

# 3Q 2008 Earnings Presentation

*October 16, 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.

## 3Q 2008 Summary

Revenue	+5%
Pre-tax profit	+19%
EPS	+22%

- Aligning investments to growth opportunities
  - Growth markets – Double-digit revenue growth
  - Major markets – Productivity initiatives
- Annuity base provides steady source of profit and cash
- Continue game plan into 4<sup>th</sup> quarter

*Expect EPS of at least \$8.75 for 2008*

# 3Q 2008 Financial Summary

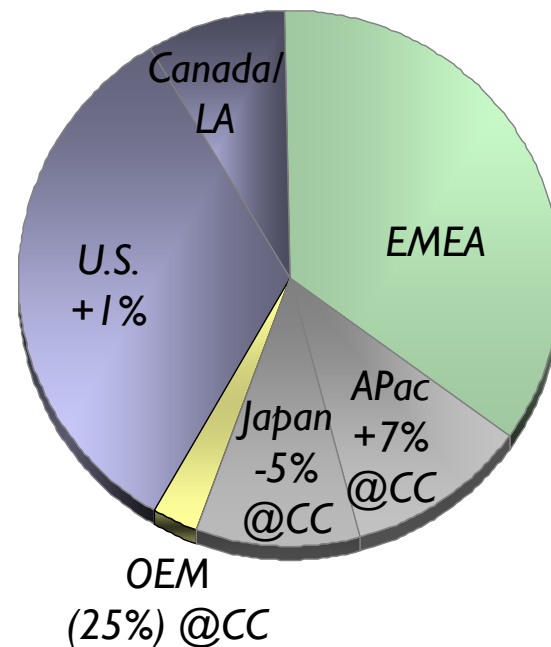
\$ in Billions, except EPS	B/(W)	
	<u>3Q08</u>	<u>Yr/Yr</u>
Revenue	\$25.3	5%
@CC		2%
GP %	43.3%	2.0 pts
Expense	\$7.1	(6%)
Pre-Tax Income	\$3.9	19%
Tax Rate	27.5%	0.5 pts
Net Income	\$2.8	20%
Shares (Diluted) (M)	1,379.1	2%
EPS	\$2.05	22%

*Solid profit performance*

# Revenue by Geography

\$ in Billions

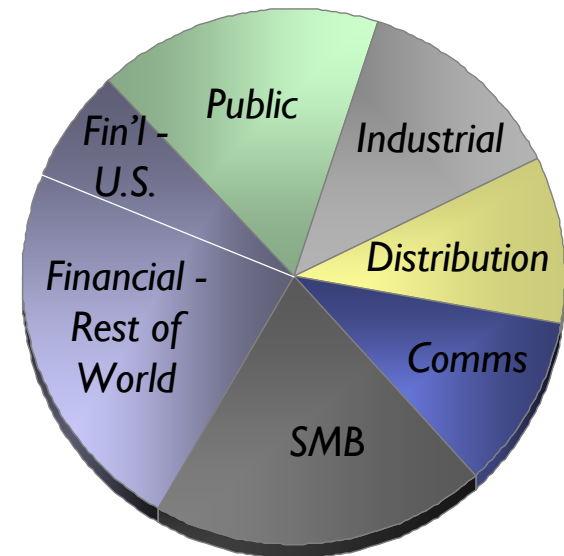
	<u>3Q08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Americas	\$10.5	3%	2%
Europe/ME/A	8.9	10%	4%
Asia Pacific	5.2	6%	1%
<b>Total Geographies</b>	<b>\$24.6</b>	<b>6%</b>	<b>3%</b>
<b>IBM</b>	<b>\$25.3</b>	<b>5%</b>	<b>2%</b>
<i>Major Markets</i>		<i>5%</i>	<i>1%</i>
<i>Growth Markets</i>		<i>13%</i>	<i>10%</i>
<i>BRIC Countries</i>		<i>19%</i>	<i>12%</i>



**Led by growth markets**

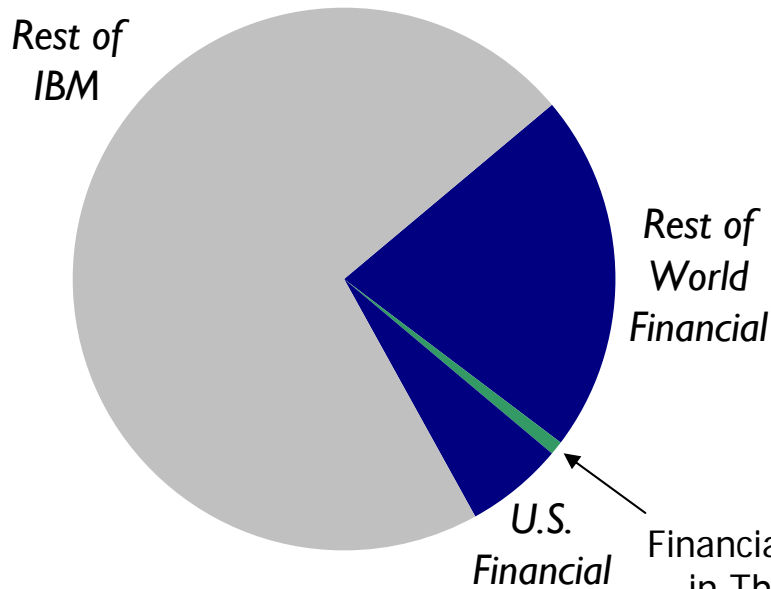
# Revenue by Key Industry Sales Unit

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q08</u>	<u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.0	7%	2%
Public	4.0	9%	6%
Industrial	3.0	2%	(2%)
Distribution	2.4	3%	0%
Communications	2.5	4%	2%
Small / Medium Business	4.7	5%	2%
<b>All Sectors</b>	<b>\$24.7</b>	<b>6%</b>	<b>3%</b>
<b>Total IBM</b>	<b>\$25.3</b>	<b>5%</b>	<b>2%</b>

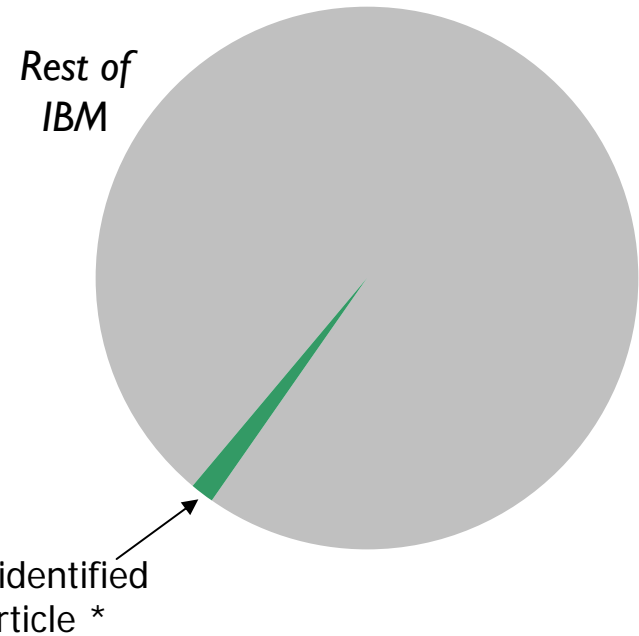


# Financial Services Perspective

3Q YTD Revenue



3Q Total Receivables



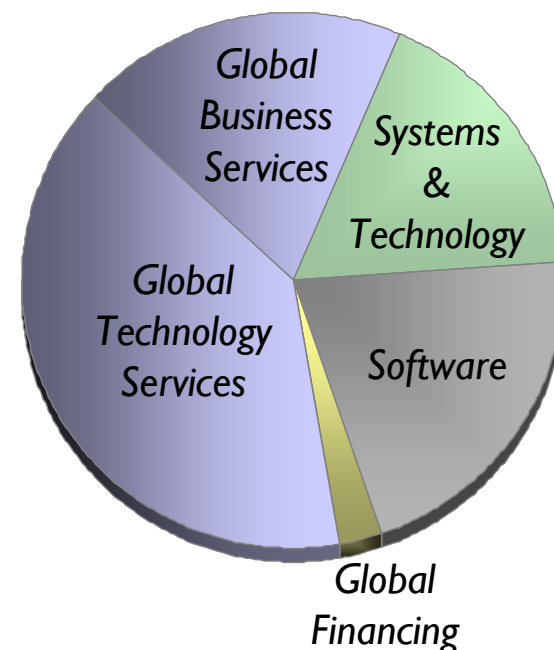
\* Source: The New York Times, October 1, 2008

Includes AIG, Alliance & Leicester, Bear Stearns, Bradford & Bingley, Countrywide Financial, Dexia, Dusseldorfer Hypothekenbank, Fannie Mae, Fortis, Freddie Mac, Glitnir, HBOS, Hypo Real Estate, IKB Deutsche Industriebank, IndyMac Bancorp, Lehman Brothers, Merrill Lynch, Northern Rock, Roskilde Bank, Wachovia and Washington Mutual (see slide 25 of this presentation for additional information)

# Revenue by Segment

\$ in Billions

	<u>3Q08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Global Technology Services	\$9.9	8%	5%
Global Business Services	4.9	7%	3%
Systems & Technology	4.4	(10%)	(11%)
Software	5.2	12%	8%
Global Financing	0.6	2%	(1%)
<b>Total Segments</b>	<b>\$25.1</b>	<b>5%</b>	<b>2%</b>
<b>Total IBM</b>	<b>\$25.3</b>	<b>5%</b>	<b>2%</b>



*Annuity businesses provide solid revenue base*



# Expense Summary

\$ in Billions	<u>3Q08</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Ops</u>
SG&A	\$5.6	(6%)	(3 pts)	(5 pts)	2 pts
RD&E	1.6	(4%)	(1 pts)	(6 pts)	4 pts
IP and Development Income	(0.3)	(1%)			
Other (Income)/Expense	(0.1)	(46%)			
Interest Expense	<u>0.2</u>	18%			
Total Expense & Other Income	\$7.1	(6%)	(4 pts)	(5 pts)	4 pts

\* Includes Acquisitions made in the last twelve months

*Aligning investments with growth opportunities*

*SG&A Ops: Growth Markets grew 15% yr/yr, Rest of World improved 4% yr/yr*

# Margins by Segment

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>3Q08</u>	<u>B/(W) Yr/Yr Pts</u>	<u>3Q08</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	32.7%	2.1 pts	11.6%	0.8 pts
Global Business Services	27.4%	4.5 pts	14.0%	3.3 pts
Systems & Technology	36.2%	(2.4 pts)	6.1%	(1.0 pts)
Software	84.7%	0.5 pts	25.9%	1.5 pts
Global Financing	49.1%	4.5 pts	32.0%	(2.8 pts)
Total Segments	43.6%	1.9 pts	15.1%	1.3 pts
Total IBM	43.3%	2.0 pts	15.4%	1.8 pts

*Ongoing cost and expense initiatives drive margin expansion*

# Services Segments

## Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$9.9	8%	5%
Gross Margin (External)	32.7%	2.1 pts	
PTI Margin	11.6%	0.8 pts	

## Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.9	7%	3%
Gross Margin (External)	27.4%	4.5 pts	
PTI Margin	14.0 %	3.3 pts	

### Global Services Signings @ Act.

	<u>3Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$6.1	13%
Total Long Term Signings	6.6	(16%)

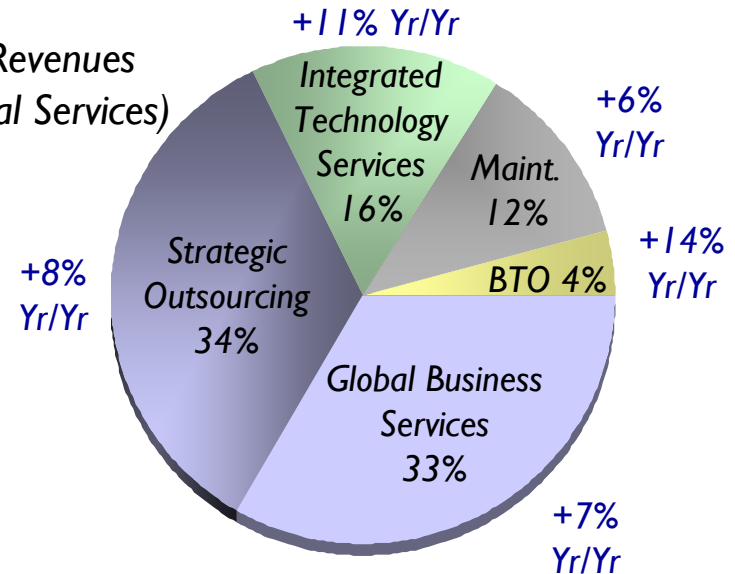
<b>Total Signings @ Actual</b>	<b>\$12.7</b>	<b>(4%)</b>
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### Global Services Signings @ CC

	<u>3Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$5.2	8%
Total Long Term Signings	5.9	(15%)

<b>Total Signings @ CC</b>	<b>\$11.1</b>	<b>(5%)</b>
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3Q08 Revenues  
(% of Total Services)



**Services PTI +23% yr/yr: GTS +16%, GBS +39%**

# Systems & Technology Segment

\$ in Billions

B/(W) Yr/Yr

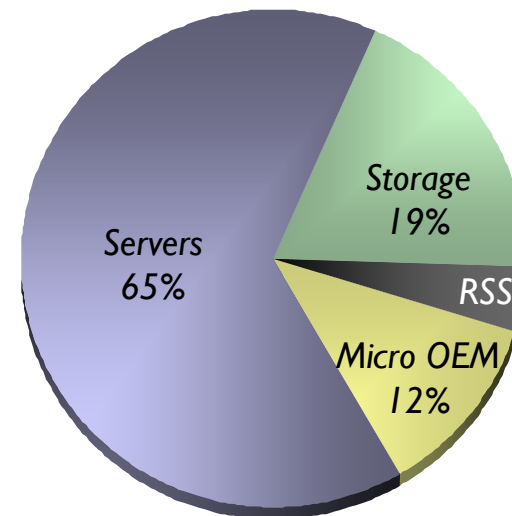
	<u>3Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.4	(10%)	(11%)
Gross Margin (External)	36.2%	(2.4 pts)	
PTI Margin	6.1%	(1.0 pts)	

3Q08 Revenue

Yr/Yr

System z	25%
Converged System p	7%
Legacy System i	(82%)
System x Servers	(18%)
Storage	(3%)
Retail Store Solutions	(24%)
<b>Total Systems</b>	<b>(7%)</b>
Microelectronics OEM	(27%)
<b>Total Systems &amp; Technology</b>	<b>(10%)</b>

3Q08 Revenue  
(% of Total S&TG)



*High-end strength in challenging environment*

# Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.2	12%	8%
Gross Margin (External)	84.7%	0.5 pts	
PTI Margin	25.9%	1.5 pts	

<u>3Q08 Revenue</u>	<u>Yr/Yr</u>
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WebSphere Family	4%
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Information Management	26%
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Tivoli	2%
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Lotus	10%
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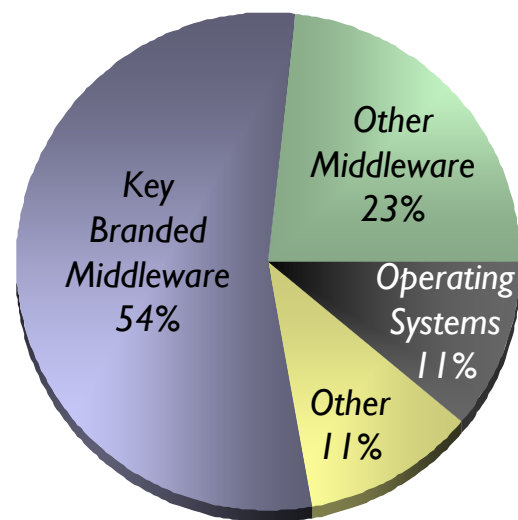
Rational	23%
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Key Branded Middleware	15%
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Total Middleware	12%
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Total Software	12%
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3Q08 Revenue  
(% of Total Software)



**Recurring revenue and acquisitions, PTI +19%**

# Cash Flow Analysis

\$ in Billions	<u>3Q08</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>3Q08</u> <u>YTD</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$3.7	(\$0.7)	\$12.2	\$1.2
Less: Global Financing Receivables	<u>0.5</u>	<u>(0.1)</u>	<u>2.3</u>	<u>0.0</u>
Net Cash from Operations (excluding GF Receivables)	3.3	(0.7)	9.9	1.2
Net Capital Expenditures	<u>(1.1)</u>	<u>0.2</u>	<u>(3.5)</u>	<u>0.0</u>
Free Cash Flow (excluding GF Receivables)	2.1	(0.5)	6.4	1.3
Acquisitions	(0.1)	0.4	(6.0)	(5.3)
Divestitures	0.0	0.0	0.1	(0.2)
Dividends	(0.7)	(0.1)	(1.9)	(0.3)
Share Repurchases	(2.7)	(2.5)	(9.8)	8.5
Non-GF Debt	(0.1)	0.1	(1.4)	(13.1)
Other (includes GF A/R & GF Debt)	<u>1.3</u>	<u>(1.1)</u>	<u>6.3</u>	<u>(0.4)</u>
Change in Cash & Marketable Securities	(\$0.1)	(\$3.7)	(\$6.4)	(\$9.6)

# Balance Sheet Summary

\$ in Billions	<u>Sept. 07</u>	<u>Dec. 07</u>	<u>Sept. 08</u>
Cash & Marketable Securities	\$13.8	\$16.1	\$9.8
Non-GF Assets*	62.4	67.5	73.4
Global Financing Assets*	32.4	36.8	32.8
<b>Total Assets</b>	<b>108.6</b>	<b>120.4</b>	<b>115.9</b>
Other Liabilities	52.7	56.7	54.0
Non-GF Debt	11.5	10.7	9.9
Global Financing Debt	23.8	24.5	24.5
<b>Total Debt</b>	<b>35.3</b>	<b>35.3</b>	<b>34.4</b>
<b>Total Liabilities</b>	<b>88.1</b>	<b>92.0</b>	<b>88.4</b>
<b>Equity</b>	<b>20.5</b>	<b>28.5</b>	<b>27.5</b>
<b>Non-GF Debt / Capital</b>	<b>40%</b>	<b>30%</b>	<b>29%</b>
<b>Global Financing Leverage</b>	<b>6.8</b>	<b>7.1</b>	<b>7.1</b>

\*Excluding Cash & Marketable Securities

# Global Financing

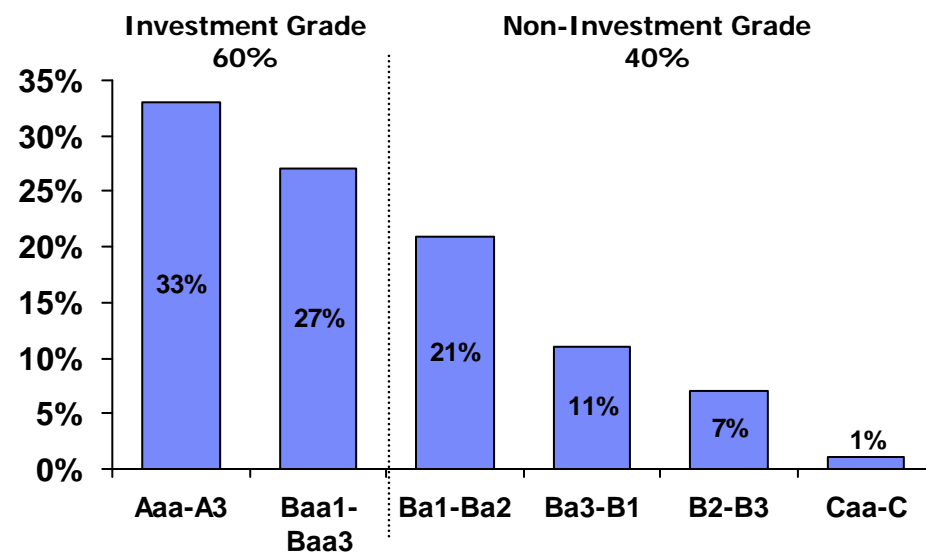
## Global Financing as % of IBM

\$ in Billions	% of IBM	
	<u>3Q08</u>	<u>IBM</u>
External Revenue	0.6	3%
Segment Pre-tax Income	0.3	9%
External Receivables	24.2	21%

## What differentiates IBM Global Financing?

- 97% of Portfolio in Core Competency of Technology Financing
- No Exposure to Consumers or Mortgage Lending
- No Securitization of Receivables

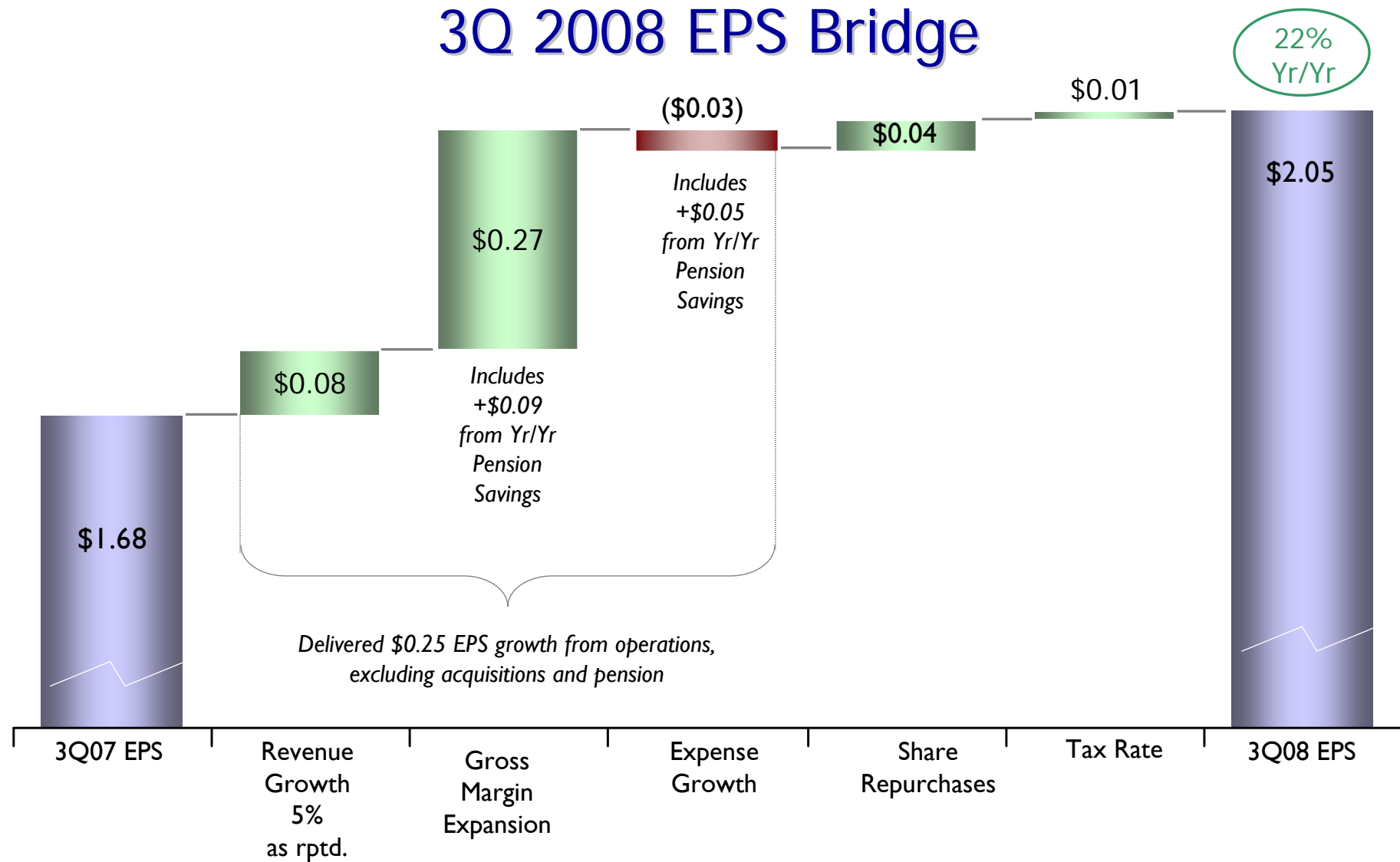
## External Portfolio Credit Quality



	<u>3Q07</u>	<u>3Q08</u>
Identified Loss Rate	1.1%	1.3%
Anticipated Loss Rate	<u>0.3%</u>	<u>0.5%</u>
<b>Reserve Coverage</b>	<b>1.4%</b>	<b>1.8%</b>
Client Days Delinquent Outstanding	4.6	4.8
Commercial A/R > 30 Days	\$95M	\$76M



# 3Q 2008 EPS Bridge



## Well-Positioned in Current Environment

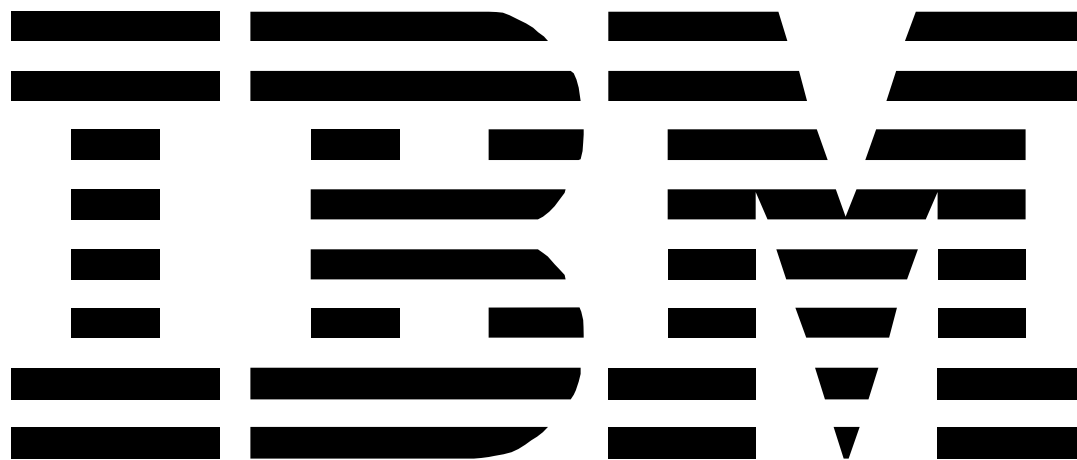
### Liquidity

- \$4.5B commercial paper balance @ 9/30
- \$20B available liquidity
  - \$9.8B cash balance @ 9/30
  - \$10B global credit facility backstop
- Raised additional \$4B of term debt in October
- Investment grade rating
  - Long-term: A1/A+/A+
  - Short-term: A1/P1/F1

### Operational Characteristics

- Offerings that deliver client value in current environment
- Strong performance in growth markets
- Ongoing initiatives to drive structural improvement and improve balance point
- Solid annuity base drives profit and cash
- Financial flexibility to take advantage of strategic opportunities

*Expect EPS of at least \$8.75 for 2008*



# 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)
- The New York Times Article
- Non-GAAP Supplementary Materials
  - Constant Currency
  - Cash Flow
  - Reconciliation of Asia Pacific Revenue Growth
  - Reconciliation of Revenue Growth in Selected Countries
  - Reconciliation of Revenue Growth in Selected Markets
  - Reconciliation of Revenue Growth in Services Segment
  - Reconciliation of Revenue Growth of Original Equipment Manufacturer (OEM)

# Supplemental Segment Information – 3Q 2008

<i>Global Services</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
Strategic Outsourcing	8%	4%
Business Transformation Outsourcing	14%	15%
Integrated Tech Services	11%	8%
Maintenance	<u>6%</u>	<u>2%</u>
Global Technology Services	8%	5%
Global Business Services	7%	3%

<i>Global Services</i>	<u>Signings (\$B)</u>	
	<u>3Q08</u>	<u>Yr/Yr</u>
<u>Global Services Signings @ Actual</u>	\$12.7	(4%)
GBS Short-Term	3.7	10%
GTS Short-Term	2.4	19%
GBS Long-Term	1.4	(16%)
GTS Long-Term	5.1	(17%)
SO	4.7	(19%)
BTO	0.5	14%
<u>Global Services Signings @ CC</u>	\$11.1	(5%)
GBS Short-Term	3.2	5%
GTS Short-Term	2.1	14%
GBS Long-Term	1.3	(18%)
GTS Long-Term	4.6	(14%)
SO	4.1	(16%)
BTO	0.4	15%

# Supplemental Segment Information – 3Q 2008

Systems & Technology Group	Revenue			
	Yr/Yr	@CC	GP%	Share
System z	25%	22%	↓	↑
Converged System p	7%	6%	↑	↑
Legacy System i	(82%)	(82%)	↓	↓
System x Servers	(18%)	(20%)	↓	↓
System Storage	(3%)	(5%)	↓	↓
Retail Store Solutions	(24%)	(26%)	↓	↓
<b>Total Systems</b>	<b>(7%)</b>	<b>(8%)</b>	<b>↓</b>	
Microelectronics OEM	(27%)	(27%)	↓	
<b>Total Systems &amp; Technology</b>	<b>(10%)</b>	<b>(11%)</b>	<b>↓</b>	

Software	Revenue Growth	
	Yr/Yr	@CC
WebSphere Family	4%	0%
Information Management	26%	22%
Tivoli	2%	(1%)
Lotus	10%	6%
Rational	<u>23%</u>	<u>20%</u>
<b>Key Branded Middleware</b>	<b>15%</b>	<b>11%</b>
Other Middleware	<u>6%</u>	<u>2%</u>
<b>Total Middleware</b>	<b>12%</b>	<b>8%</b>
Operating Systems	5%	1%
Other Software/Services	<u>17%</u>	<u>12%</u>
<b>Total Software</b>	<b>12%</b>	<b>8%</b>

# Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q08</u>	<u>Yr/Yr</u>	<u>2Q08</u>	<u>Yr/Yr</u>	<u>3Q08</u>	<u>Yr/Yr</u>	10/15 <u>Spot</u>	@ 10/15 <u>Spot</u> <u>4Q08</u>
Euro	0.67	13%	0.64	14%	0.67	8%	0.73	-6%
Pound	0.51	1%	0.51	-1%	0.53	-7%	0.57	-17%
Yen	105	12%	105	13%	108	9%	101	11%
<b>IBM Revenue Impact</b>		<b>7 pts</b>		<b>7 pts</b>		<b>3 pts</b>		<b>-4 pts</b>

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.

	<u>US\$B</u>	<u>Yr/Yr</u>
Revenue As Reported	\$25.3	5%
Currency Impact	0.8	3 pts
Revenue @CC	\$24.5	2%

*Negative Yr/Yr growth signifies a translation hurt*

# Cash Flow (FAS 95)

\$ in Billions

	<u>3Q08</u>	<u>3Q07</u>	<u>3Q08</u> <u>YTD</u>	<u>3Q07</u> <u>YTD</u>
Net Income from Operations	\$2.8	\$2.4	\$7.9	\$6.5
Depreciation / Amortization of Intangibles	1.4	1.3	4.1	3.9
Stock-based Compensation	0.2	0.2	0.5	0.5
Working Capital / Other	(1.1)	0.0	(2.6)	(2.2)
Global Financing A/R	0.5	0.6	2.3	2.2
<b>Net Cash provided by Operating Activities</b>	<b>3.7</b>	<b>4.5</b>	<b>12.2</b>	<b>10.9</b>
Capital Expenditures, net of payments & proceeds	(1.1)	(1.3)	(3.5)	(3.5)
Divestitures, net of cash transferred	0.0	0.0	0.1	0.3
Acquisitions, net of cash acquired	(0.1)	(0.5)	(6.0)	(0.7)
Marketable Securities / Other Investments, net	(0.3)	(1.4)	1.0	(1.8)
<b>Net Cash used in Investing Activities</b>	<b>(1.5)</b>	<b>(3.2)</b>	<b>(8.4)</b>	<b>(5.8)</b>
Debt, net of payments & proceeds	0.5	0.1	(0.9)	12.4
Dividends	(0.7)	(0.5)	(1.9)	(1.6)
Common Stock Repurchases	(2.7)	(0.2)	(9.8)	(18.4)
Common Stock Transactions - Other	1.0	1.5	3.7	3.4
<b>Net Cash used in Financing Activities</b>	<b>(1.9)</b>	<b>0.9</b>	<b>(9.0)</b>	<b>(4.1)</b>
Effect of Exchange Rate changes on Cash	(0.2)	0.1	(0.1)	0.2
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>\$0.1</b>	<b>\$2.3</b>	<b>(\$5.2)</b>	<b>\$1.3</b>

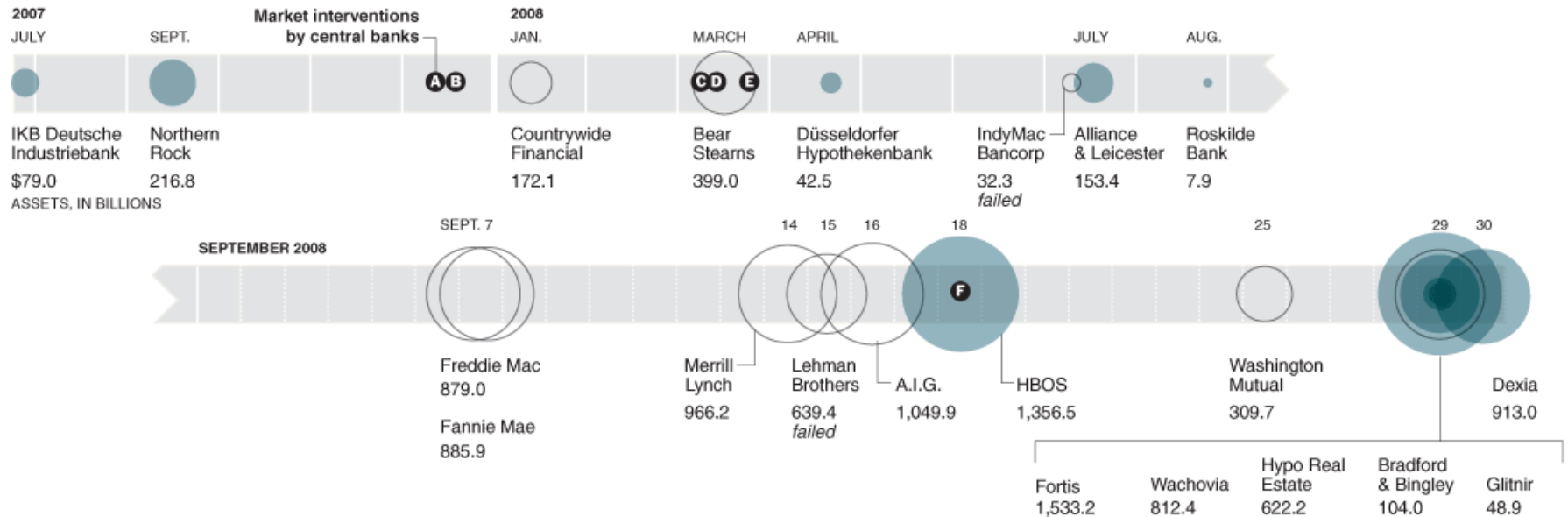


# The New York Times Article

## Casualties of the Financial Crisis

A timeline of bailouts, buyouts and takeovers of financial services companies in the U.S. ○ and Europe ● since the subprime mortgage crisis began.

Figures are assets as last reported and do not include the value of securities that some companies, notably Fannie Mae and Freddie Mac, guaranteed.



### Market interventions by the Federal Reserve or the European central banks

**A** DEC. 12 Central banks of the United States, the European Union, Canada and Switzerland announce a plan to provide at least \$90 billion in short-term financing to banks.

**B** DEC. 18 The European Central Bank injects \$500 billion into the financial system. The Bank of England auctions off \$20 billion in three-month loans.

**C** MARCH 7 The Federal Reserve offers up to \$200 billion in 28-day loans to banks and big financial institutions.

**D** MARCH 11 The Federal Reserve offers investment banks up to \$200 billion in Treasury securities in exchange for mortgage-backed securities.

**E** MARCH 21 The European Central Bank offers up to \$24 billion in loans to help banks shore up balance sheets. The Bank of England offers up to \$10 billion in loans.

**F** SEPT. 18 The Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan and the central banks in Switzerland and Canada make \$180 billion available in currency swaps.

Source: Bloomberg

NYT Graphics/© 2008 The New York Times Company

THE NEW YORK TIMES

# 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.

## 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.

# Non-GAAP Supplementary Materials

## 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>3Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Asia Pacific Revenue, other than Japan	8%	7%
Japan Revenue	4%	(5%)

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 26 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>3Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Germany	12%	2%
France	11%	2%
Italy	12%	2%
United Kingdom	(4%)	3%

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 26 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 Markets*

	<u>3Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Growth markets, Government sector	39%	33%
Growth markets, excluding China	14%	12%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Key Industry Sales Unit" and "Revenue by Geography" discussion regarding revenue growth in certain markets in the company's earnings presentation. See Slide 26 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

## *Reconciliation of Revenue Growth in Services Segment*

	<u>3Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Japan & Australia, Global Business Services	(6%)	(13%)
Global Business Services, excluding Japan & Australia	11%	8%

The above serves to reconcile the Non-GAAP financial information contained in the "Services Segments" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 26 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplementary Materials

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

	<u>3Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Revenue from Original Equipment Manufacturer (OEM)	(24%)	(25%)

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



