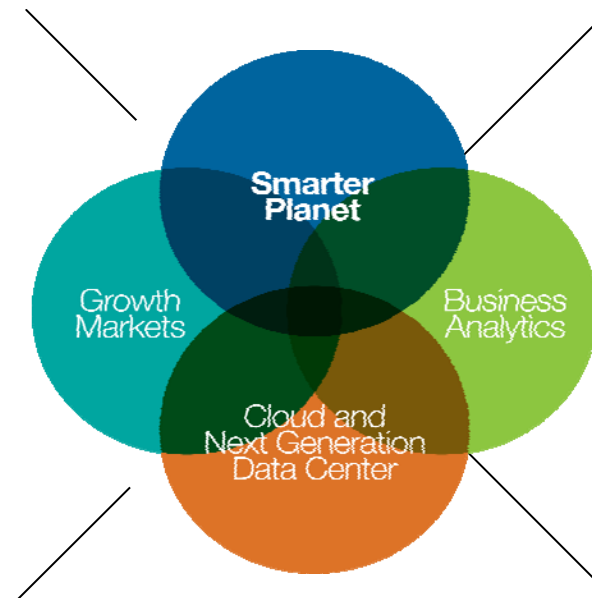
3Q YTD Revenue up >20% yr/yr

Growth Markets

3Q YTD Revenue up 7% yr/yr @CC

Business Analytics

3Q YTD Revenue up 14% yr/yr

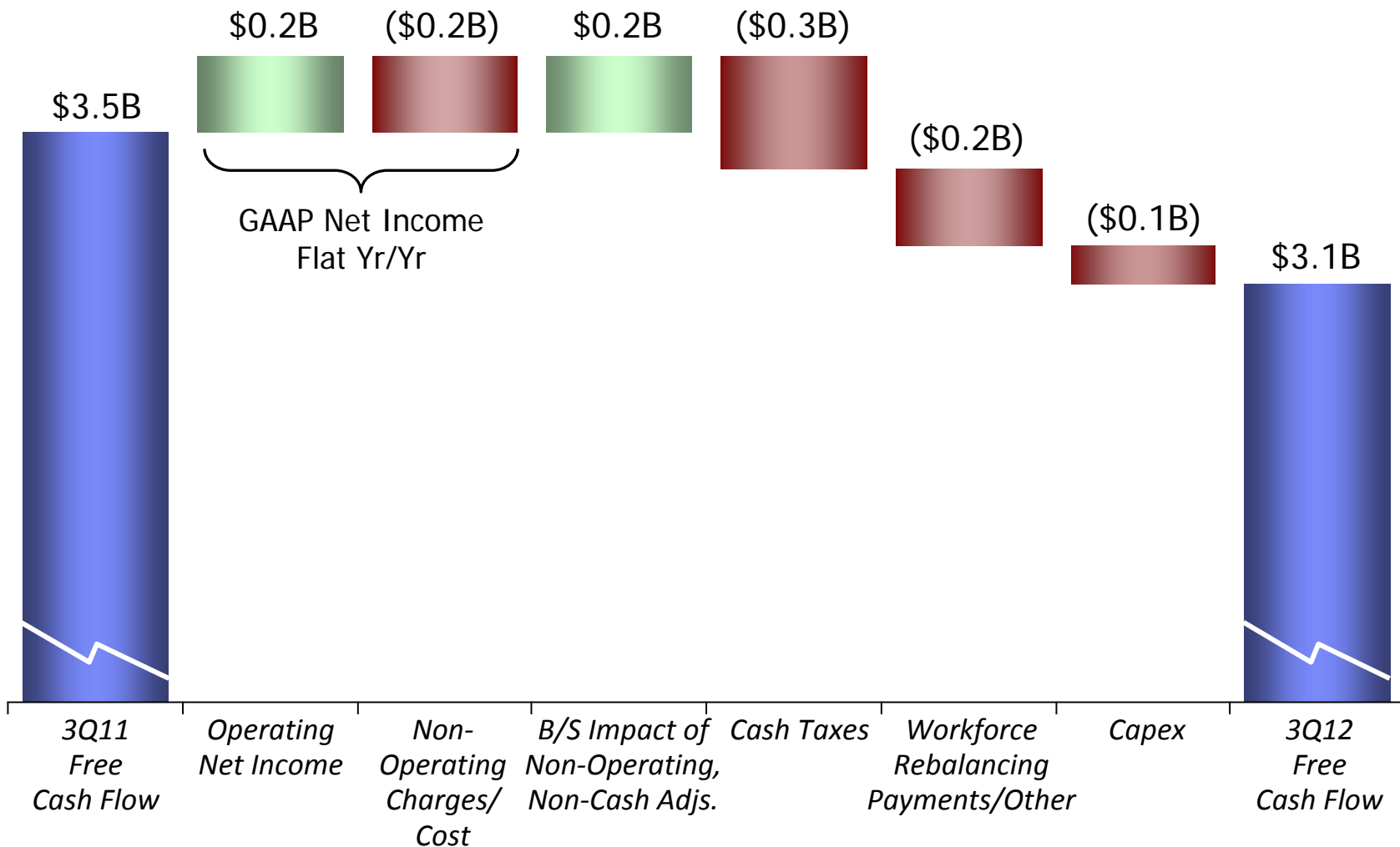


Cloud

3Q YTD Revenue > Full Year 2011

Continued strength in our key growth initiatives

Free Cash Flow Bridge – 3Q11 to 3Q12





Cash Flow Analysis

\$ in Billions	<u>3Q12</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>YTD</u> <u>3Q12</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.5	(\$0.2)	\$13.2	\$0.5
Less: Global Financing Receivables	<u>0.3</u>	<u>0.1</u>	<u>1.2</u>	<u>(0.9)</u>
Net Cash from Operations (excluding GF Receivables)	4.2	(0.3)	12.0	1.4
Net Capital Expenditures	<u>(1.0)</u>	<u>(0.1)</u>	<u>(3.3)</u>	<u>(0.3)</u>
Free Cash Flow (excluding GF Receivables)	3.1	(0.3)	8.7	1.0
Acquisitions	(0.3)	(0.3)	(2.3)	(2.0)
Divestitures	0.6	0.6	0.6	0.6
Dividends	(1.0)	(0.1)	(2.8)	(0.2)
Share Repurchases	(3.0)	0.5	(9.0)	2.5
Non-GF Debt	0.7	0.6	2.3	1.2
Other (includes GF A/R & GF Debt)	<u>1.0</u>	<u>0.6</u>	<u>2.9</u>	<u>(2.3)</u>
Change in Cash & Marketable Securities	\$1.1	\$1.5	\$0.3	\$0.7

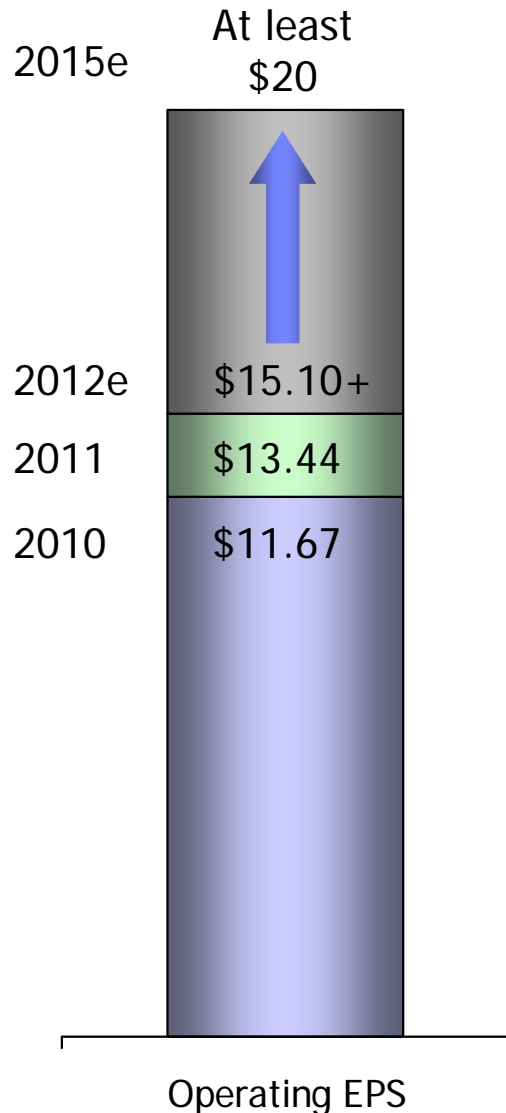


Balance Sheet Summary

\$ in Billions	<u>Sept. 11</u>	<u>Dec. 11</u>	<u>Sept. 12</u>
Cash & Marketable Securities	\$11.3	\$11.9	\$12.3
Non-GF Assets*	67.5	69.4	71.2
Global Financing Assets	31.4	35.1	32.3
Total Assets	110.2	116.4	115.8
Other Liabilities	57.6	64.9	60.4
Non-GF Debt*	7.4	8.0	10.3
Global Financing Debt	22.8	23.3	23.3
Total Debt	30.2	31.3	33.7
Total Liabilities	87.8	96.2	94.1
Equity	22.4	20.2	21.7
Non-GF Debt / Capital	28%	32%	36%
Global Financing Leverage	7.1	7.2	7.1

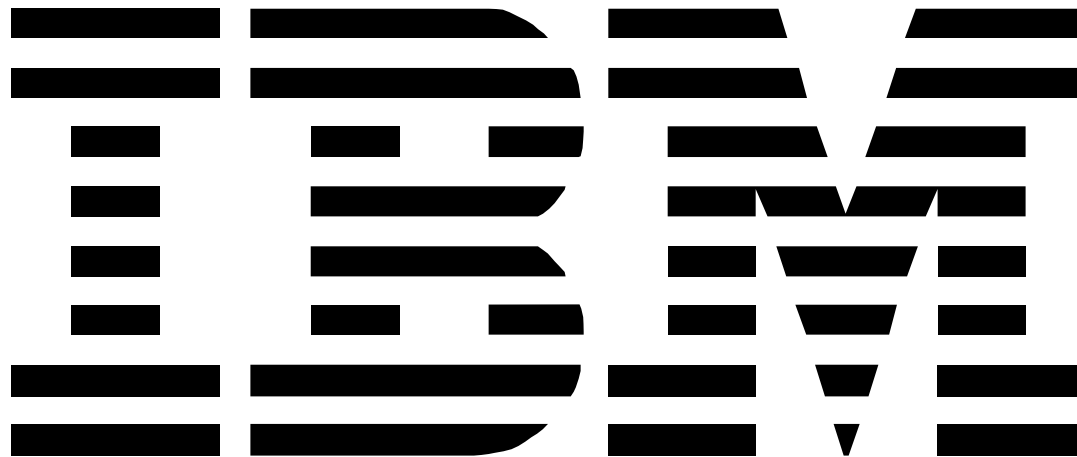
* Includes eliminations of inter-company activity

3Q 2012 Summary



- Double-digit operating EPS growth
- Strong performance in key solution areas of Smarter Planet, Business Analytics and Cloud
- Annuity businesses provide solid base of revenue and profit
- Productivity and mix contribute to gross, pre-tax, and net margin expansion
- Strong balance sheet and cash generation enable shareholder returns

Continue to expect 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, Workforce Rebalancing, Retail Store Solutions (RSS) Divestiture
 - Reconciliation of Operating Earnings Per Share
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2012
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2011
 - Reconciliation of Operating EPS Bridge 3Q11 to 3Q12
 - Reconciliation of Operating EPS Bridge 1H11 to 1H12
 - Reconciliation of Revenue Growth
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2012
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2011
 - Reconciliation of B/(W) Yr/Yr Expense Drivers – 3Q12
 - Reconciliation of Free Cash Flow (excluding GF Receivables)
 - Reconciliation of Debt-to-Capital Ratio

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q12</u>	<u>Yr/Yr</u>	<u>2Q12</u>	<u>Yr/Yr</u>	<u>3Q12</u>	<u>Yr/Yr</u>	<u>10/15 Spot</u>	<u>@ 10/15 Spot</u>	
								<u>4Q12</u>	<u>FY12</u>
Euro	0.76	(4%)	0.78	(12%)	0.80	(13%)	0.77	(4%)	(8%)
Pound	0.64	(2%)	0.63	(3%)	0.63	(2%)	0.62	2%	(1%)
Yen	79	4%	80	2%	79	(1%)	79	(2%)	1%
Revenue Impact - Pts		(1 pts)	(4 pts)		(4 pts)			~(1 pts)	~(2 pts)

<u>3Q12</u>	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$24.7	(5%)
Currency Impact	(0.9)	(4 pts)
Revenue @CC	\$25.7	(2%)

Supplemental Segment Information – 3Q 2012

Supplemental Revenue Information

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

Supplemental Backlog / Signings Information

	<u>\$ in Billions</u>		<u>Backlog</u>	
	<u>3Q12</u>	<u>Yr/Yr</u>	<u>@CC</u>	
<i>Global Services</i>				
Total Backlog	\$138	1%	1%	
<u>Change in Backlog due to Currency</u>				
Quarter-to-Quarter	\$2			
Year-to-Year	(\$1)			
Outsourcing Backlog	\$89	(1%)	Flat	
<u>\$ in Billions</u>		<u>Signings</u>		
<i>Global Services</i>	<u>3Q12</u>	<u>Yr/Yr</u>	<u>@CC</u>	
Outsourcing	\$7.3	26%	30%	
- GTS O/S, GBS O/S (AMS)				
Transactional	6.0	(8%)	(6%)	
- ITS, Consulting & AMS SI (incl. US Federal)				
Total Signings	\$13.3	8%	11%	

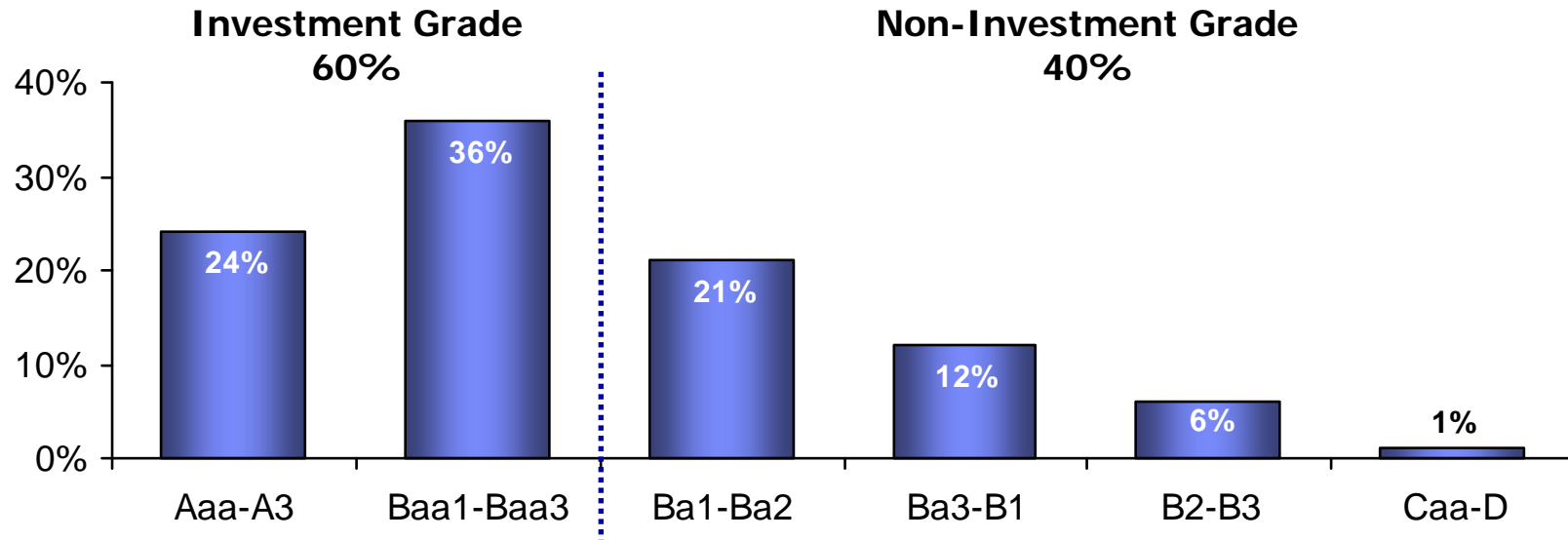
Note: Actual backlog calculated using September 30 currency spot rates

Supplemental Segment Information – 3Q 2012

<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	(20%)	(19%)	↓	=		WebSphere Family	2%	5%
Power Systems	(2%)	(1%)	↓	↑		Information Management	(1%)	3%
System x	(5%)	(3%)	↓	↓		Tivoli	5%	9%
Storage	(10%)	(8%)	↓	↓		Lotus	(10%)	(7%)
Total Systems excl. RSS	(8%)	(6%)	↓			Rational	<u>(16%)</u>	<u>(13%)</u>
Microelectronics OEM	(25%)	(25%)	↓			Key Branded Middleware	(1%)	3%
Total Sys & Tech excl. RSS	(11%)	(9%)	↓			Other Middleware	<u>(6%)</u>	<u>(2%)</u>
Retail Store Solutions	(79%)	(79%)	↑			Total Middleware	(2%)	2%
						Operating Systems	Flat	4%
						Other Software/Services	<u>7%</u>	<u>10%</u>
						Total Software	(1%)	3%

Global Financing Portfolio

3Q12 – \$25.1B Net External Receivables

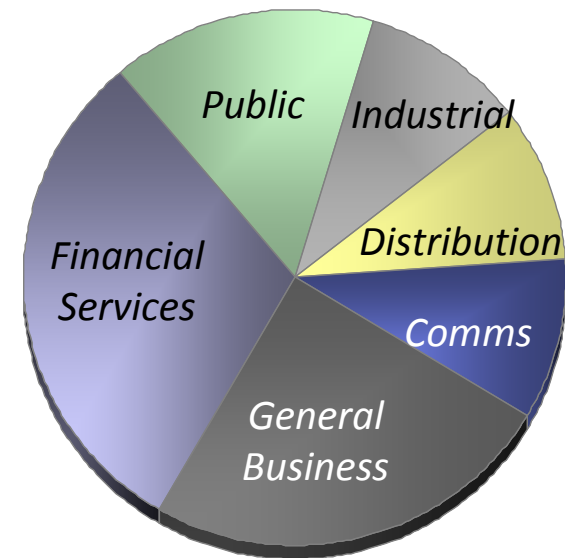


	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Identified Loss Rate	0.9%	0.8%	1.0%
Anticipated Loss Rate	0.5%	0.5%	0.3%
Reserve Coverage	1.3%	1.3%	1.3%
Client Days Delinquent Outstanding	2.9	2.6	2.7
Commercial A/R > 30 days	\$36M	\$33M	\$46M

Revenue by Key Industry Sales Unit

\$ in Billions

		<u>B/(W) Yr/Yr</u>	
	<u>3Q12</u>	<u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.2	(3%)	1%
Public	3.7	(3%)	(1%)
Industrial	2.3	(6%)	(2%)
Distribution	2.2	(10%)	(6%)
Communications	2.3	(7%)	(4%)
General Business	5.8	(2%)	3%
Total IBM	\$24.7	(5%)	(2%)



Cash Flow (FAS 95)

\$ in Billions	QTD <u>3Q12</u>	QTD <u>3Q11</u>	YTD <u>3Q12</u>	YTD <u>3Q11</u>
Net Income from Operations	\$3.8	\$3.8	\$10.8	\$10.4
Depreciation / Amortization of Intangibles	1.2	1.2	3.5	3.6
Stock-based Compensation	0.2	0.2	0.5	0.5
Working Capital / Other	(1.0)	(0.7)	(2.8)	(3.9)
Global Financing A/R	0.3	0.2	1.2	2.1
Net Cash provided by Operating Activities	4.5	4.7	13.2	12.7
Capital Expenditures, net of payments & proceeds	(1.0)	(1.0)	(3.3)	(3.0)
Divestitures, net of cash transferred	0.6	0.0	0.6	0.0
Acquisitions, net of cash acquired	(0.3)	(0.1)	(2.3)	(0.2)
Marketable Securities / Other Investments, net	(0.2)	0.2	0.1	2.3
Net Cash used in Investing Activities	(1.0)	(0.8)	(4.9)	(0.9)
Debt, net of payments & proceeds	1.2	0.2	2.4	1.1
Dividends	(1.0)	(0.9)	(2.8)	(2.6)
Common Stock Repurchases	(3.0)	(3.4)	(9.0)	(11.5)
Common Stock Transactions - Other	0.3	0.5	1.2	2.0
Net Cash used in Financing Activities	(2.5)	(3.7)	(8.2)	(10.9)
Effect of Exchange Rate changes on Cash	0.0	(0.6)	(0.2)	(0.3)
Net Change in Cash & Cash Equivalents	\$1.0	(\$0.4)	\$0.0	\$0.6

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. 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.

Workforce Rebalancing

Management presents certain financial results excluding the effects of charges in connection with workforce rebalancing actions. Management believes that presenting financial information regarding pre-tax income, pre-tax income margin, and SG&A expense without this item is more representative of operational performance and provides additional insight into, and clarifies the basis for, historical and/or future performance, which may be more useful to investors.

Retail Store Solutions (RSS) divestiture

In the third quarter, the company completed the first two phases of the sale of its RSS business. Management presents certain financial results excluding the effects of the RSS divestiture. Management believes that presenting financial information regarding revenue without this item is more representative of operational performance and provides additional insight into, and clarifies the basis for, historical and/or future performance, which may be more useful to investors.

Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

	2012 Expectations
IBM GAAP EPS	\$14.29+
IBM Operating EPS (Non-GAAP)	\$15.10+

Adjustments

Acquisition-Related Charges *	\$0.47
Amortization of Purchased Intangibles	\$0.45
Other Acquisition-Related Charges	\$0.02
Non-Operating Retirement-Related Items **	\$0.34

* Includes acquisitions closed as of 9/30/2012

** Includes \$0.11 charge in 3Q 2012 for additional obligation associated with UK pension plan

The above serves to reconcile the Non-GAAP financial information contained in "3Q 2012" and "3Q 2012 Summary" discussions in the company's earnings presentation. See Slide 27 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 – 3Q 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	\$11,732	\$95	\$67	\$11,894
SG&A	5,908	(88)	(196)	5,625
RD&E	1,534	0	5	1,539
Other Income & Expense	(606)	(5)	0	(611)
Total Operating Expense & Other Income	6,657	(92)	(191)	6,374
Pre-Tax Income	5,074	188	258	5,520
Tax ***	1,251	47	67	1,364
Net Income	3,824	141	191	4,155
Diluted Earnings Per Share	\$3.33	\$0.12	\$0.17	\$3.62

* 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 "3Q 2012," "Key Financial Metrics" and "Expense Summary" discussions in the company's earnings presentation. See Slide 27 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 – 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, 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

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The above serves to reconcile the Non-GAAP financial information contained in the "3Q 2012," "Key Financial Metrics" and "Expense Summary" discussions in the company's earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Operating EPS Bridge 3Q11 to 3Q12

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
3Q11 EPS	\$3.19	0.11	(0.01)	\$3.28
Revenue growth @ actual	(0.17)	0.00	0.00	(0.17)
Margin expansion	0.16	0.00	0.17	0.34
Share repurchases	0.15	0.01	0.01	0.17
3Q12 EPS	\$3.33	0.12	0.17	\$3.62

* 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 – 3Q11 to 3Q12" discussion in the company's earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Operating EPS Bridge 1H11 to 1H12

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
1H11 EPS	\$5.30	0.20	0.00	\$5.50
Revenue growth @ actual	(0.08)	(0.01)	0.00	(0.09)
Margin expansion	0.42	0.02	0.12	0.56
Share repurchases	0.31	0.01	0.00	0.32
1H12 EPS	\$5.95	0.22	0.12	\$6.29

* 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 – 1H11 to 1H12" discussion in the company's earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

	<u>As Rptd</u>	<u>@CC</u>
	<u>3Q12 Yr/Yr</u>	
Japan	(1%)	Flat
North America - Software	4%	4%
Russia	10%	11%
India	(6%)	13%
China	20%	19%
Brazil	(17%)	(3%)
Growth Markets – ITS	9%	13%
Japan – GBS	1%	2%
North America – GBS	(6%)	(6%)
Europe – GBS	(13%)	(6%)
Tivoli Storage Software	9%	14%
Tivoli Security	6%	9%
Total Systems (including RSS)	(11%)	(9%)
	<u>YTD 3Q12 Yr/Yr</u>	
Growth Markets	3%	7%

The above serves to reconcile the Non-GAAP financial information contained in the "3Q 2012," "Revenue by Geography," "Services Segments," "Software Segment," "Systems and Technology Segment," "Growth Initiatives," and "3Q 2012 Summary" discussions in the company's earnings presentation. See Slide 27 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 – 3Q 2012

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	47.4%	0.4 pts	0.3 pts	48.1%
PTI Margin	20.5%	0.8 pts	1.0 pts	22.3%
Tax Rate ***	24.6%	0.0 pts	0.1 pts	24.7%
Net Income Margin	15.5%	0.6 pts	0.8 pts	16.8%

* 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" and "Revenue and Gross Profit Margin by Segment" discussions in the company's earnings presentation. See Slide 27 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 – 3Q 2011

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related 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 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 "Key Financial Metrics" discussions in the company's earnings presentation. See Slide 27 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 – 3Q12

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
SG&A			
Currency	4 pts	0 pts	4 pts
Acquisitions	(3 pts)	0 pts	(2 pts)
Base	(6 pts)	3 pts	(3 pts)
RD&E			
Currency	3 pts	0 pts	3 pts
Acquisitions	(4 pts)	0 pts	(4 pts)
Base	2 pts	1 pts	3 pts
Operating Expense & Other Income			
Currency	7 pts	0 pts	8 pts
Acquisitions	(3 pts)	0 pts	(3 pts)
Base	2 pts	3 pts	5 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 27 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>9/30/12</u>	3 months ended <u>9/30/11</u>
Net Cash from Operations	\$20.3	\$4.7
Less: Global Financing Receivables	<u>(1.7)</u>	<u>(0.2)</u>
Net Cash from Operations (excluding GF Receivables)	22.0	4.5
Net Capital Expenditures	<u>(4.4)</u>	<u>(1.0)</u>
Free Cash Flow (excluding GF Receivables)	\$17.6	\$3.5

The above serves to reconcile the Non-GAAP financial information contained in the "Key Financial Metrics," and "Free Cash Flow Bridge – 3Q11 to 3Q12" discussion in the company's earnings presentation. See Slide 28 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>Sept. 11</u>	<u>Dec. 11</u>	<u>Sept. 12</u>
Non-Global Financing Debt / Capital	28%	32%	36%
IBM Consolidated Debt / Capital	57%	61%	61%

The above serves to reconcile the Non-GAAP financial information contained in the "Balance Sheet Summary" discussion in the company's earnings presentation. See Slide 28 of this presentation for additional information on the use of these Non-GAAP financial measures.

