

# 2Q 2008 Earnings Presentation

*July 17, 2008*

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



# Forward Looking Statements

Certain comments made in this presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995.

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.

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

## 2Q 2008 Summary

- Aligning investments and solutions to capture growth opportunities
- Revenue growth accelerated to 13%, 6% @CC
  - Broad geographic growth in both established and emerging markets
  - Software and Systems capitalizing on new products and capabilities
  - Continued Services strength
  - Annuity base provides stability
- Expect EPS of at least \$8.75 in 2008

*Powerful results driven by differentiated offerings and business model*



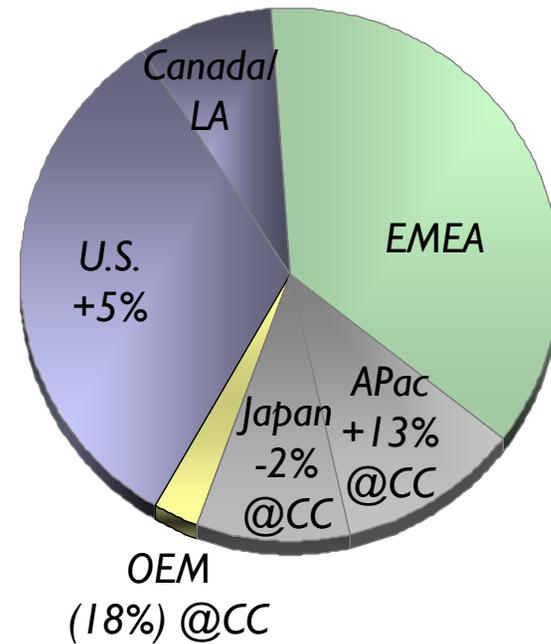
## 2Q 2008 Financial Summary

<i>\$ in Billions, except EPS</i>	<u>2Q08</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$26.8	13%
@ CC		6%
GP %	43.2%	1.4 pts
Expense	\$7.8	(15%)
Pre-Tax Income	\$3.8	21%
Tax Rate	27.5%	0.5 pts
Net Income	\$2.8	22%
Shares (Diluted) (M)	1,395.8	4%
EPS	\$1.98	28%
<i>EPS without 2Q07 Printer Gain</i>	<i>\$1.98</i>	<i>32%</i>

*Continued strong operating leverage*

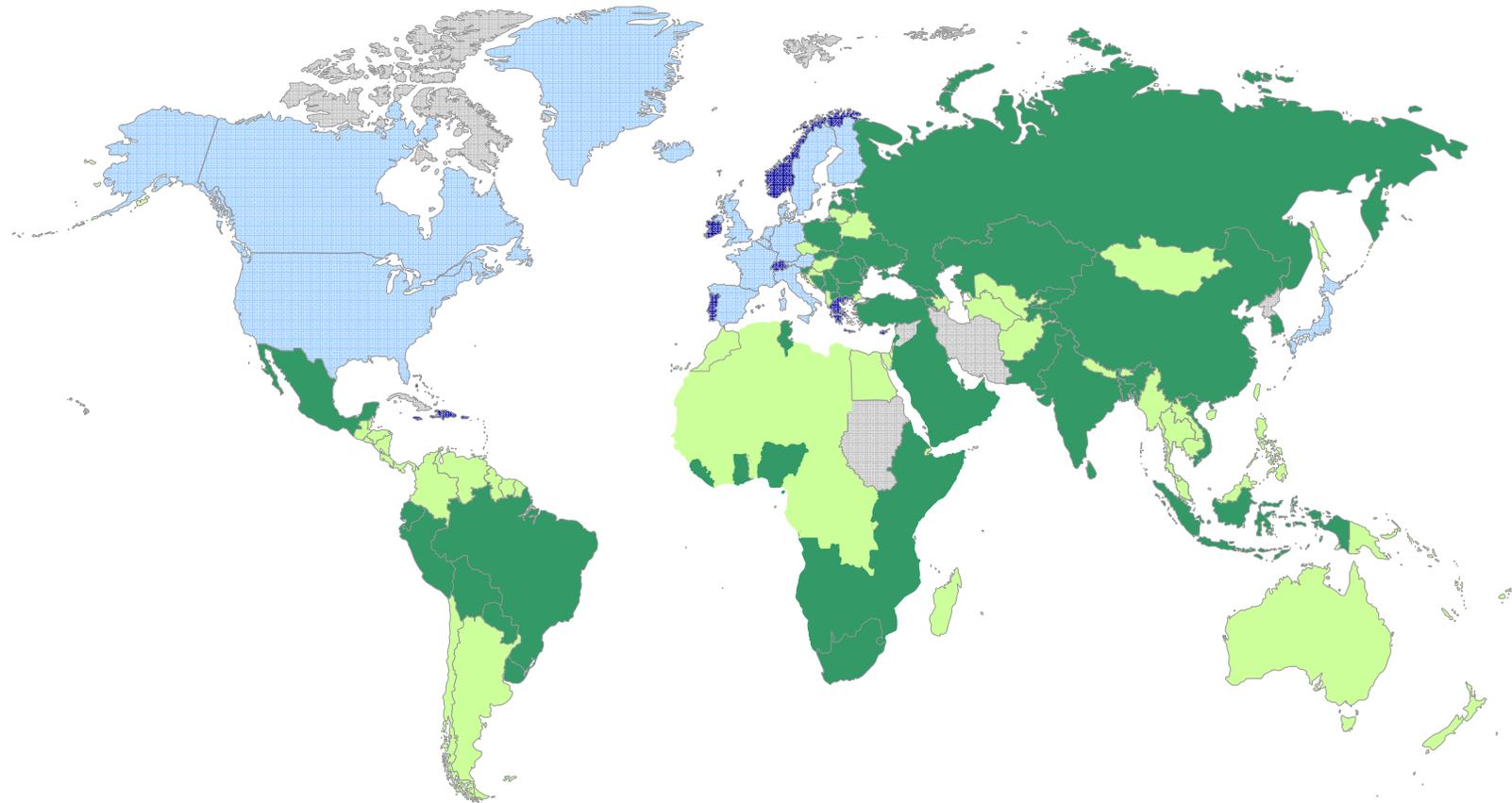
# Revenue by Geography

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q08</u>	<u>Rptd</u>	<u>@CC</u>
Americas	\$10.9	8%	6%
Europe/ME/A	9.8	20%	7%
Asia Pacific	5.3	16%	6%
<b>Total Geographies</b>	<b>\$26.1</b>	<b>14%</b>	<b>7%</b>
IBM	\$26.8	13%	6%
<i>Growth Markets Org.</i>		21%	14%
<i>BRIC Countries</i>		31%	20%



**Acceleration in all geographies**

# Geographic Mix – 1H 2008



 Major Markets

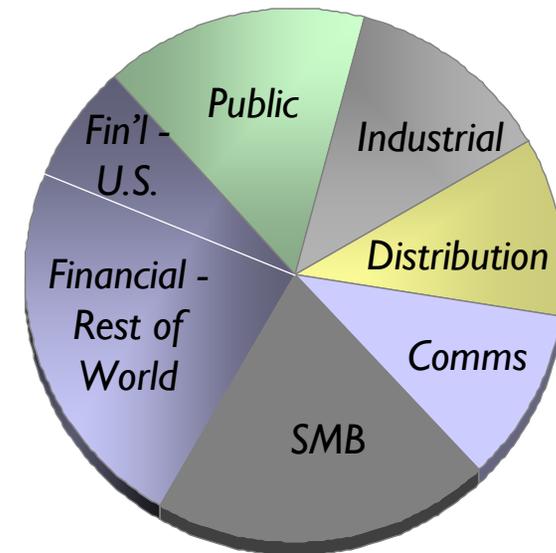
 Major Markets growing revenues in local currency greater than 10% in 1H '08

 Growth Markets

 Growth Markets growing revenues in local currency greater than 10% in 1H '08

# Revenue by Key Industry Sales Unit

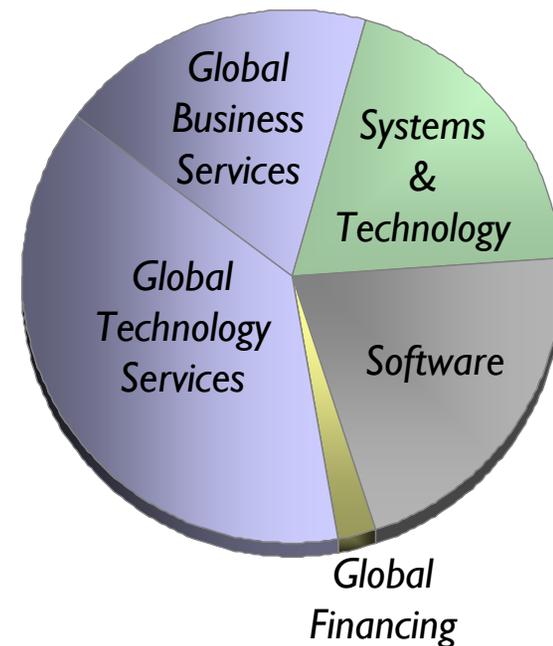
<i>\$ in Billions</i>	<u>2Q08</u>	<u>B/(W) Yr/Yr</u> <u>Rptd @CC</u>	
Financial Services	\$7.6	15%	6%
Public	4.0	11%	6%
Industrial	3.2	13%	4%
Distribution	2.7	10%	3%
Communications	2.7	16%	10%
Small / Medium Business	5.1	13%	6%
<b>All Sectors</b>	<b>\$26.2</b>	<b>14%</b>	<b>7%</b>
Total IBM	\$26.8	13%	6%



**Growth in all sectors, +7% @CC**

# Revenue by Segment

\$ in Billions	<u>2Q08</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Global Technology Services	\$10.1	15%	8%
Global Business Services	5.1	18%	9%
Systems & Technology	5.2	2%	(3%)
<i>without Printers</i>		5%	<i>Flat</i>
<i>Systems</i>		10%	4%
Software	5.6	17%	9%
Global Financing	0.6	6%	(2%)
<b>Total Segments</b>	<b>26.6</b>	<b>13%</b>	<b>6%</b>
<b>Total IBM</b>	<b>\$26.8</b>	<b>13%</b>	<b>6%</b>





## Expense Summary

\$ in Billions	<u>2Q08</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Ops</u>
SG&A	\$6.3	(12%)	(6 pts)	(6 pts)	Flat
RD&E	1.7	(8%)	(3 pts)	(7 pts)	2 pts
IP and Development Income	(0.3)	16%			
Other (Income)/Expense	0.0	(90%)			
Interest Expense	<u>0.1</u>	(12%)			
Total Expense & Other Income	\$7.8	(15%)	(8 pts)	(6 pts)	Flat

\* Includes Acquisitions made in the last twelve months

*Aligning investments with growth opportunity*

*SG&A Ops: Growth Markets +12% yr/yr, Rest of World (1%) yr/yr*



## Margins by Segment

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>2Q08</u>	<u>B/(W) Yr/Yr Pts</u>	<u>2Q08</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	31.6%	1.8 pts	9.5%	0.9 pts
Global Business Services	25.8%	1.5 pts	11.9%	1.5 pts
Systems & Technology	38.6%	1.3 pts	7.4%	1.2 pts
Software	84.6%	(0.3 pts)	23.7%	0.2 pts
Global Financing	55.3%	9.3 pts	36.9%	1.5 pts
Total Segments	43.5%	1.5 pts	13.8%	1.2 pts
Total IBM	43.2%	1.4 pts	14.2%	1.0 pts

*Broad-based margin expansion*



# Services Segments

## Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$10.1	15%	8%
Gross Margin (External)	31.6%	1.8 pts	
PTI Margin	9.5%	0.9 pts	

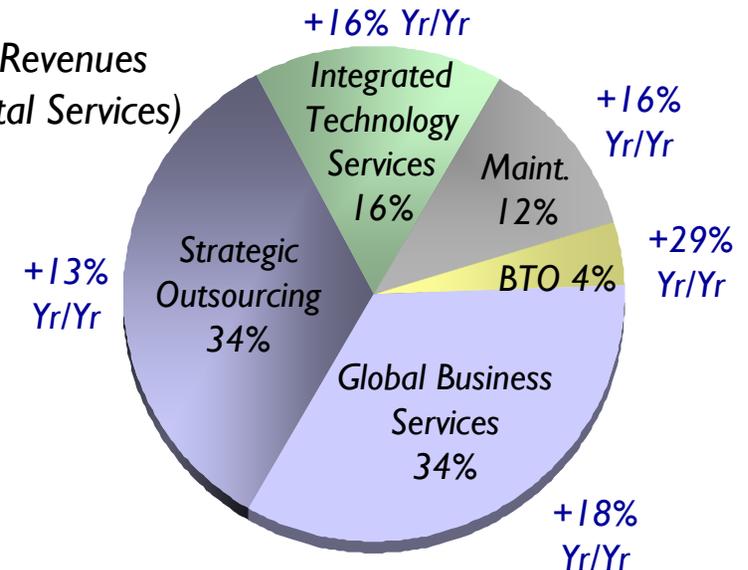
## Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.1	18%	9%
Gross Margin (External)	25.8%	1.5 pts	
PTI Margin	11.9%	1.5 pts	

<u>Global Services Signings @ Act.</u>	<u>2Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$7.0	18%
Total Long Term Signings	7.7	7%
<b>Total Signings @ Actual</b>	<b>\$14.7</b>	<b>12%</b>

<u>Global Services Signings @ CC</u>	<u>2Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$5.8	9%
Total Long Term Signings	6.4	Flat
<b>Total Signings @ CC</b>	<b>\$12.2</b>	<b>4%</b>

2Q08 Revenues  
(% of Total Services)



**Continued momentum in Services; PTI +28% yr/yr**



# Systems & Technology Segment

\$ in Billions

B/(W) Yr/Yr

	<u>2Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.2	2%	(3%)
without Printers		5%	Flat
Gross Margin (External)	38.6%	1.3 pts	
PTI Margin	7.4%	1.2 pts	

## 2Q08 Revenue

## Yr/Yr

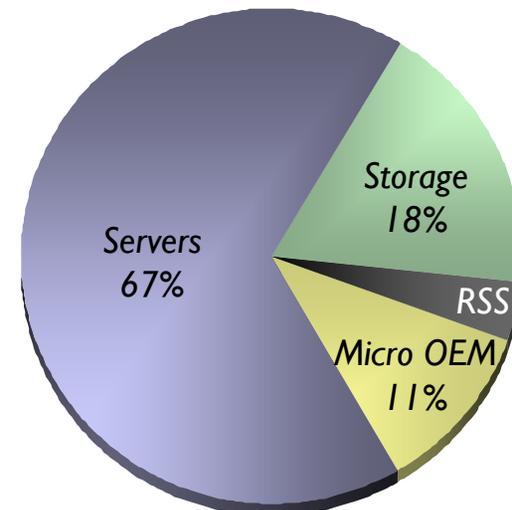
System z	32%
Legacy System i	(47%)
Converged System p	29%
System x Servers	(5%)
Storage	12%
Retail Store Solutions	Flat

<b>Total Systems</b>	<b>10%</b>
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Microelectronics OEM	(19%)
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<b>Total Systems &amp; Technology w/o Printers</b>	<b>5%</b>
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2Q08 Revenue  
(% of Total S&TG)

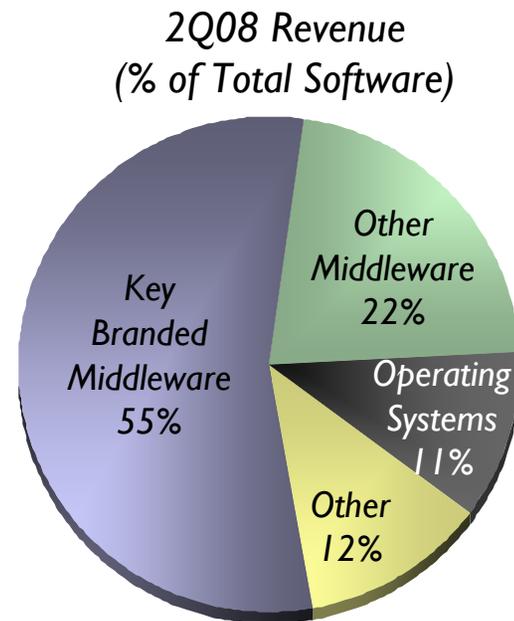


**High-end System and Storage Strength; PTI +21% yr/yr**

# Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>2Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.6	17%	9%
Gross Margin (External)	84.6%	(0.3 pts)	
PTI Margin	23.7%	0.2 pts	

<u>2Q08 Revenue</u>	<u>Yr/Yr</u>
Websphere Family	9%
Information Management	30%
Tivoli	9%
Lotus	21%
Rational	37%
Key Branded Middleware	21%
Total Middleware	17%
<b>Total Software</b>	<b>17%</b>



**Key Branded Middleware drives Software growth; PTI +19% yr/yr**



## Cash Flow Analysis

<i>\$ in Billions</i>	<u>2Q08</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>1H08</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.3	\$0.8	\$8.5	\$2.0
Less: Global Financing Receivables	<u>(0.6)</u>	<u>(0.2)</u>	<u>1.8</u>	<u>0.1</u>
Net Cash from Operations (excluding GF Receivables)	4.9	1.0	6.7	1.9
Net Capital Expenditures	<u>(1.2)</u>	<u>(0.1)</u>	<u>(2.4)</u>	<u>(0.1)</u>
Free Cash Flow (excluding GF Receivables)	3.7	1.0	4.3	1.8
Acquisitions	(0.9)	(0.9)	(5.9)	(5.7)
Divestitures	0.0	(0.3)	0.0	(0.3)
Dividends	(0.7)	(0.1)	(1.2)	(0.2)
Share Repurchases	(4.7)	10.1	(7.2)	11.0
Non-GF Debt	0.4	(11.1)	(1.3)	(13.2)
Other (includes GF A/R & GF Debt)	<u>0.1</u>	<u>(0.2)</u>	<u>5.0</u>	<u>0.7</u>
Change in Cash & Marketable Securities	(\$2.2)	(\$1.6)	(\$6.3)	(\$5.8)



## Balance Sheet Summary

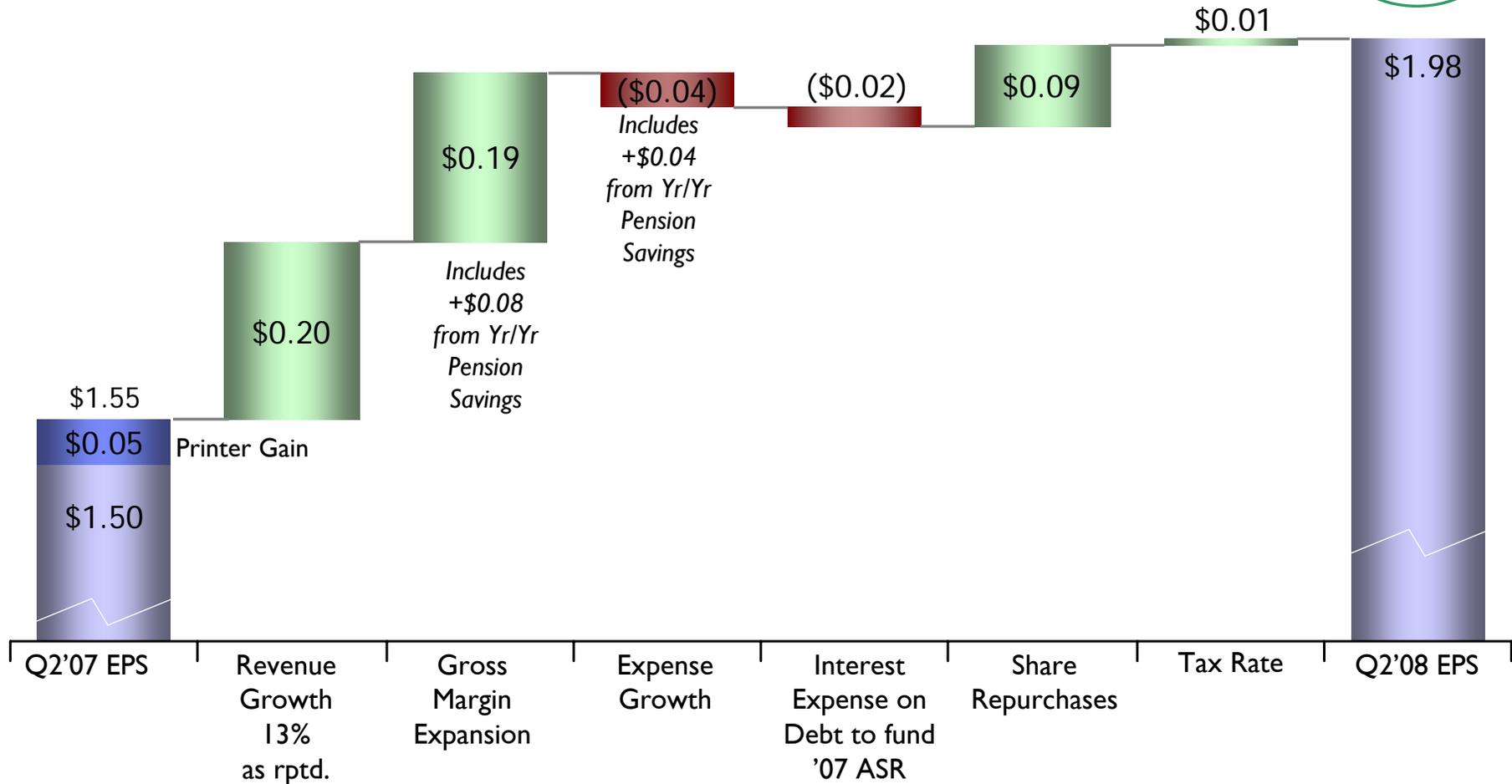
<i>\$ in Billions</i>	<u>June 07</u>	<u>Dec. 07</u>	<u>June 08</u>
Cash & Marketable Securities	\$10.2	\$16.1	\$9.8
Non-GF Assets*	60.7	67.5	75.8
Global Financing Assets*	31.6	36.8	35.2
<b>Total Assets</b>	<b>102.5</b>	<b>120.4</b>	<b>120.9</b>
Other Liabilities	51.1	56.7	58.4
Non-GF Debt	11.8	10.7	9.1
Global Financing Debt	22.9	24.5	25.2
<b>Total Debt</b>	<b>34.7</b>	<b>35.3</b>	<b>34.2</b>
<b>Total Liabilities</b>	<b>85.8</b>	<b>92.0</b>	<b>92.7</b>
<b>Equity</b>	<b>16.8</b>	<b>28.5</b>	<b>28.3</b>
<b>Non-GF Debt / Capital</b>	<b>47%</b>	<b>30%</b>	<b>27%</b>
<b>Global Financing Leverage</b>	<b>7.0</b>	<b>7.1</b>	<b>6.8</b>

\*Excluding Cash & Marketable Securities

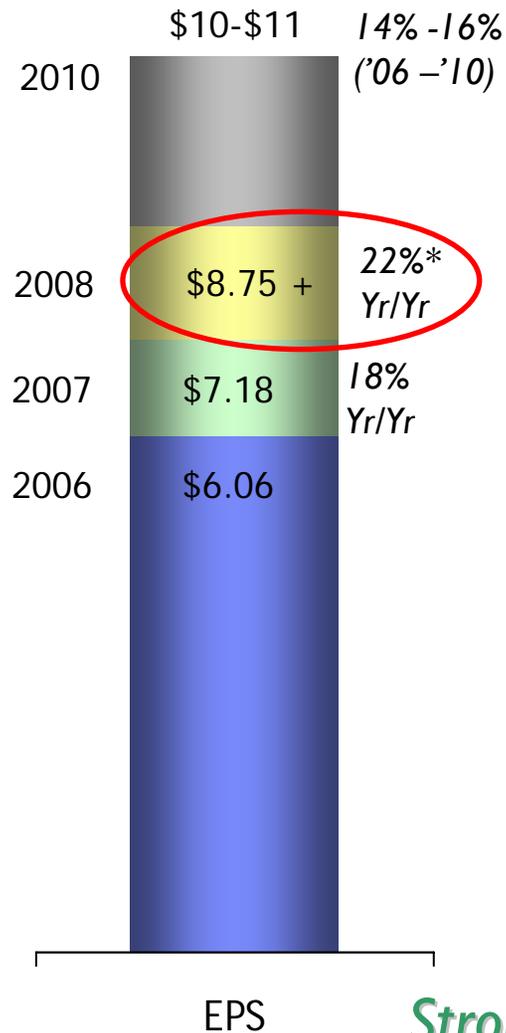
# 2Q 2008 EPS Bridge

+32% Yr/Yr without 2Q07 Printer Gain

28%  
Yr/Yr



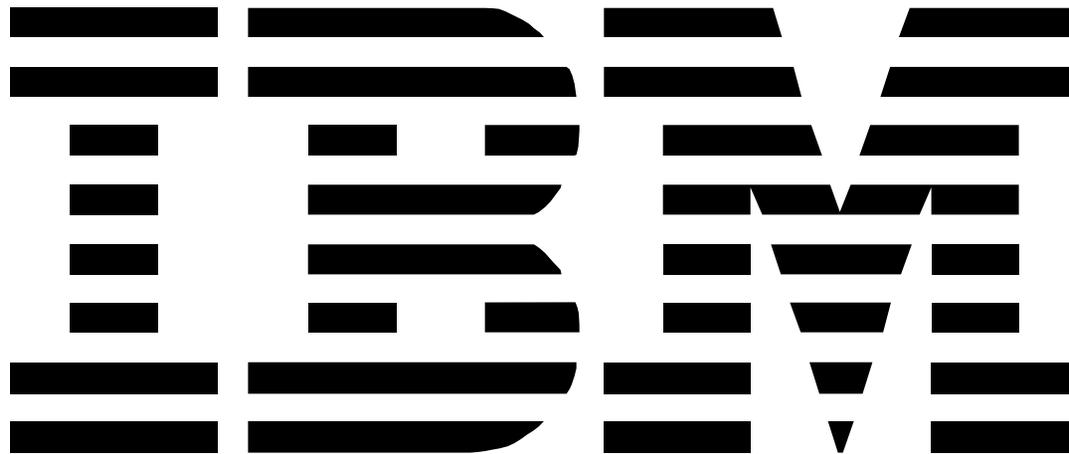
# The IBM Difference



- Leveraging Global Reach
  - Emerging markets - infrastructure build-out
  - Established markets - strong value proposition
  
- Delivering Customer Value
  - Cost & capital conservation
  - Quick time to value
  - Targeted solutions
  
- Successful new technologies
  - Mainframe and POWER ramp
  
- Differentiated Business Model
  - Annuity businesses
  - Cost and expense management
  - Cash / Balance Sheet

*Strong operating model delivered 32% IH EPS growth*

\* 23% Yr/Yr excluding 2Q07 Printer Gain



## Supplemental Materials

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

- Supplemental Segment Information – Global Services
- Supplemental Segment Information – Systems & Technology, Software
- Currency – Year/Year Comparison
- Cash Flow (FAS 95)
- Non-GAAP Supplementary Materials
  - Divested Printing Systems Division
  - Constant Currency, Cash Flow
  - Reconciliation of Asia Pacific Revenue Growth
  - Reconciliation of Revenue Growth in Selected Countries
  - Reconciliation of Revenue Growth in Selected Countries (Cont'd)
  - Reconciliation of Revenue Growth of Original Equipment Manufacturer (OEM)



# Supplemental Segment Information – 2Q 2008

<i>Global Services</i>	<u>Revenue Growth</u>		<i>Global Services</i>	<u>Signings (\$B)</u>	
	<u>Yr/Yr</u>	<u>@CC</u>		<u>2Q08</u>	<u>Yr/Yr</u>
Strategic Outsourcing	13%	5%	<u>Global Services Signings @ Actual</u>	\$14.7	12%
Business Transformation Outsourcing	29%	26%	GBS Short-Term	4.3	19%
Integrated Tech Services	16%	8%	GTS Short-Term	2.7	16%
Maintenance	<u>16%</u>	<u>8%</u>	GBS Long-Term	1.8	(9%)
Global Technology Services	15%	8%	GTS Long-Term	5.9	13%
Global Business Services	18%	9%	SO		7%
			BTO		45%
			<u>Global Services Signings @ CC</u>	\$12.2	4%
			GBS Short-Term	3.5	9%
			GTS Short-Term	2.3	9%
			GBS Long-Term	1.5	(20%)
			GTS Long-Term	4.8	9%
			SO		2%
			BTO		44%



# Supplemental Segment Information – 2Q 2008

Systems & Technology Group	Revenue				Software	Revenue Growth	
	Yr/Yr	@CC	GP%	Share		Yr/Yr	@CC
System z	32%	23%	↓	↑	Websphere Family	9%	2%
Legacy System i	(47%)	(50%)	↓	↓	Information Management	30%	21%
Converged System p	29%	23%	↑	↑	Tivoli	9%	3%
System x Servers	(5%)	(10%)	↓	↓	Lotus	21%	12%
System Storage	12%	6%	=	↑	Rational	<u>37%</u>	<u>28%</u>
Retail Store Solutions	Flat	(4%)	↑	↓	Key Branded Middleware	21%	13%
Total Systems	10%	4%	↑		Other Middleware	<u>9%</u>	<u>2%</u>
Microelectronics OEM	(19%)	(20%)	↓		Total Middleware	17%	10%
Total Systems & Technology without Printers	5%	Flat	↑		Operating Systems	4%	(2%)
					Other Software/Services	<u>25%</u>	<u>15%</u>
					Total Software	17%	9%



# Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q08</u>	<u>Yr/Yr</u>	<u>2Q08</u>	<u>Yr/Yr</u>	<u>7/16 Spot</u>	<u>Yr/Yr @ 7/16 Spot</u>	
						<u>3Q08</u>	<u>4Q08</u>
Euro	0.67	13%	0.64	14%	0.63	13%	9%
Pound	0.51	1%	0.51	-1%	0.50	-1%	-2%
Yen	105	12%	105	13%	104	11%	8%

IBM Revenue Impact	7 pts		7 pts	~6-7 pts	4 pts
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	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$26.8	13%
Currency Impact	1.7	7 pts
Revenue @CC	\$25.1	6%

IBM hedges its major cross-border cash flows to mitigate the effect of currency volatility in the year-over-year results. The impact of these hedging programs is principally reflected in Other Income and Expense, as well as Cost of Goods Sold.

*Negative Yr/Yr growth signifies a translation hurt*



## Cash Flow (FAS 95)

<i>\$ in Billions</i>	<u>2Q08</u>	<u>2Q07</u>	<u>1H08</u>	<u>1H07</u>
Net Income from Operations	\$2.8	\$2.3	\$5.1	\$4.1
Depreciation / Amortization of Intangibles	1.4	1.3	2.8	2.5
Stock-based Compensation	0.2	0.2	0.3	0.4
Working Capital / Other	0.5	0.1	(1.5)	(2.2)
Global Financing A/R	(0.6)	(0.4)	1.8	1.7
<b>Net Cash provided by Operating Activities</b>	<b>4.3</b>	<b>3.4</b>	<b>8.5</b>	<b>6.5</b>
Capital Expenditures, net of payments & proceeds	(1.2)	(1.1)	(2.4)	(2.2)
Divestitures, net of cash transferred	0.0	0.3	0.0	0.3
Acquisitions, net of cash acquired	(0.9)	0.0	(5.9)	(0.2)
Marketable Securities / Other Investments, net	1.0	0.7	1.3	(0.4)
<b>Net Cash used in Investing Activities</b>	<b>(1.1)</b>	<b>(0.2)</b>	<b>(6.9)</b>	<b>(2.6)</b>
Debt, net of payments & proceeds	(0.6)	11.0	(1.4)	12.3
Dividends	(0.7)	(0.6)	(1.2)	(1.0)
Common Stock Repurchases	(4.7)	(14.8)	(7.2)	(18.2)
Common Stock Transactions - Other	1.7	1.1	2.7	2.0
<b>Net Cash used in Financing Activities</b>	<b>(4.3)</b>	<b>(3.3)</b>	<b>(7.1)</b>	<b>(5.0)</b>
Effect of Exchange Rate changes on Cash	0.0	0.1	0.2	0.1
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>(\$1.2)</b>	<b>\$0.1</b>	<b>(\$5.4)</b>	<b>(\$1.0)</b>



## Non-GAAP Supplementary Materials

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

### [Divested Printing Systems Division](#)

Management presents certain financial results without Printing Systems Division (PSD) revenue and the divestiture-related gain. In June 2007, the company divested 51 percent of its shares in a wholly-owned subsidiary, InfoPrint Solutions, that was based on PSD. Given this divestiture, management believes that presenting certain financial information without PSD revenue and the second quarter 2007 divestiture-related gain is more representative of the company's 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

## 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. 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.



# Non-GAAP Supplementary Materials

## *Reconciliation of Asia Pacific Revenue Growth*

	<u>2Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@ CC</u>
Asia Pacific Revenue, other than Japan	18%	13%
Japan Revenue	13%	(2%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 25 of this presentation for additional information on the use of these Non-GAAP financial measures.



# Non-GAAP Supplementary Materials

## *Reconciliation of Revenue Growth in Selected Countries*

	<u>2Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@ CC</u>
Canada	20%	11%
Germany	25%	7%
France	23%	6%
Italy	21%	5%
United Kingdom	3%	4%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 25 of this presentation for additional information on the use of these Non-GAAP financial measures.



## Non-GAAP Supplementary Materials

### *Reconciliation of Revenue Growth in Selected Countries (Cont'd)*

	<u>1H08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@ CC</u>
Revenue from Growth Countries	20%	13%

	<u>2Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@ CC</u>
Revenue from G7 Countries	11%	5%

The above serves to reconcile the Non-GAAP financial information contained in the "Geographic Mix-1H 2008" and "IBM Difference" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 25 of this presentation for additional information on the use of these Non-GAAP financial measures.



## Non-GAAP Supplementary Materials

### *Reconciliation of Revenue Growth of Original Equipment Manufacturer (OEM)*

2Q08 Yr/Yr

	<u>As Rptd</u>	<u>@ CC</u>
Revenue from Original Equipment Manufacturer (OEM)	(17%)	(18%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 25 of this presentation for additional information on the use of these Non-GAAP financial measures.

