

4Q 2010 Earnings Presentation

January 18, 2011

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Forward Looking Statements

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

4Q 2010 Financial Highlights

Revenue	\$29.0B	+7% yr/yr
EPS	\$4.18	+16% yr/yr
Free Cash Flow*	\$8.7B	+\$1.5B yr/yr

* Excluding Global Financing Receivables

- Best constant currency revenue growth in a decade, led by Hardware and Software
 - Systems & Technology +22% yr/yr @CC with growth in all platforms
 - Software +12% yr/yr @CC, excluding PLM divestiture
 - Growth markets +13% yr/yr @CC
- Services backlog of \$142B, up \$4B yr/yr and \$7B qtr/qtr excluding currency
- Continued margin expansion

32nd consecutive quarter of EPS growth



4Q 2010 Financial Summary

\$ in Billions, except EPS	4Q10	B/(W) Yr/Yr
	Revenue	\$29.0
@CC		7%
GP %	49.0%	0.8 pts
Expense	\$7.3	(7%)
Pre-Tax Income	\$7.0	9%
PTI Margin	24.0%	0.5 pts
Tax Rate	24.4%	0.2 pts
Net Income	\$5.3	9%
Shares (Diluted) (M)	1,258.4	6%
EPS	\$4.18	16%

Strong revenue growth drives profit performance

4Q Earnings Presentation Agenda

➤ 4Q Highlights

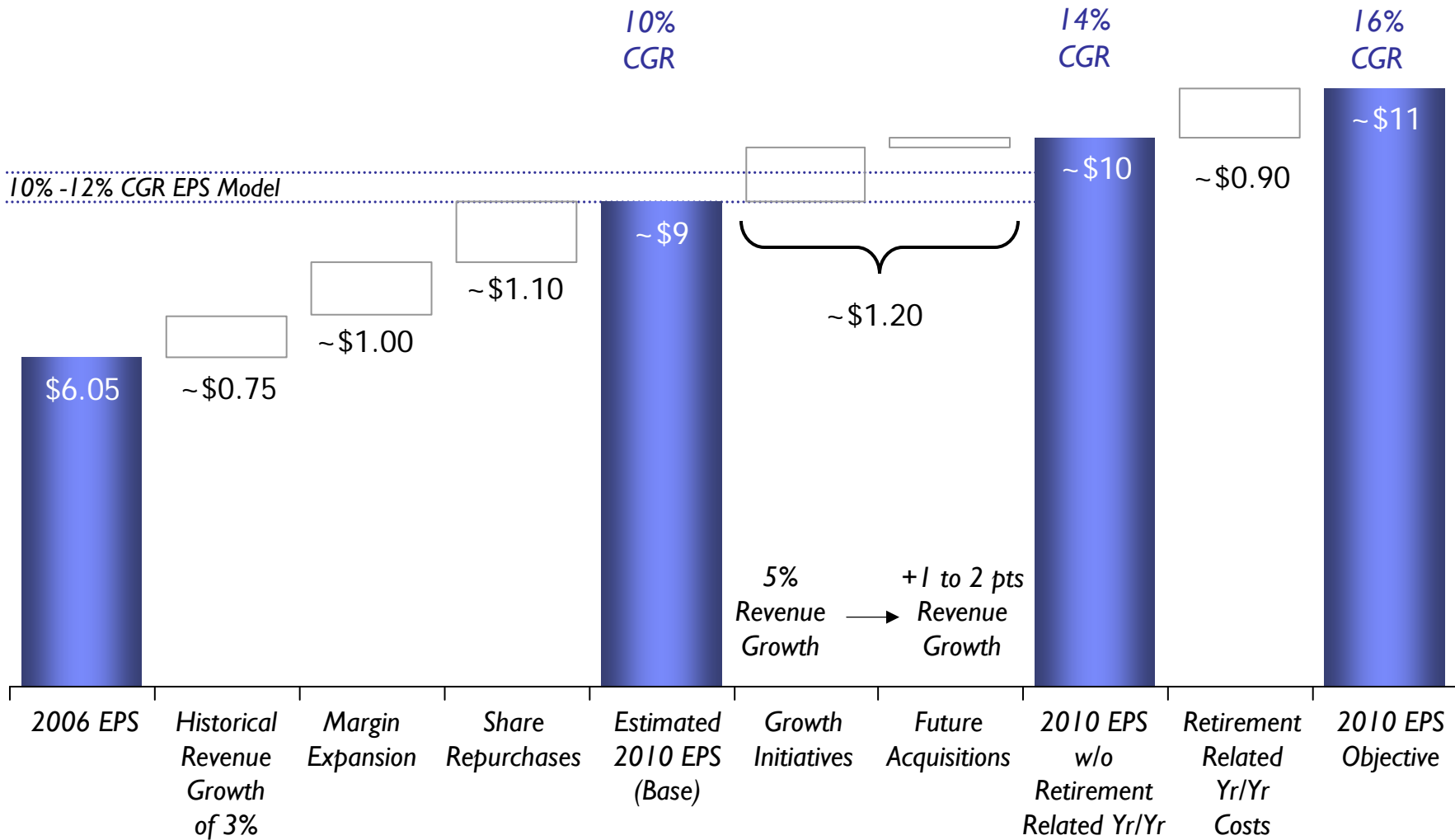
➤ 2010 Roadmap Recap

➤ 4Q Results and FY 2010 Summary

➤ 2015 Roadmap



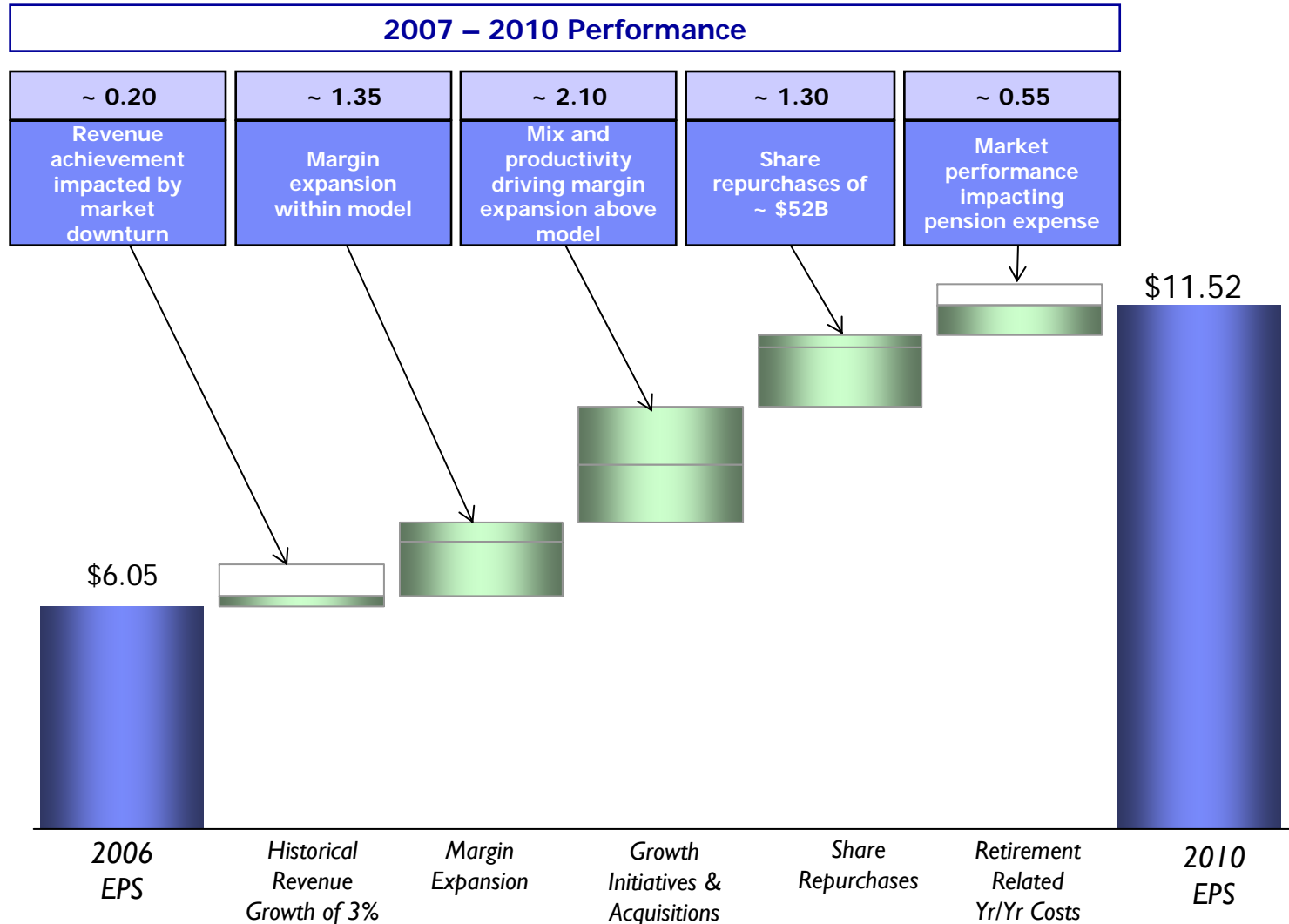
2010 Long-Term EPS Roadmap (May 2007)



Note: 2006 EPS reflects the adoption of amendments to ASC 260, "Earnings Per Share"

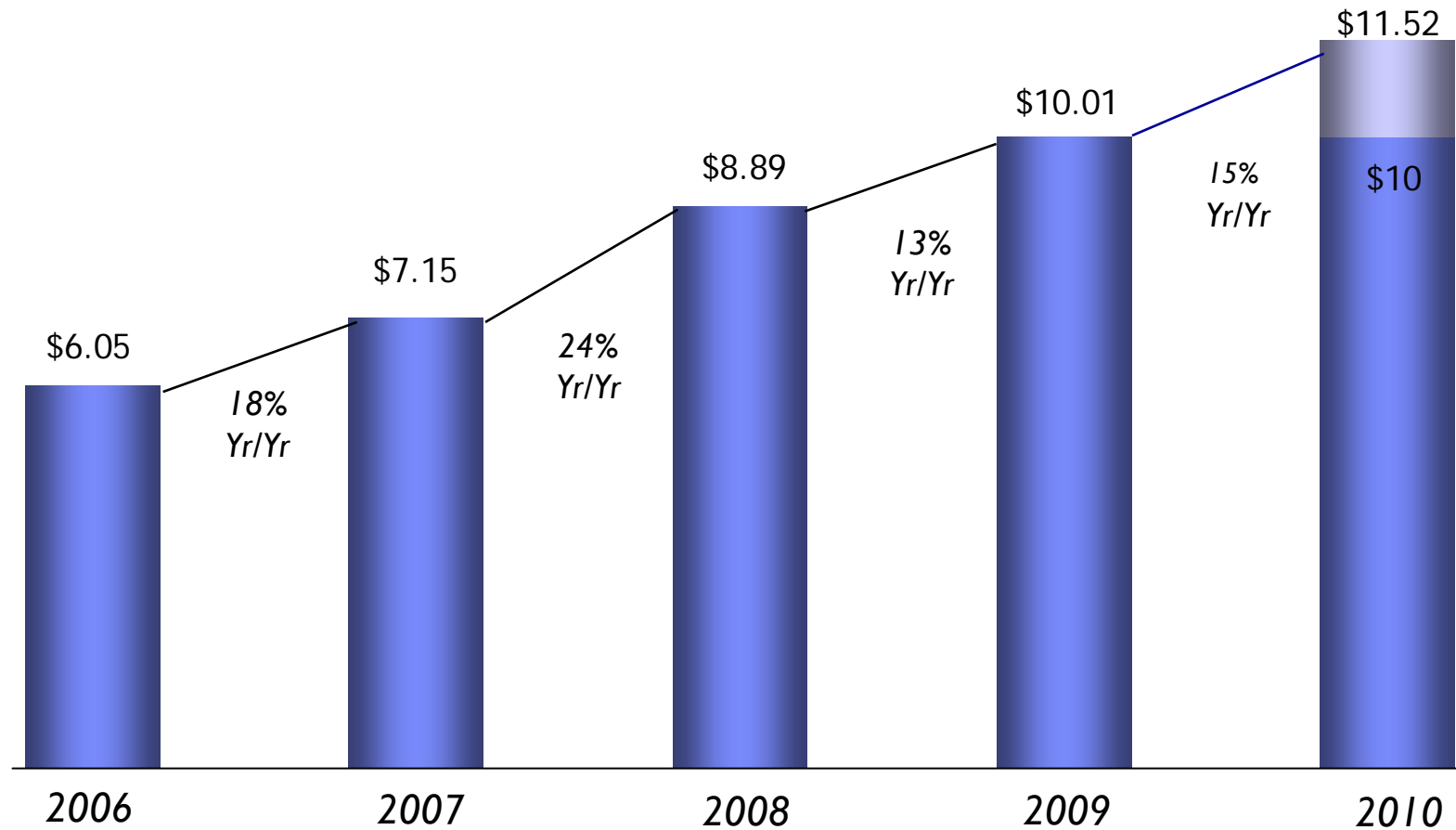


2010 EPS Roadmap Results



Note: 2006 EPS reflects the adoption of amendments to ASC 260, "Earnings Per Share"

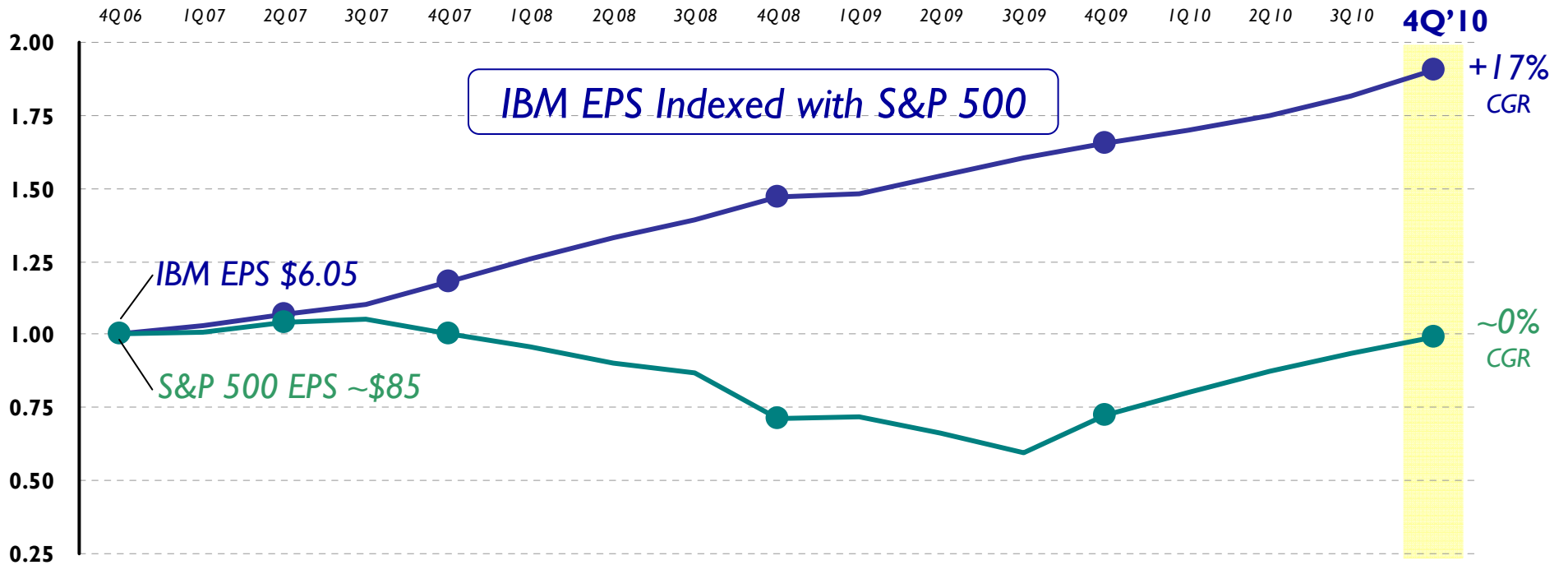
2010 EPS Roadmap Annual Progress



Exceeded high end of objective by \$0.52



Success of IBM's Business Model



Created \$47B of Shareholder Value

\$36B Market Capitalization + \$1 IB Dividends Paid

Total Return

62%

(3%)

Source: Bloomberg/CapitalIQ

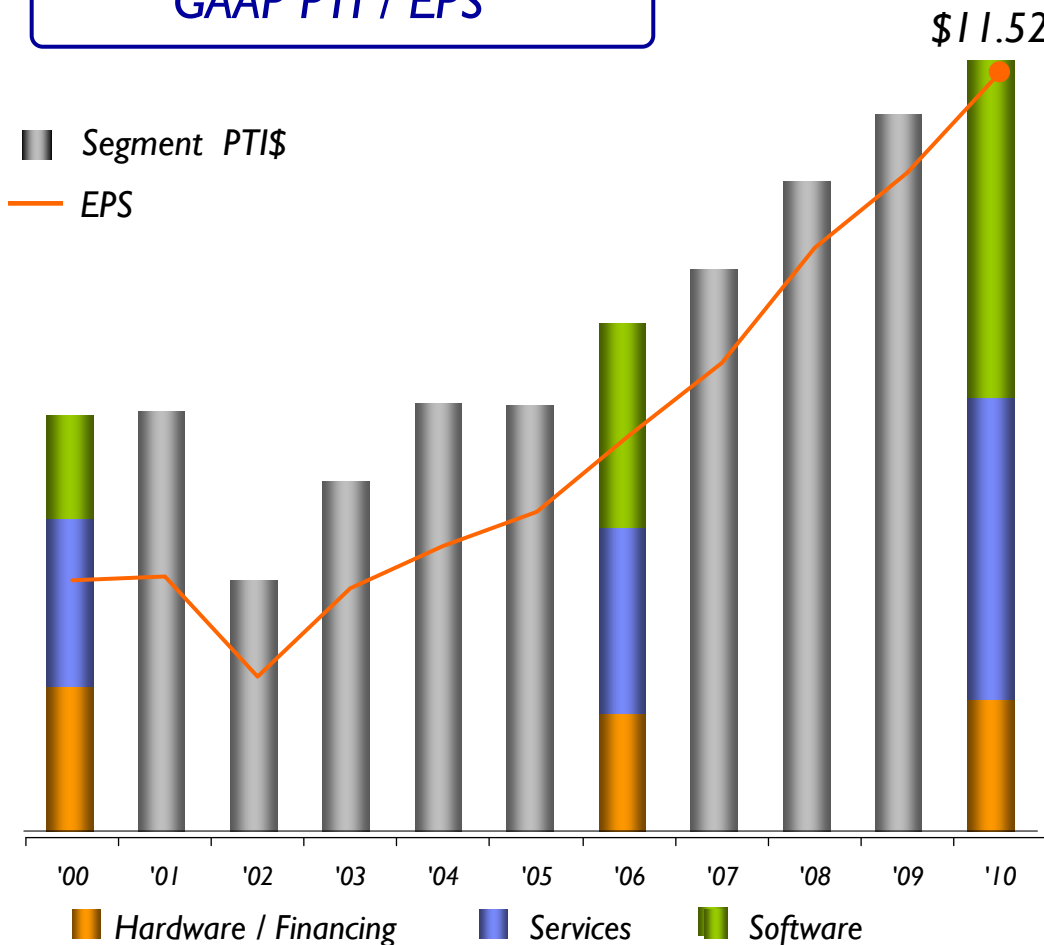
■ IBM

■ S&P 500

IBM Transformation

GAAP PTI / EPS

Highlights since 2000



- Added \$10B revenue in growth markets
 - 21% of geo revenue
- Tripled Software profit to \$9.1B
 - 44% of segment profit, up from 25%
- Added \$10B of Pre-Tax Income
- EPS nearly tripled
- Generated \$109B Free Cash Flow
- Returned \$107B to shareholders
- Invested \$32B to acquire 116 companies

Sum of external segment pre-tax income not equal to IBM pre-tax income
2000 & 2001 segments not restated for stock based compensation

Strong performance through the decade driven by IBM transformation

4Q Earnings Presentation Agenda

➤ 4Q Highlights

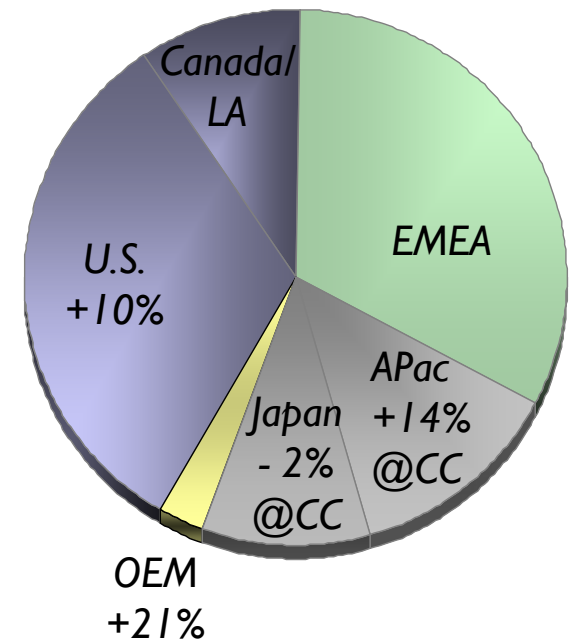
➤ 2010 Roadmap Recap

➤ 4Q Results and FY 2010 Summary

➤ 2015 Roadmap

Revenue by Geography

\$ in Billions	B/(W) Yr/Yr		
	4Q10	Rptd	@CC
Americas	\$12.2	9%	9%
Europe/ME/A	9.5	(2%)	4%
Asia Pacific	6.6	14%	7%
OEM	0.8	21%	21%
IBM	\$29.0	7%	7%
<i>Major Markets</i>		4%	5%
<i>Growth Markets</i>		15%	13%
<i>BRIC Countries</i>		19%	17%

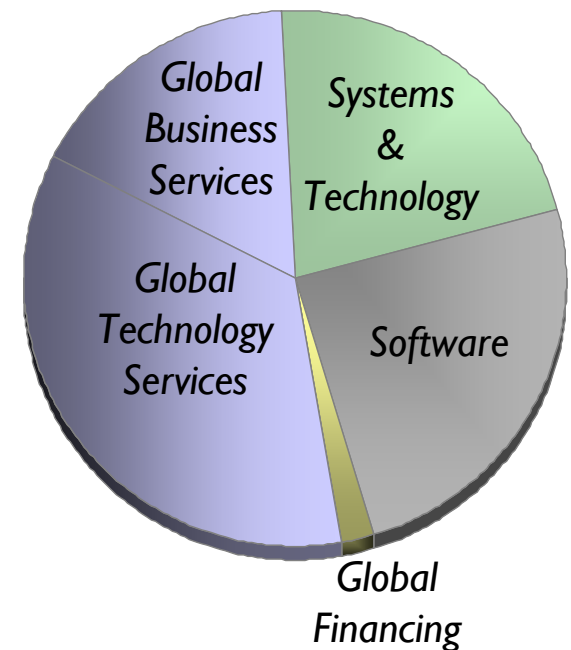


Strong major market and growth market performance

Revenue by Segment

\$ in Billions

	<u>4Q10</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Global Technology Services	\$10.2	1%	1%
Global Business Services	4.8	4%	4%
Software *	7.0	11%	12%
Systems & Technology	6.3	21%	22%
Global Financing	0.6	1%	1%
Total IBM	\$29.0	7%	7%



* Software revenue growth excludes PLM; growth including divested PLM is 7% as reported and 8% @CC

Transaction businesses drove revenue performance



Expense Summary

\$ in Billions	<u>4Q10</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Base</u>
SG&A	\$6.0	(7%)	2 pts	(4 pts)	(5 pts)
RD&E	1.6	(8%)			
IP and Development Income	(0.3)	2%			
Other (Income)/Expense	0.0	70%			
Interest Expense	0.1	(26%)			
Total Expense & Other Income	\$7.3	(7%)	2 pts	(4 pts)	(5 pts)

* Includes total expense for acquisitions made in the last twelve months

Expense growth in line with revenue growth



Services Segments

Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q10</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$10.2	1%	1%
Gross Margin (External)	34.7%	(1.1 pts)	
PTI Margin	15.8%	0.9 pts	

Global Business Services (GBS)

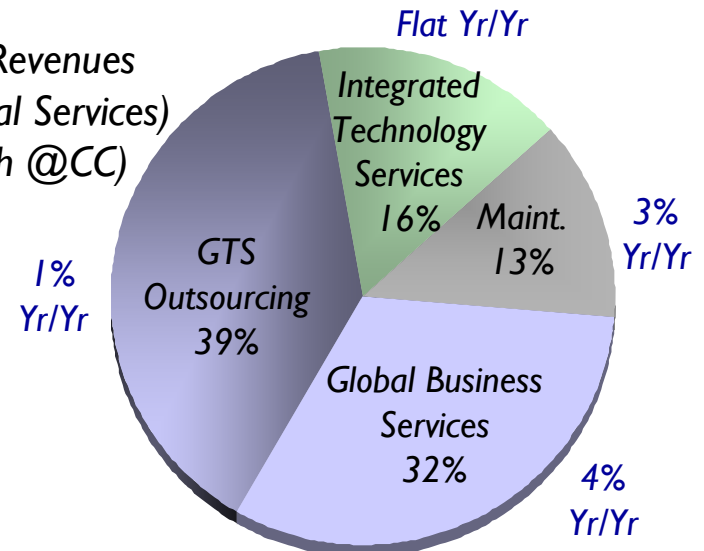
\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q10</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.8	4%	4%
Gross Margin (External)	28.3%	(2.0 pts)	
PTI Margin	15.0%	(0.9 pts)	

Global Services Signings

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q10</u>	<u>Rptd</u>	<u>@CC</u>
Outsourcing	\$14.1	24%	23%
- GTS O/S, Appl. O/S (AMS)			
Transactional	8.0	8%	9%
- ITS, Consulting, AMS SI			
Total Signings	\$22.1	18%	18%

Total Backlog	\$142	\$5	\$4
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4Q10 Revenues
(% of Total Services)
(Growth @CC)

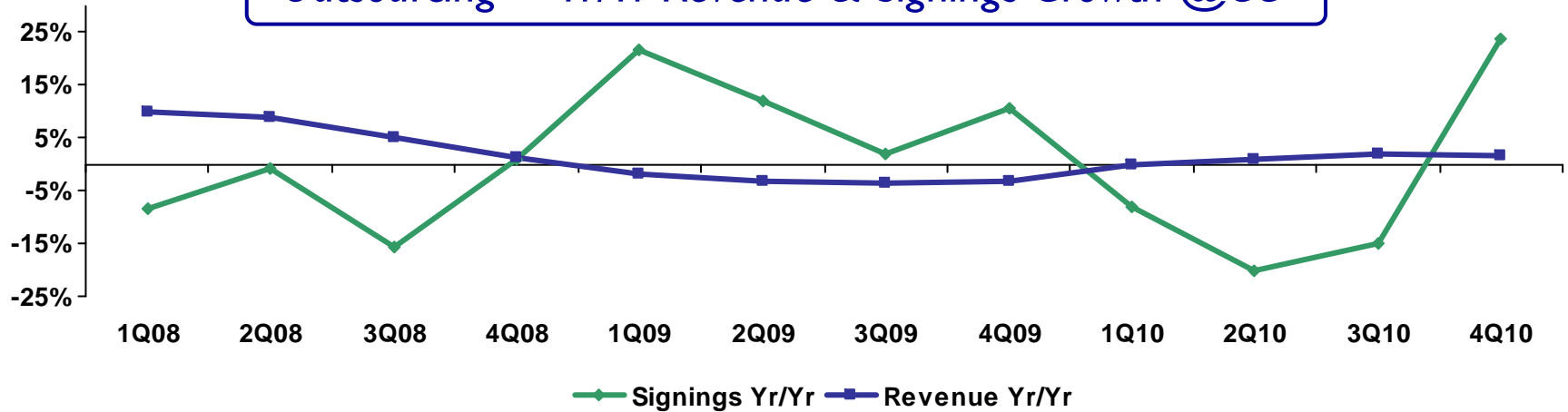


Services backlog up \$4B yr/yr, \$7B qtr/qtr @CC

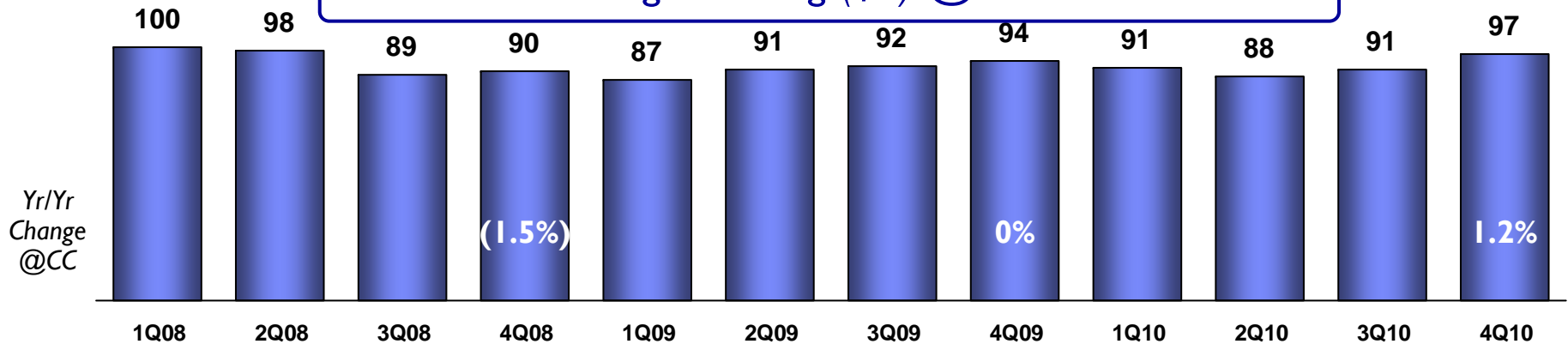


Outsourcing Services Trending

Outsourcing* - Yr/Yr Revenue & Signings Growth @CC

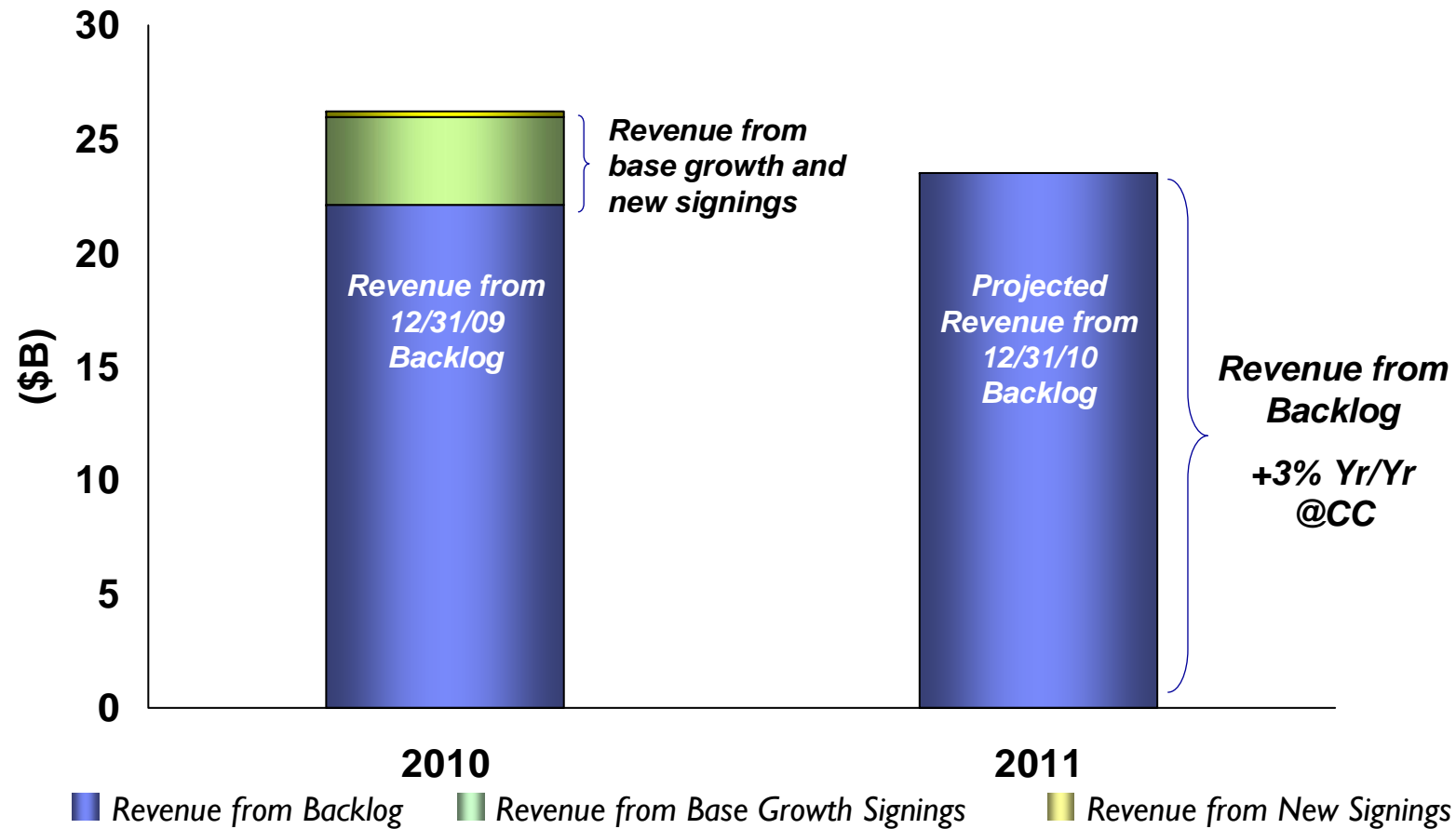


Outsourcing* Backlog (\$B) @ actual rates



* Outsourcing includes Strategic Outsourcing, Business Transformation Outsourcing and Application Outsourcing (excludes U.S. Federal Business)

Outsourcing Services Backlog Run Out

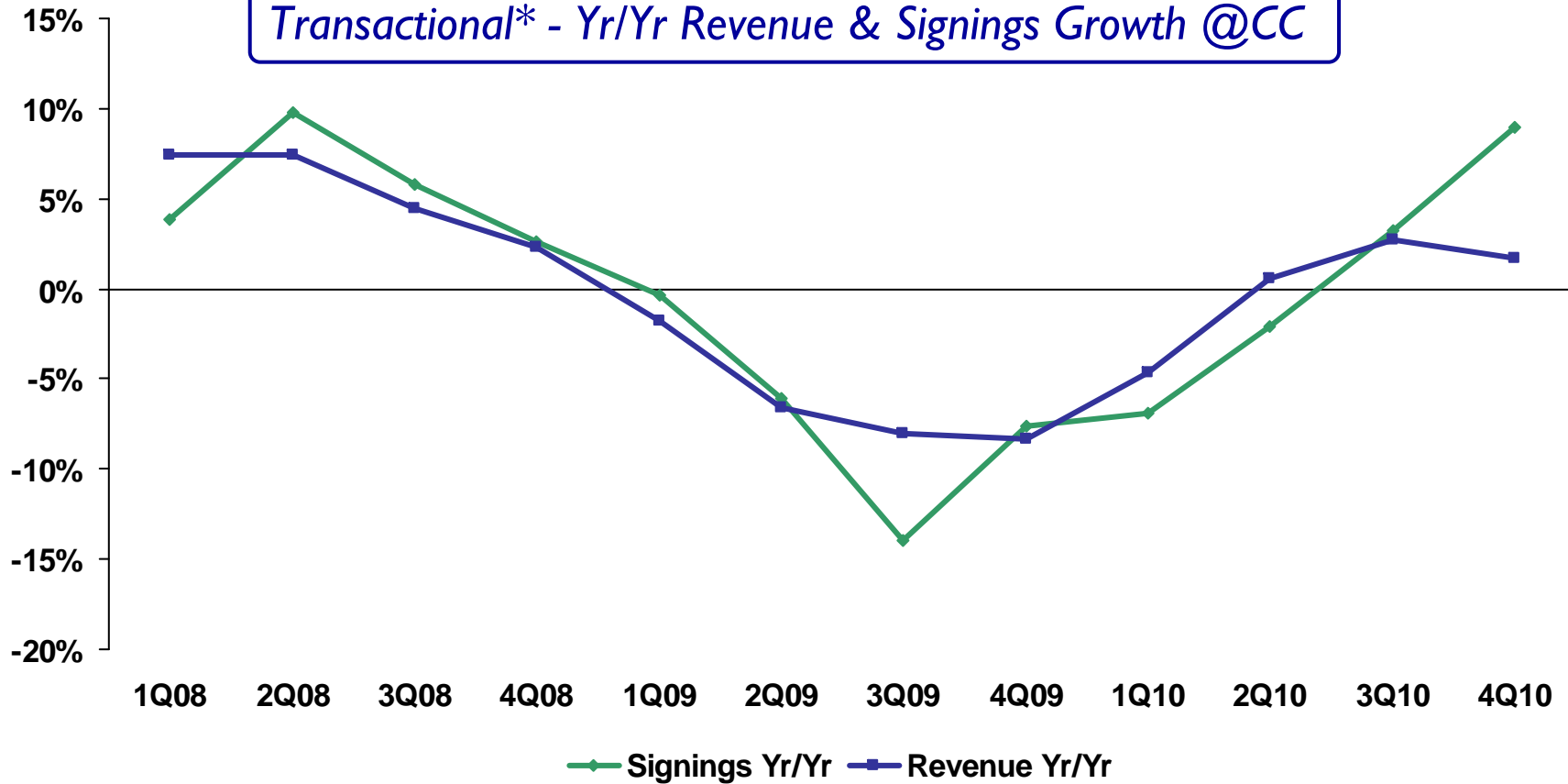


Note: See supplemental Services chart for additional details on analysis

Projected 2011 Revenue from Outsourcing Backlog +3% yr/yr @CC

Transactional Services Trending

Transactional* - Yr/Yr Revenue & Signings Growth @CC

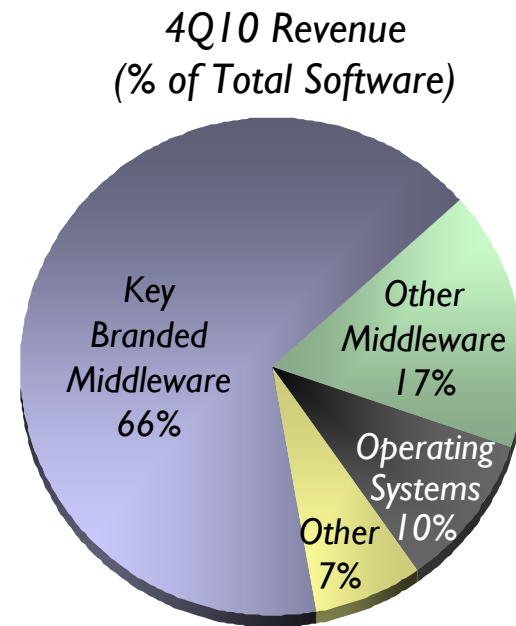


* Transactional includes Integrated Technology Services and Consulting and Systems Integration (includes U.S. Federal Business)

Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q10</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External) - Growth excl. PLM	\$7.0	11%	12%
<i>Growth incl. PLM</i>		7%	8%
Gross Margin (External)	88.5%	0.9 pts	
PTI Margin	40.6%	(0.9 pts)	

<u>4Q10 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	32%	34%
Information Management	10%	12%
Tivoli	12%	14%
Lotus	(3%)	(1%)
Rational	10%	12%
Key Branded Middleware	13%	15%
Total Middleware	10%	11%
Total Software excl. PLM	11%	12%



Strong Branded Middleware growth



Systems & Technology Segment

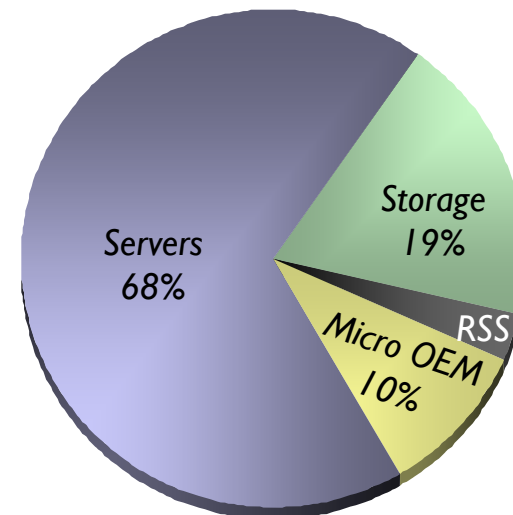
\$ in Billions

	4Q10	B/(W) Yr/Yr	
		Rptd	@CC
Revenue (External)	\$6.3	21%	22%
Gross Margin (External)	43.9%	1.4 pts	
PTI Margin	18.6%	3.2 pts	

4Q10 Revenue

	Yr/Yr	
	Rptd	@CC
System z	69%	72%
Power Systems	2%	3%
System x	18%	18%
Storage	8%	10%
Retail Store Solutions	26%	27%
Total Systems	20%	21%
Microelectronics OEM	30%	30%
Total Systems & Technology	21%	22%

4Q10 Revenue
(% of Total Sys & Tech)



Best Revenue growth in over a decade



Cash Flow Analysis

\$ in Billions	<u>4Q10</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>FY10</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$6.8	\$0.3	\$19.5	(\$1.2)
Less: Global Financing Receivables	<u>(3.0)</u>	<u>(1.1)</u>	<u>(0.7)</u>	<u>(2.6)</u>
Net Cash from Operations (excluding GF Receivables)	9.8	1.4	20.3	1.4
Net Capital Expenditures	<u>(1.1)</u>	<u>0.0</u>	<u>(4.0)</u>	<u>(0.2)</u>
Free Cash Flow (excluding GF Receivables)	8.7	1.5	16.3	1.2
Acquisitions	(2.9)	(1.9)	(5.9)	(4.7)
Divestitures	0.1	0.1	0.1	(0.3)
Dividends	(0.8)	(0.1)	(3.2)	(0.3)
Share Repurchases	(3.6)	(0.5)	(15.4)	(7.9)
Non-GF Debt	0.7	(0.7)	2.3	7.0
Other (includes GF A/R & GF Debt)	<u>(1.6)</u>	<u>(0.2)</u>	<u>3.5</u>	<u>1.8</u>
Change in Cash & Marketable Securities	0.6	(1.9)	(2.3)	(3.4)

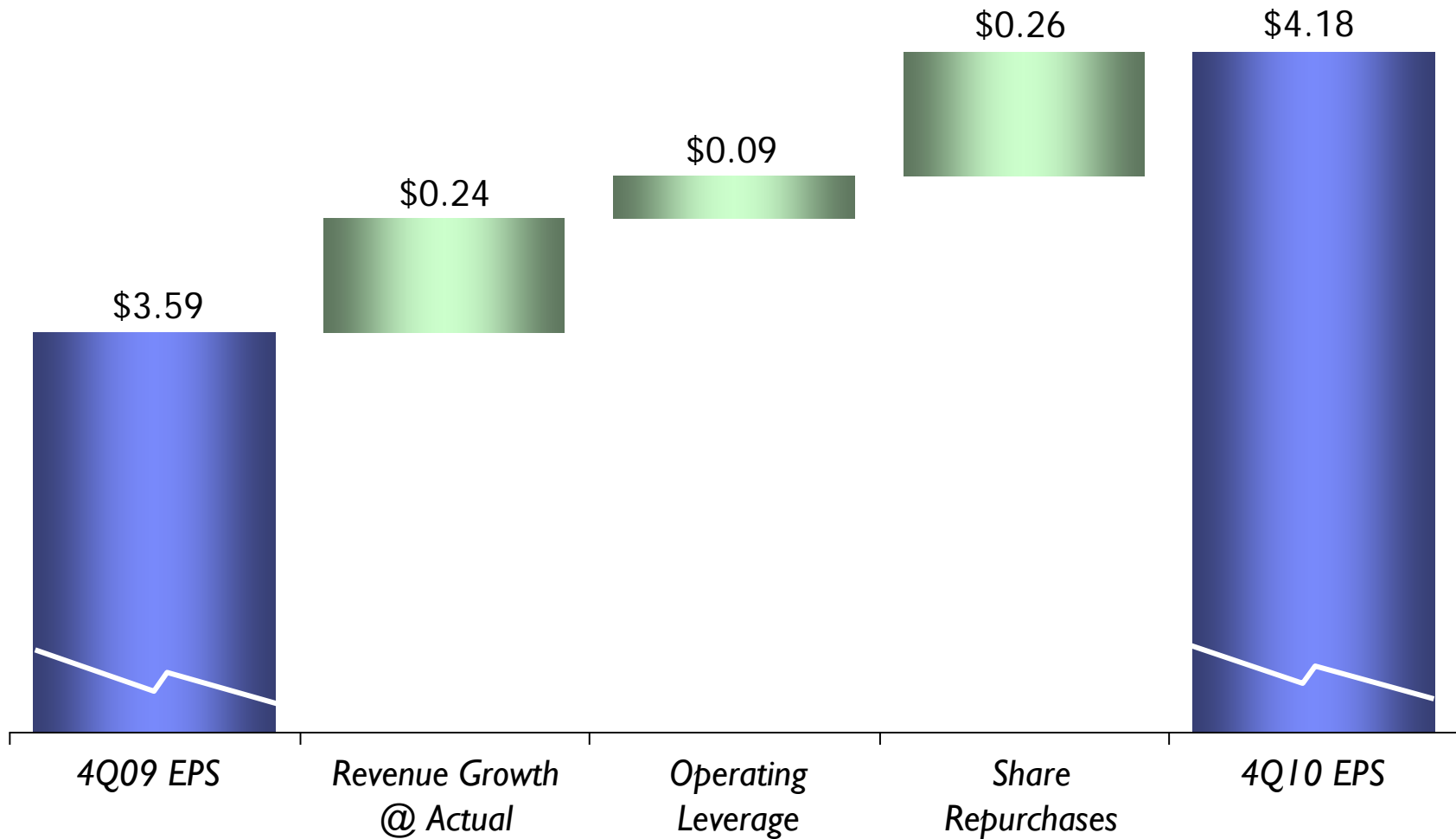


Balance Sheet Summary

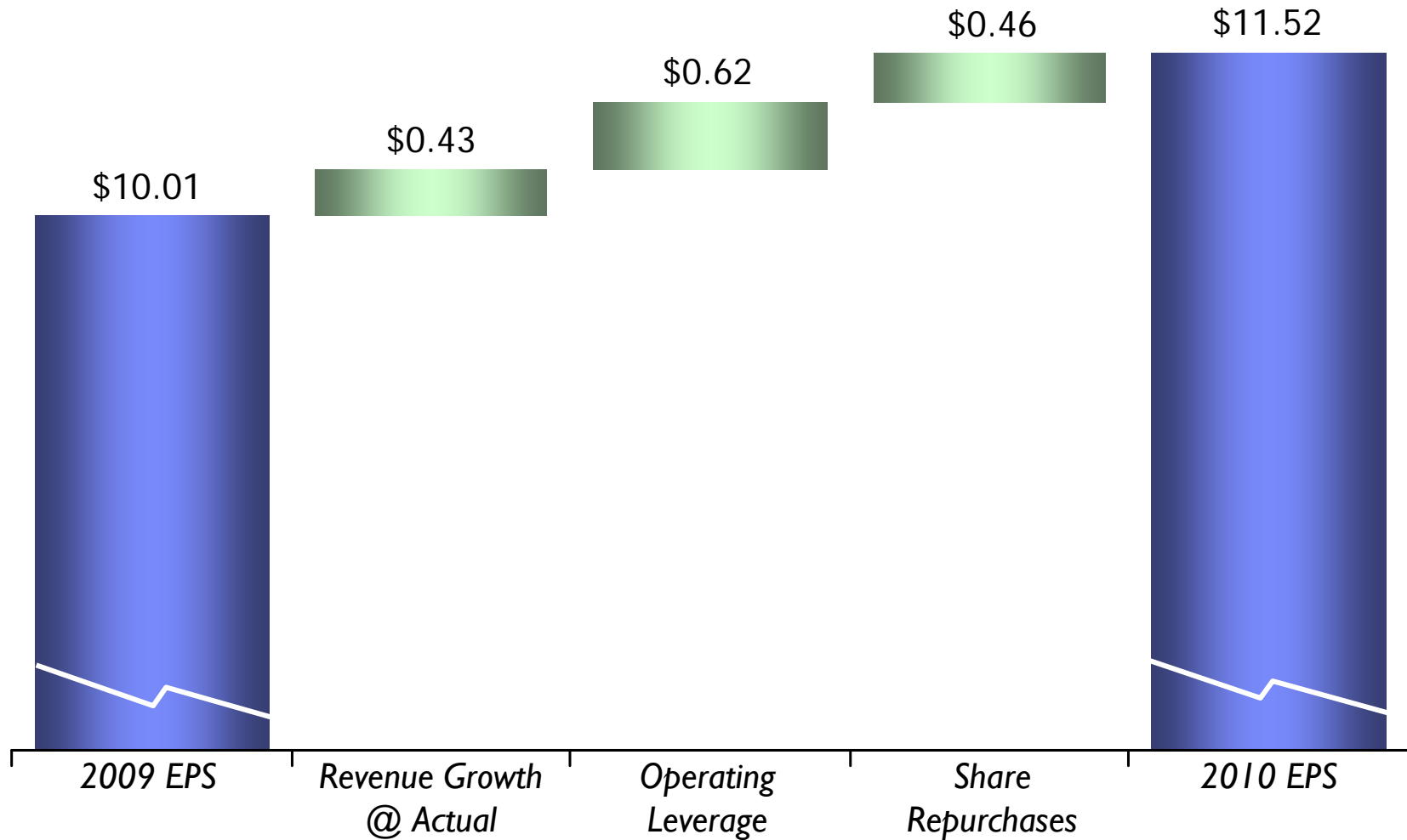
\$ in Billions	<u>Dec. 09</u>	<u>Dec. 10</u>
Cash & Marketable Securities	\$14.0	\$11.7
Non-GF Assets*	61.7	67.3
Global Financing Assets	33.3	34.5
Total Assets	109.0	113.5
Other Liabilities	60.2	61.7
Non-GF Debt*	3.7	5.8
Global Financing Debt	22.4	22.8
Total Debt	26.1	28.6
Total Liabilities	86.3	90.3
Equity	22.8	23.2
Non-GF Debt / Capital	16%	23%
Global Financing Leverage	7.1	7.0

* Includes eliminations of inter-company activity

EPS Bridge – 4Q09 to 4Q10



EPS Bridge – FY09 to FY10



2010 FY Summary

Revenue	\$99.9B	+4% yr/yr
EPS	\$11.52	+15% yr/yr
Free Cash Flow*	\$16.3B	+\$1.2B yr/yr

* Excluding Global Financing Receivables

- Improved revenue growth, led by transaction business
 - Systems & Technology +11% yr/yr
 - Software +8% yr/yr @CC, excluding PLM divestiture
- Leveraged growth initiatives
 - Growth markets +11% yr/yr @CC, 21% of IBM's revenue
 - Business Analytics +15% yr/yr
- Continued margin expansion
 - Pre-tax and net margin expansion of 0.8 pts, above model level
- Invested in innovation
 - Introduced new mainframe, Power7
 - Acquired 17 companies, @\$6B spend
- Returned capital to shareholders
 - \$15B share repurchase
 - Increased dividend 18%

EPS of \$11.52 exceeded high end of 2010 Roadmap objective by \$.52

4Q Earnings Presentation Agenda

- 4Q Highlights
- 2010 Roadmap Recap
- 4Q Results and FY 2010 Summary

➤ 2015 Roadmap

Transition to Operating Earnings (Non-GAAP)

Implementation Schedule

May 2010	Introduced with 2015 roadmap objectives; effective 1Q 2011
2Q'10 Earnings	Provide supplemental information on IBM current period operating earnings
3Q'10	Provide historic information on IBM and segment level operating profit
January 2011	Introduce 2011 guidance on an operating earnings basis
Starting 1Q'11 Earnings	Earnings presentation to address operating earnings in addition to GAAP reporting

Merits of Operating Earnings

- ✓ Provides better transparency to operational results and pension plan performance
- ✓ Improves visibility to management decisions and operational effects
- ✓ Enables comparison to peers
- ✓ Allows for long term view of business

Operating Earnings will reflect the operational performance of the business

Operating Earnings

- *Separate operating & non-operating elements of retirement-related charges*
- *Exclude amortization of purchased intangibles and acquisition-related charges*
- *No change to balance sheet and free cash flow*

	<u>2010</u>
IBM Operating EPS (Non-GAAP)	\$11.67
IBM GAAP EPS	\$11.52

Adjustments

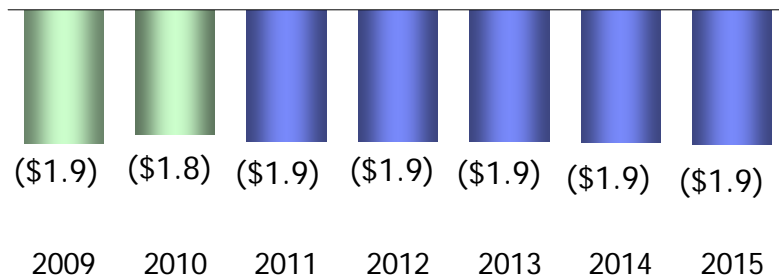
Acquisition-Related Charges	\$0.34
Amortization of Purchased Intangibles	\$0.31
Other Acquisition-Related Charges	\$0.03
Non-Operating Retirement-Related Charges	(\$0.20)

Moving to operating earnings (Non-GAAP) objectives for 2015 Roadmap

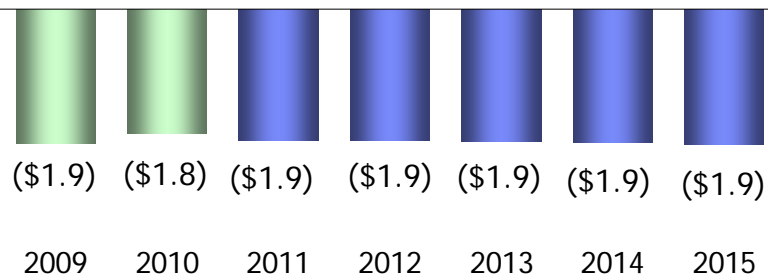
Retirement-Related Charges – Operating

Operating

Pre-Tax Retirement-Related (Cost) / Income (\$B)



Retirement-Related Cash Drivers (\$B)



Actual
 Projection based on Dec '10 assumptions



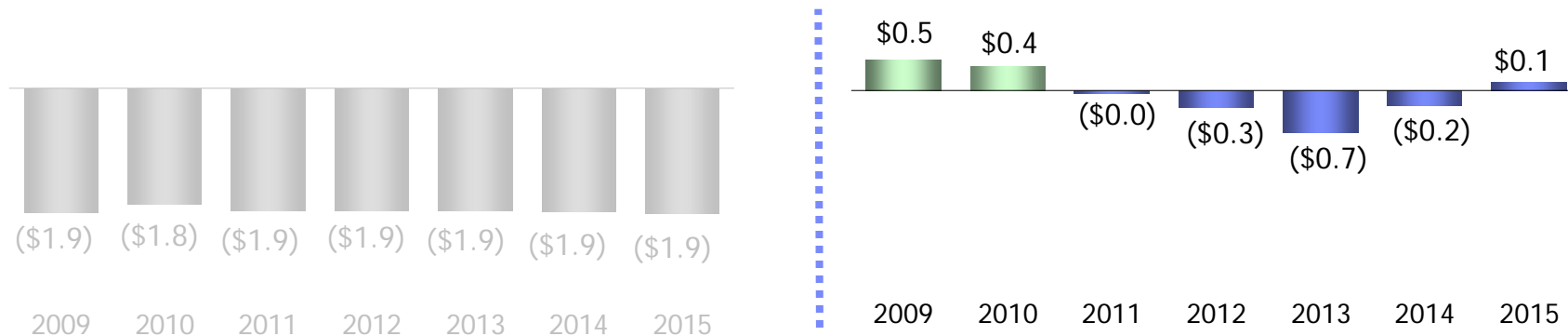
Retirement-Related Charges – Non-Operating

	<u>Funded Status *</u>		<u>Expected ROA</u>	<u>Actual ROA</u>	<u>Discount Rate</u>
	<u>WW</u>	<u>US</u>	<u>WW</u>	<u>WW</u>	<u>WW</u>
YE 2009	99%	101%	7.4%	11.8%	5.2%
YE 2010	99%	101%	7.3%	11.7%	4.7%

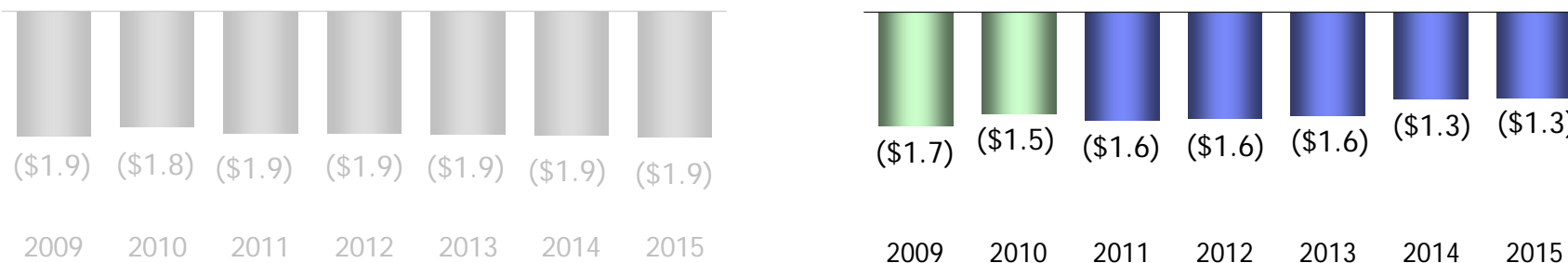
Operating

Non-Operating

Pre-Tax Retirement-Related (Cost) / Income (\$B)



Retirement-Related Cash Drivers (\$B)



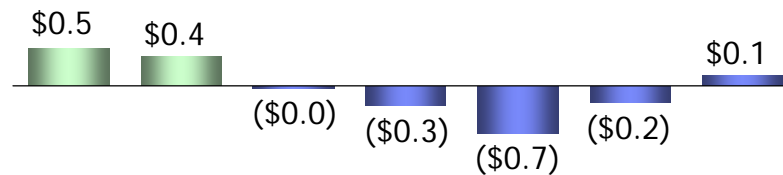
Actual Projection based on Dec '10 assumptions

* Tax-qualified defined benefit plans

Retirement-Related Charges – Non-Operating Yr/Yr

Non-Operating

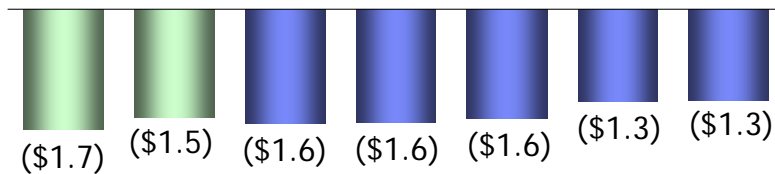
Pre-tax (Cost) / Income (\$B)



B/(W) Y/Y *(\$0.1)* *(\$0.4)* *(\$0.2)* *(\$0.4)* *\$0.4* *\$0.4*

2009 2010 2011 2012 2013 2014 2015

Cash Drivers (\$B)

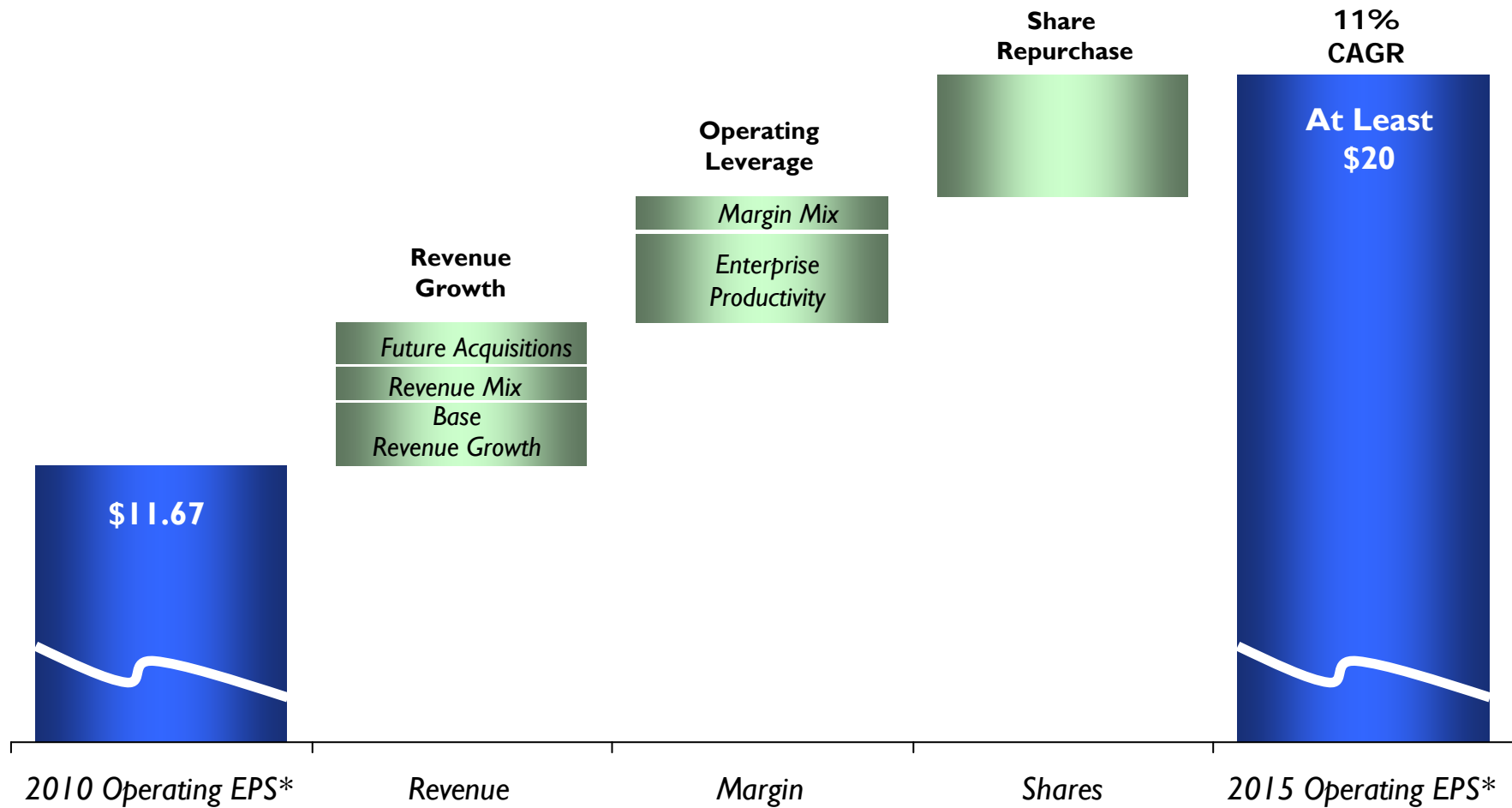


B/(W) Y/Y *\$0.2* *(\$0.1)* *\$0.0* *\$0.1* *\$0.2* *\$0.0*

2009 2010 2011 2012 2013 2014 2015

Actual Projection based on Dec '10 assumptions

2015 Roadmap

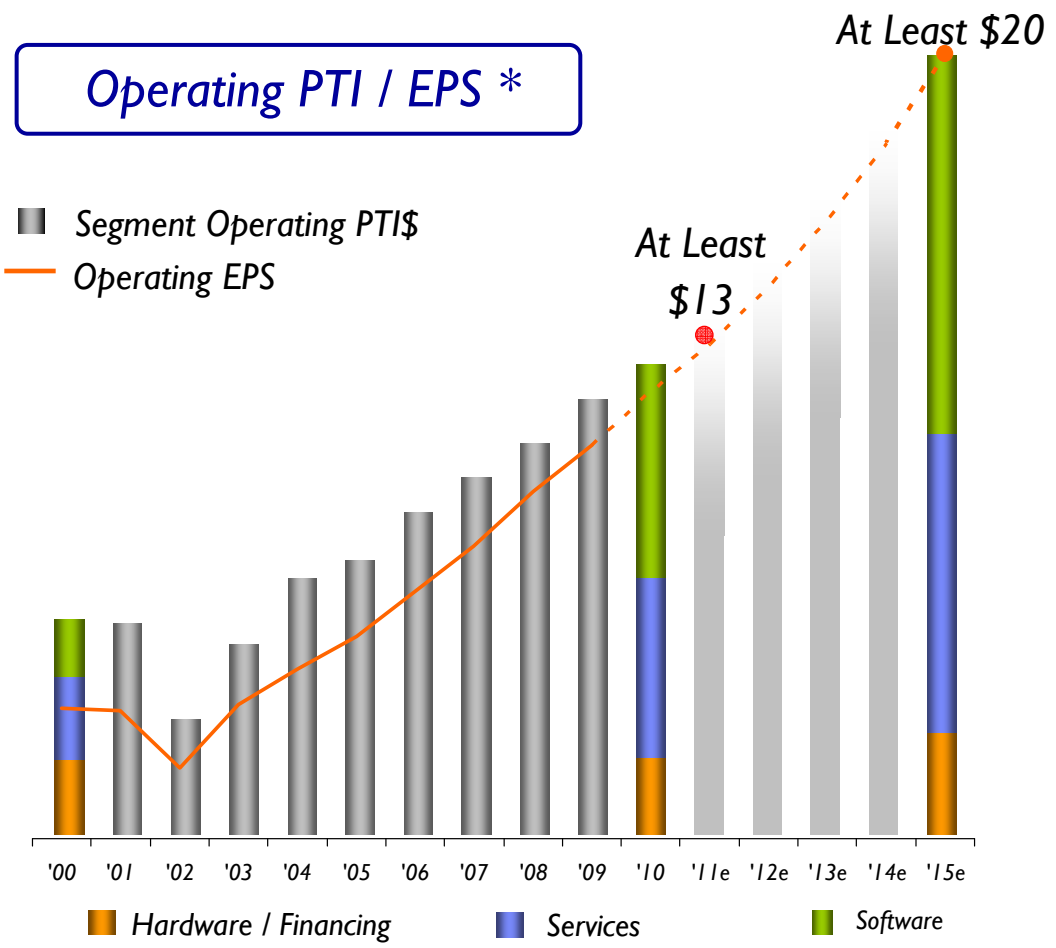


* Non-GAAP: Excludes acquisition-related charges and non-operating retirement-related charges

Model supports balanced EPS performance from revenue, margin and share repurchase



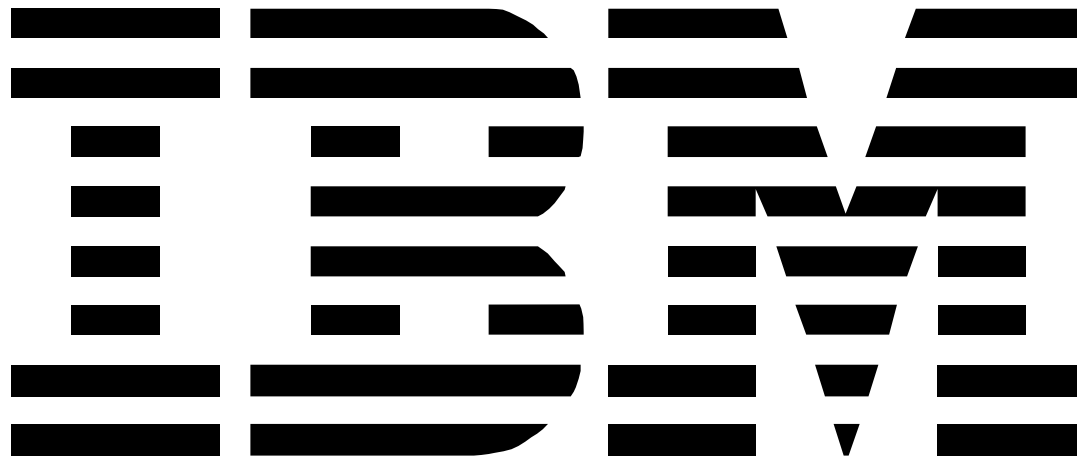
IBM Transformation Continues



* Non-GAAP: Excludes acquisition-related charges and non-operating retirement-related charges

2000 & 2001 segments not restated for stock based compensation
Sum of external segment pre-tax income not equal to IBM pre-tax income

Expect at least \$13.00 of Operating (Non-GAAP) EPS in 2011



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
- Margins by Segment – 4Q 2010
- Financial Summary – FY 2010
- Revenue by Geography – FY 2010
- Revenue by Segment – FY 2010
- Revenue by Key Industry Sales Unit – 4Q and FY 2010
- Expense Summary – FY 2010
- Margins by Segment – FY 2010
- Cash Flow (FAS 95)
- Computation of 2010 Global Financing Return on Equity
- Supplemental Information – Operating Earnings
- Non-GAAP Supplementary Materials
 - Operating (Non-GAAP) Earnings
 - Constant Currency, Cash Flow, Debt-to-Capital Ratio, PLM Sale
 - Reconciliation of Free Cash Flows (excluding GF Receivables)
 - Reconciliation of Revenue Growth
 - Reconciliation of Outsourcing Services Revenue Growth
 - Reconciliation of Transactional Services Revenue Growth
 - Reconciliation of Debt-to-Capital Ratio



Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>3Q10</u>	<u>Yr/Yr</u>	<u>4Q10</u>	<u>Yr/Yr</u>	<u>1/17 Spot</u>	<u>Yr/Yr @ 1/17 Spot</u>			
						<u>1Q11</u>	<u>2Q11</u>	<u>3Q11</u>	<u>4Q11</u>
Euro	0.77	(11%)	0.74	(9%)	0.75	(4%)	4%	3%	(2%)
Pound	0.65	(6%)	0.63	(3%)	0.63	2%	6%	3%	1%
Yen	86	8%	83	8%	83	9%	10%	4%	0%

IBM Revenue Impact

(1 pts)

(1 pts)

1-2 pts

4 pts

2-3 pts

0 pts

	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$29.0	7%
Currency Impact	(0.2)	(1 pts)
Revenue @CC	\$29.2	7%



Supplemental Segment Information – 4Q 2010

<i>Global Services</i>	<u>Revenue Growth</u>		<i>Global Services</i>	<u>Backlog</u>
	<u>Yr/Yr</u>	<u>@CC</u>		<u>4Q10</u>
GTS Outsourcing	1%	1%	Backlog	\$142B
Integrated Tech Services	(1%)	Flat	<u>Change in Backlog due to Currency</u>	
Maintenance	<u>3%</u>	<u>3%</u>	Quarter-to-Quarter	\$1B
Global Technology Services	1%	1%	Year-to-Year	\$2B
Global Business Services	4%	4%		

Notes to Backlog Run Out analysis

1. Analysis includes specific contract run out of contracts over \$25M (~85% of total). Remaining contracts are modeled
2. Analysis assumes 2011 contract erosion equal to 2010 levels

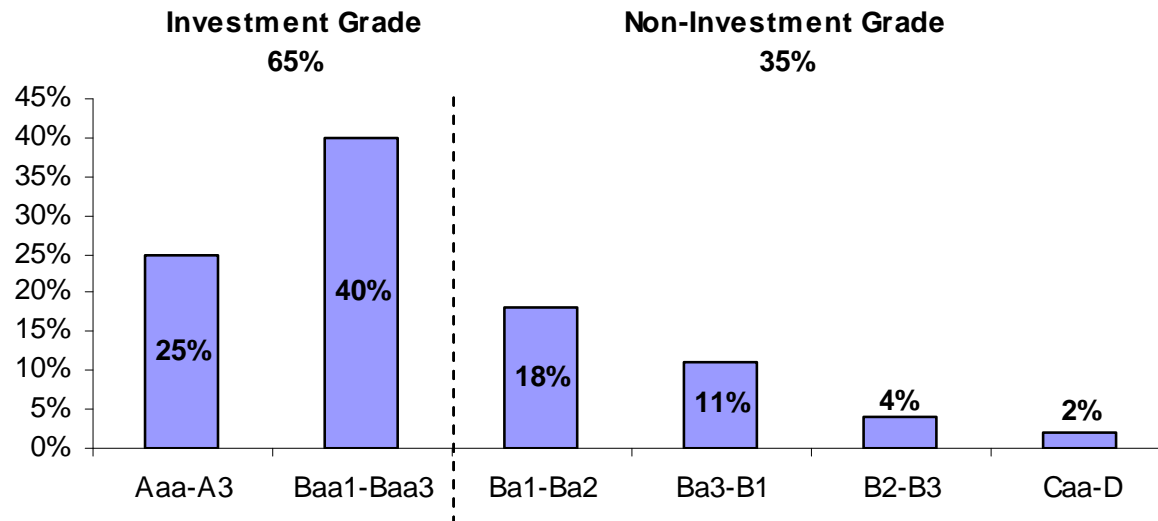


Supplemental Segment Information – 4Q 2010

Systems & Technology	Revenue Growth				Software	Revenue Growth	
	Yr/Yr	@CC	GP%	Share		Yr/Yr	@CC
System z	69%	72%	↓	↑	WebSphere Family	32%	34%
Power Systems	2%	3%	↓	↑	Information Management	10%	12%
System x	18%	18%	↑	↑	Tivoli	12%	14%
Storage	8%	10%	↑	=	Lotus	(3%)	(1%)
Retail Store Solutions	26%	27%	↓	↑	Rational	<u>10%</u>	<u>12%</u>
Total Systems	20%	21%	↑		Key Branded Middleware	13%	15%
Microelectronics OEM	30%	30%	↑		Other Middleware	<u>(3%)</u>	<u>(1%)</u>
Total Systems & Technology	21%	22%	↑		Total Middleware	10%	11%
					Operating Systems	11%	12%
					Other Software/Services	<u>(21%)</u>	<u>(20%)</u>
					Total Software excl. PLM	11%	12%
					Total Software incl. PLM	7%	8%

Global Financing Portfolio

4Q10 – \$26.2B Net External Receivables



	<u>4Q10</u>	<u>3Q10</u>	<u>4Q09</u>
Identified Loss Rate	1.1%	1.6%	1.6%
Anticipated Loss Rate	0.4%	0.3%	0.5%
Reserve Coverage	1.5%	1.9%	2.1%
Client Days Delinquent Outstanding	2.4	3.2	2.4
Commercial A/R > 30 Days	\$20M	\$35M	\$28M



Margins by Segment – 4Q 2010

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>4Q10</u>	<u>B/(W) Yr/Yr Pts</u>	<u>4Q10</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	34.7%	(1.1 pts)	15.8%	0.9 pts
Global Business Services	28.3%	(2.0 pts)	15.0%	(0.9 pts)
Software	88.5%	0.9 pts	40.6%	(0.9 pts)
Systems & Technology	43.9%	1.4 pts	18.6%	3.2 pts
Global Financing	51.8%	(0.1 pts)	47.1%	3.4 pts
Total IBM	49.0%	0.8 pts	24.0%	0.5 pts



Financial Summary – FY 2010

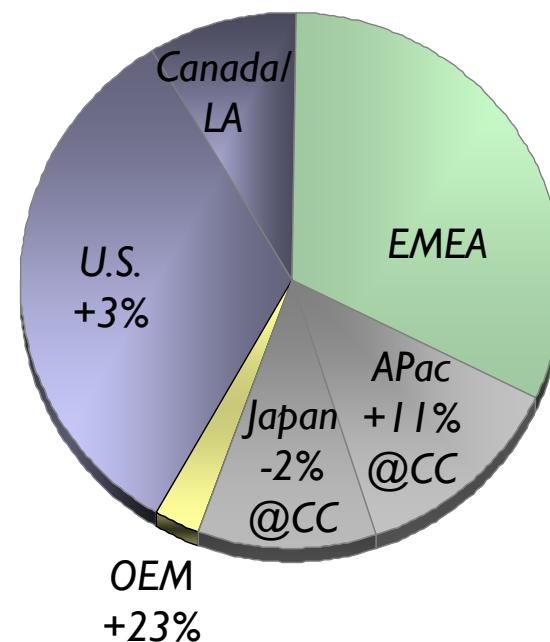
\$ in Billions, except EPS

	<u>FY10</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$99.9	4%
@CC		3%
GP %	46.1%	0.3 pts
Expense	\$26.3	(3%)
Pre-Tax Income	\$19.7	9%
PTI Margin	19.7%	0.8 pts
Tax Rate	24.8%	1.2 pts
Net Income	\$14.8	10%
Shares (Diluted) (M)	1,287.4	4%
EPS	\$11.52	15%

Revenue by Geography – FY 2010

\$ in Billions

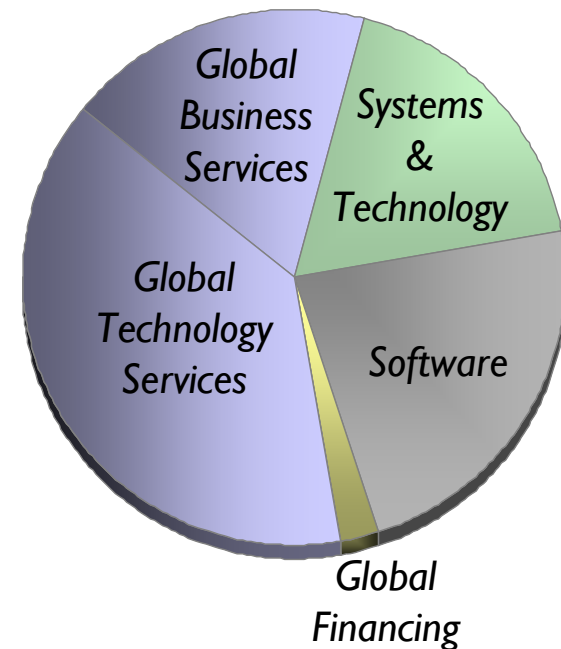
	<u>FY10</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Americas	\$42.0	5%	3%
Europe/ME/A	31.9	(2%)	1%
Asia Pacific	23.2	12%	5%
Total Geographies	\$97.1	4%	3%
IBM	\$99.9	4%	3%
<i>Major Markets</i>		<i>1%</i>	<i>1%</i>
<i>Growth Markets</i>		<i>16%</i>	<i>11%</i>
<i>BRIC Countries</i>		<i>23%</i>	<i>18%</i>



Revenue by Segment – FY 2010

\$ in Billions

	<u>FY10</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Global Technology Services	\$38.2	2%	1%
Global Business Services	18.2	3%	2%
Software *	22.5	8%	8%
Systems & Technology	18.0	11%	11%
Global Financing	2.2	(3%)	(4%)
Total IBM	\$99.9	4%	3%



* Software revenue growth excludes PLM; growth including divested PLM is 5% as reported and 5% @CC



Revenue by Key Industry Sales Unit – 4Q & FY 2010

\$ in Billions	<u>B/(W) Yr/Yr</u>			<u>B/(W) Yr/Yr</u>		
	<u>4Q10</u>	<u>Rptd</u>	<u>@CC</u>	<u>FY10</u>	<u>Rptd</u>	<u>@CC</u>
Financial Services	\$9.0	15%	15%	\$29.3	7%	6%
Public	4.5	4%	5%	16.0	2%	1%
Industrial	2.9	2%	2%	10.3	Flat	(1%)
Distribution	2.8	5%	6%	9.8	6%	5%
Communications	2.7	Flat	(1%)	9.5	(1%)	(2%)
General Business	5.8	7%	9%	19.4	7%	6%
All Sectors	\$28.3	6%	7%	\$97.4	4%	3%
Total IBM	\$29.0	7%	7%	\$99.9	4%	3%



Expense Summary – FY 2010

\$ in Billions	<u>FY10</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Base</u>
SG&A	\$21.8	(4%)	(1 pts)	(3 pts)	Flat
RD&E	6.0	(4%)			
IP and Development Income	(1.2)	(2%)			
Other (Income)/Expense	(0.8)	nm			
Interest Expense	<u>0.4</u>	9%			
Total Expense & Other Income	\$26.3	(3%)	(1 pts)	(3 pts)	2 pts

* Includes acquisitions made in the last twelve months



Margins by Segment – FY 2010

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>FY10</u>	<u>B/(W) Yr/Yr Pts</u>	<u>FY10</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	34.7%	(0.3 pts)	14.1%	(0.2 pts)
Global Business Services	28.3%	Flat	13.5%	(0.3 pts)
Software	86.9%	0.9 pts	35.8%	2.1 pts
Systems & Technology	38.5%	0.7 pts	8.4%	0.2 pts
Global Financing	51.3%	3.8 pts	48.0%	5.6 pts
Total IBM	46.1%	0.3 pts	19.7%	0.8 pts



Cash Flow (FAS 95)

\$ in Billions	<u>4Q10</u>	<u>4Q09</u>	<u>FY10</u>	<u>FY09</u>
Net Income from Operations	\$5.3	\$4.8	\$14.8	\$13.4
Depreciation / Amortization of Intangibles	1.2	1.3	4.8	5.0
Stock-based Compensation	0.2	0.1	0.6	0.6
Working Capital / Other	3.1	2.2	0.0	(0.1)
Global Financing A/R	(3.0)	(1.9)	(0.7)	1.9
Net Cash provided by Operating Activities	6.8	6.4	19.5	20.8
Capital Expenditures, net of payments & proceeds	(1.1)	(1.1)	(4.0)	(3.7)
Divestitures, net of cash transferred	0.1	0.0	0.1	0.4
Acquisitions, net of cash acquired	(2.9)	(1.1)	(5.9)	(1.2)
Marketable Securities / Other Investments, net	(0.1)	(0.3)	1.3	(2.2)
Net Cash used in Investing Activities	(4.1)	(2.5)	(8.5)	(6.7)
Debt, net of payments & proceeds	1.4	1.0	2.3	(7.5)
Dividends	(0.8)	(0.7)	(3.2)	(2.9)
Common Stock Repurchases	(3.6)	(3.1)	(15.4)	(7.4)
Common Stock Transactions - Other	1.1	1.5	3.8	3.1
Net Cash used in Financing Activities	(1.9)	(1.2)	(12.4)	(14.7)
Effect of Exchange Rate changes on Cash	(0.1)	(0.1)	(0.1)	0.1
Net Change in Cash & Cash Equivalents	\$0.8	\$2.7	(\$1.5)	(\$0.6)



Computation of 2010 Global Financing Return on Equity

The following are details on the computation of IBM's Global Financing Return on Equity. The Global Financing segment is in the business of providing financing to IBM's clients and its business partners, and is measured as if it were a standalone entity. A financing business is managed on a leveraged basis and therefore, we measure the profitability of a financing entity based on its after-tax earnings in relation to the equity employed in the business.

\$ in Billions		<u>FY 2010</u>
Numerator:		
Global Financing After Tax Income*	(a)	\$1,295
Denominator:		
Average Global Financing Equity**	(b)	\$3,145
Global Financing Return on Equity	(a)/(b)	41%*

* Calculated based upon an estimated tax rate principally based on Global Financing's geographic mix of earnings as IBM's provision for income taxes is determined on a consolidated basis.

** Average of ending equity for the Global Financing Segment for the last five quarters.



Operating Earnings – 2011

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Expectations</u>	<u>B/(W)</u> <u>Yr/Yr</u>
IBM Operating EPS (Non-GAAP)	\$11.67	\$13.00+	+11%
IBM GAAP EPS	\$11.52	\$12.56+	+9%

Adjustments

Acquisition-Related Charges *	\$0.34	\$0.41
Amortization of Purchased Intangibles	\$0.31	\$0.38
Other Acquisition-Related Charges	\$0.03	\$0.03
Non-Operating Retirement-Related Charges	(\$0.20)	\$0.03

* Includes acquisitions as of 12/31/2010

Moving to operating earnings (Non-GAAP) objectives for 2015 Roadmap

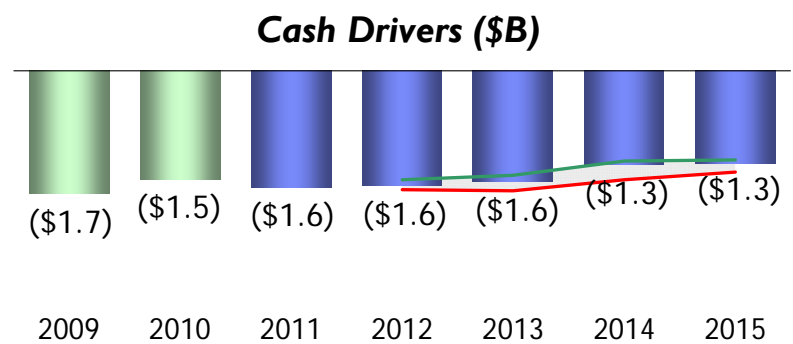
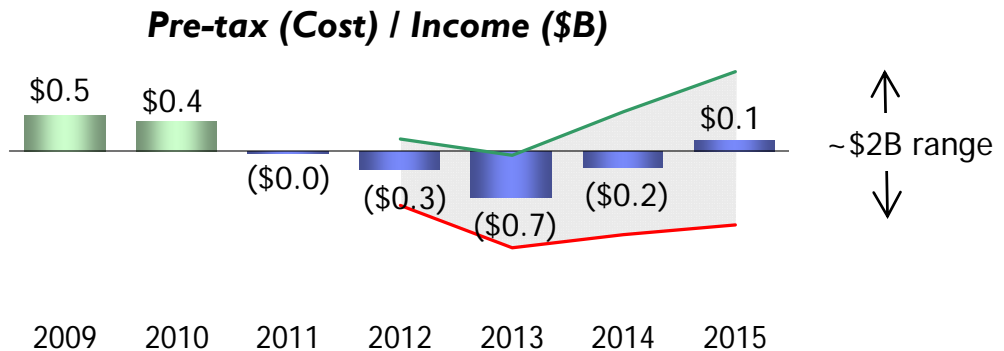


Retirement-Related Charges – Non-Operating Scenarios

<u>Worldwide Discount Rate</u>	<u>2010</u>	<u>2011+</u>
YE '10 Assumptions	4.7%	4.7%
Upside Case	4.7%	5.2%
Downside Case	4.7%	4.2%

<u>Worldwide ROA</u>	<u>2011</u>	<u>2012+</u>
YE '10 Assumptions	7%	7%
Upside Case	14%	7%
Downside Case	0%	7%

Non-Operating Retirement-Related



■ Actual
 ■ Projection based on Dec '10 assumptions
 — Downside
 — Upside



Supplemental Information – Operating Earnings - 2010

\$ in Millions, except EPS

1Q10 2Q10 3Q10 4Q10 FY10

As Reported

Pre-Tax Income	\$3,515	\$4,575	\$4,677	\$6,956	\$19,723
Net Income	\$2,601	\$3,386	\$3,589	\$5,257	\$14,833
EPS	\$1.97	\$2.61	\$2.82	\$4.18	\$11.52

Adjustments

Pre-Tax Income Total	\$41	\$9	\$35	\$59	\$144
Non-Operating Pension*	(76)	(113)	(104)	(121)	(414)
Acquisition-Related Charges**	116	122	139	180	558
Tax Impact***	(\$4)	7	5	37	46
Net Income	\$37	\$17	\$39	\$97	\$190
EPS	\$0.03	\$0.01	\$0.03	\$0.08	\$0.15

Operating (Non-GAAP)

Pre-Tax Income	\$3,556	\$4,584	\$4,712	\$7,015	\$19,867
Net Income	\$2,638	\$3,402	\$3,628	\$5,354	\$15,023
EPS	\$2.00	\$2.62	\$2.85	\$4.25	\$11.67

* 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

** Includes Amortization of Purchased Intangibles, In Process R&D, Severance Cost for Acquired employees, vacant space for acquired companies, deal costs

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



Supplemental Information – Operating Earnings – 4Q 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	\$14,227	\$82	(\$60)	\$14,249
SG&A	5,951	(95)	28	5,884
RD&E	1,578	0	33	1,611
Pre-Tax Income	6,956	180	(121)	7,015
Net Income	5,257	170	(74)	5,354
Diluted Earnings Per Share	\$4.18	\$0.14	(\$0.06)	\$4.25

* 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



Supplemental Information – Operating Earnings – FY 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	\$46,014	\$260	(\$204)	\$46,070
SG&A	21,837	(294)	84	21,628
RD&E	6,026	0	126	6,152
Pre-Tax Income	19,723	558	(414)	19,867
Net Income	14,833	443	(253)	15,023
Diluted Earnings Per Share	\$11.52	\$0.34	(\$0.20)	\$11.67

* 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



Supplemental Information – Segment Performance – 4Q 2010

\$ in Millions, except EPS

	<u>GTS</u>	<u>GBS</u>	<u>Software</u>	<u>Systems & Tech</u>	<u>Global Financing</u>	<u>Total Segments</u>
<u>As Reported</u>						
External Gross Profit	\$3,531	\$1,348	\$6,230	\$2,753	\$326	\$14,188
External Gross Profit Margin	34.7%	28.3%	88.5%	43.9%	51.8%	49.1%
Pre-Tax Income	\$1,657	\$746	\$3,172	\$1,208	\$567	\$7,349
Pre-Tax Income Margin	15.8%	15.0%	40.6%	18.6%	47.1%	23.7%
<u>Non-Operating Adjustments to Gross Profit</u>						
Retirement-Related Charges	(\$24)	(\$16)	(\$4)	(\$16)	\$0	(\$60)
Acquisition-Related Charges	1	0	81	0	0	82
<u>Non-Operating Adjustments to Pre-Tax Income</u>						
Retirement-Related Charges	(\$26)	(\$16)	(\$41)	(\$37)	(\$1)	(\$121)
Acquisition-Related Charges	4	5	168	2	0	180
<u>Operating (Non-GAAP)</u>						
External Gross Profit	\$3,509	\$1,332	\$6,307	\$2,737	\$326	\$14,211
External Gross Profit Margin	34.5%	28.0%	89.6%	43.6%	51.8%	49.2%
Pre-Tax Income	\$1,635	\$735	\$3,299	\$1,173	\$566	\$7,408
Pre-Tax Income Margin	15.6%	14.8%	42.2%	18.0%	47.0%	23.9%



Supplemental Information – Segment Performance – FY 2010

\$ in Millions, except EPS

	<u>GTS</u>	<u>GBS</u>	<u>Software</u>	<u>Systems & Tech</u>	<u>Global Financing</u>	<u>Total Segments</u>
<u>As Reported</u>						
External Gross Profit	\$13,267	\$5,148	\$19,537	\$6,920	\$1,148	\$46,020
External Gross Profit Margin	34.7%	28.3%	86.9%	38.5%	51.3%	46.4%
Pre-Tax Income	\$5,568	\$2,569	\$9,097	\$1,586	\$1,959	\$20,778
Pre-Tax Income Margin	14.1%	13.5%	35.8%	8.4%	48.0%	19.5%
<u>Non-Operating Adjustments to Gross Profit</u>						
Retirement-Related Charges	(\$80)	(\$43)	(\$16)	(\$64)	\$0	(\$204)
Acquisition-Related Charges	6	0	254	0	0	260
<u>Non-Operating Adjustments to Pre-Tax Income</u>						
Retirement-Related Charges	(\$88)	(\$42)	(\$148)	(\$133)	(\$3)	(\$414)
Acquisition-Related Charges	19	19	517	3	0	558
<u>Operating (Non-GAAP)</u>						
External Gross Profit	\$13,194	\$5,106	\$19,774	\$6,856	\$1,148	\$46,078
External Gross Profit Margin	34.5%	28.0%	87.9%	38.1%	51.3%	46.5%
Pre-Tax Income	\$5,499	\$2,546	\$9,466	\$1,456	\$1,956	\$20,923
Pre-Tax Income Margin	13.9%	13.4%	37.2%	7.8%	48.0%	19.6%



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/or earnings presentation materials, the following Non-GAAP information which management believes provides useful information to investors.

Operating (Non-GAAP) Earnings

Management presents operating (Non-GAAP) earnings, excluding the effects of certain acquisition-related charges, non-operating retirement-related costs, and their related tax impacts. For acquisitions, operating earnings excludes 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 operating earnings. Non-operating retirement-related cost includes 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 operating earnings, as presented, may differ from similarly titled measures reported by other companies.

Overall, management believes that providing investors with a view of operating earnings 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 road map, the company will utilize operating earnings to establish its objectives and track its progress.



Non-GAAP Supplementary Materials

Constant Currency

Management refers to growth rates at constant currency or adjusting for currency so that the business 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. Constant currency revenue results are calculated by translating current period revenue in local currency using the prior year's currency conversion rate. This consistent approach is based on the pricing currency for each country which is typically the functional 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.

Cash Flow

Management includes presentations of both cash flow from operations and free cash flow that exclude the effect of Global Financing Receivables. For a financing business, increasing receivables is the basis for growth. Receivables are viewed as an investment and an income-producing asset. Therefore, management presents financing receivables as an investing activity. Management's view is that this presentation gives the investor the best perspective of cash available for new investment or for distribution to shareholders.

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.

PLM Sale

Management presents certain financial results excluding the effects of the PLM divestiture. In March 2010, the company completed the sale of its activities associated with the sales and support of Dassault Systemes' (Dassault) product lifecycle management (PLM) software, including customer contracts and related assets to Dassault. Given this sale, management believes that presenting financial information regarding revenue and software segment 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 for investors.



Non-GAAP Supplementary Materials

Reconciliation of Free Cash Flows (excluding GF Receivables)

\$ in Billions	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Cash from Operations	\$13.7	\$13.8	\$14.5	\$15.3	\$14.9
Less: Global Financing Receivables	<u>2.0</u>	<u>3.3</u>	<u>1.9</u>	<u>2.5</u>	<u>1.8</u>
Net Cash from Operations (excluding GF Receivables)	11.7	10.5	12.6	12.9	13.1
Net Capital Expenditures	<u>(4.9)</u>	<u>(4.6)</u>	<u>(3.9)</u>	<u>(3.7)</u>	<u>(3.5)</u>
Free Cash Flow (excluding GF Receivables)	6.8	5.9	8.7	9.1	9.6
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net Cash from Operations	\$15.0	\$16.1	\$18.8	\$20.8	\$19.5
Less: Global Financing Receivables	<u>(0.3)</u>	<u>(1.3)</u>	<u>0.0</u>	<u>1.9</u>	<u>(0.7)</u>
Net Cash from Operations (excluding GF Receivables)	15.3	17.4	18.8	18.9	20.3
Net Capital Expenditures	<u>(4.7)</u>	<u>(5.0)</u>	<u>(4.5)</u>	<u>(3.7)</u>	<u>(4.0)</u>
Free Cash Flow (excluding GF Receivables)	10.5	12.4	14.3	15.1	16.3

The above serves to reconcile the Non-GAAP financial information contained in the "IBM Transformation" discussion in the company's earnings presentation. See Slide 57 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplementary Materials

Reconciliation of Revenue Growth

	<u>4Q10 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Japan	7%	(2%)
Asia Pacific, other than Japan	20%	14%
China	27%	25%
Russia	45%	46%
Global Business Services – North America	11%	11%
Growth Markets – Storage	21%	23%

	<u>FY10 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Japan	5%	(2%)
Asia Pacific, other than Japan	18%	11%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography," "Services Segments," and "Systems and Technology Segment" discussions regarding revenue growth in the company's earnings presentation. See Slide 57 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplementary Materials

Reconciliation of Outsourcing Services Revenue Growth

	<u>Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
1Q08	18%	10%
2Q08	17%	9%
3Q08	9%	5%
4Q08	(5%)	1%
1Q09	(10%)	(2%)
2Q09	(11%)	(3%)
3Q09	(5%)	(4%)
4Q09	5%	(3%)
1Q10	7%	0%
2Q10	2%	1%
3Q10	2%	2%
4Q10	2%	2%

The above serves to reconcile the Non-GAAP financial information contained in the "Outsourcing Services Trending" discussion in the company's earnings presentation. See Slide 57 of this presentation for additional information on the use of these Non-GAAP financial measures.



Non-GAAP Supplementary Materials

Reconciliation of Transactional Services Revenue Growth

	<u>Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
1Q08	16%	7%
2Q08	15%	7%
3Q08	8%	4%
4Q08	(3%)	2%
1Q09	(10%)	(2%)
2Q09	(13%)	(7%)
3Q09	(9%)	(8%)
4Q09	(2%)	(8%)
1Q10	1%	(5%)
2Q10	1%	1%
3Q10	2%	3%
4Q10	2%	2%

The above serves to reconcile the Non-GAAP financial information contained in the "Transactional Services Trending" discussion in the company's earnings presentation. See Slide 57 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>FY10</u>	<u>FY09</u>
Non-Global Financing Debt / Capital	23%	16%
IBM Consolidated Debt / Capital	55%	53%

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 57 of this presentation for additional information on the use of these Non-GAAP financial measures.

