

3Q 2009 Earnings Presentation

October 15, 2009

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 2009 Highlights

Gross Profit Margin	45.1%	+1.8 pts yr/yr
Pre-Tax Margin	18.6%	+3.2 pts yr/yr
EPS	\$2.40	+18% yr/yr
Free Cash Flow (excl GF Receivables)	\$3.4B	+\$1.3B yr/yr

- Improved revenue performance vs. 2nd quarter
- Significant share gains in hardware and software
- Double-digit profit growth in Software and Services delivered through margin expansion
- Continued investment for future growth

Increasing EPS expectations to at least \$9.85 in 2009

Financial Summary

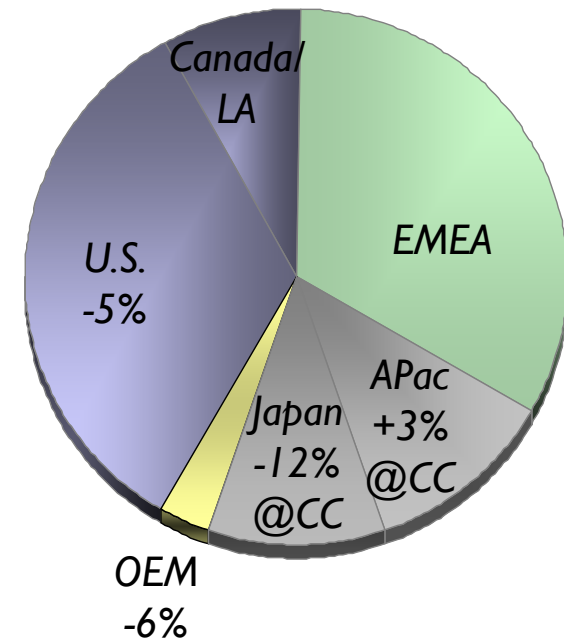
\$ in Billions, except EPS	<u>3Q09</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Revenue	\$23.6	(7%)
@CC		(5%)
Gross Profit Margin	45.1%	1.8 pts
Expense	\$6.3	11%
Pre-Tax Income	\$4.4	12%
PTI Margin	18.6%	3.2 pts
Tax Rate	26.5%	1.0 pts
Net Income	\$3.2	14%
Net Income Margin	13.6%	2.5 pts
Shares (Diluted) (M)	1,338.2	3%
EPS	\$2.40	18%

Results driven by margin performance

Revenue by Geography

\$ in Billions

	<u>3Q09</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Americas	\$9.9	(5%)	(4%)
Europe/ME/A	7.8	(12%)	(6%)
Asia Pacific	5.2	Flat	(4%)
Total Geographies	\$22.9	(7%)	(5%)
IBM	\$23.6	(7%)	(5%)
<i>Major Markets</i>		<i>(7%)</i>	<i>(6%)</i>
<i>Growth Markets</i>		<i>(6%)</i>	<i>(1%)</i>
<i>BRIC Countries</i>		<i>(1%)</i>	<i>4%</i>



Improved performance versus 2nd quarter in Americas, EMEA and Asia Pacific

Revenue by Key Industry Sales Unit

\$ in Billions

	<u>3Q09</u>	<u>B/(W) Yr/Yr</u>	
		<u>Rptd</u>	<u>@CC</u>
Financial Services	\$6.7	(3%)	(2%)
Public	3.9	Flat	2%
Industrial	2.5	(15%)	(14%)
Distribution	2.2	(11%)	(9%)
Communications	2.3	(9%)	(6%)
General Business	4.6	(9%)	(6%)
All Sectors	\$22.9	(7%)	(5%)
Total IBM	\$23.6	(7%)	(5%)



Led by Public Sector; strength in Financial Services

Revenue and Gross Margin by Segment

\$ in Billions	Revenue			Gross Profit Margin	
	<u>3Q09</u>	<u>B/(W) Yr/Yr</u>		<u>3Q09</u>	<u>B/(W) Yr/Yr Pts</u>
		<u>Rptd</u>	<u>@CC</u>		
Global Technology Services	\$9.4	(4%)	(2%)	35.5%	2.8 pts
Global Business Services	4.3	(11%)	(11%)	28.7%	1.3 pts
Software	5.1	(3%)	Flat	85.7%	0.9 pts
Systems & Technology	3.9	(12%)	(11%)	35.6%	(0.6 pts)
Global Financing	0.5	(15%)	(13%)	44.4%	(4.7 pts)
Total Segments	\$23.3	(7%)	(5%)	45.5%	1.9 pts
Total IBM	\$23.6	(7%)	(5%)	45.1%	1.8 pts

Margin expansion in 20 of last 21 quarters

Expense Summary

\$ in Billions	<u>3Q09</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	\$5.0	11%	3 pts	(1 pts)	9 pts
RD&E	1.4	8%	2 pts	(1 pts)	8 pts
IP and Development Income	(0.3)	10%			
Other (Income)/Expense	0.0	nm			
Interest Expense	<u>0.1</u>	47%			
Total Expense & Other Income	\$6.3	11%	5 pts	(1 pts)	8 pts

* Includes Acquisitions made in the last twelve months

Increasing efficiency and productivity through global business model

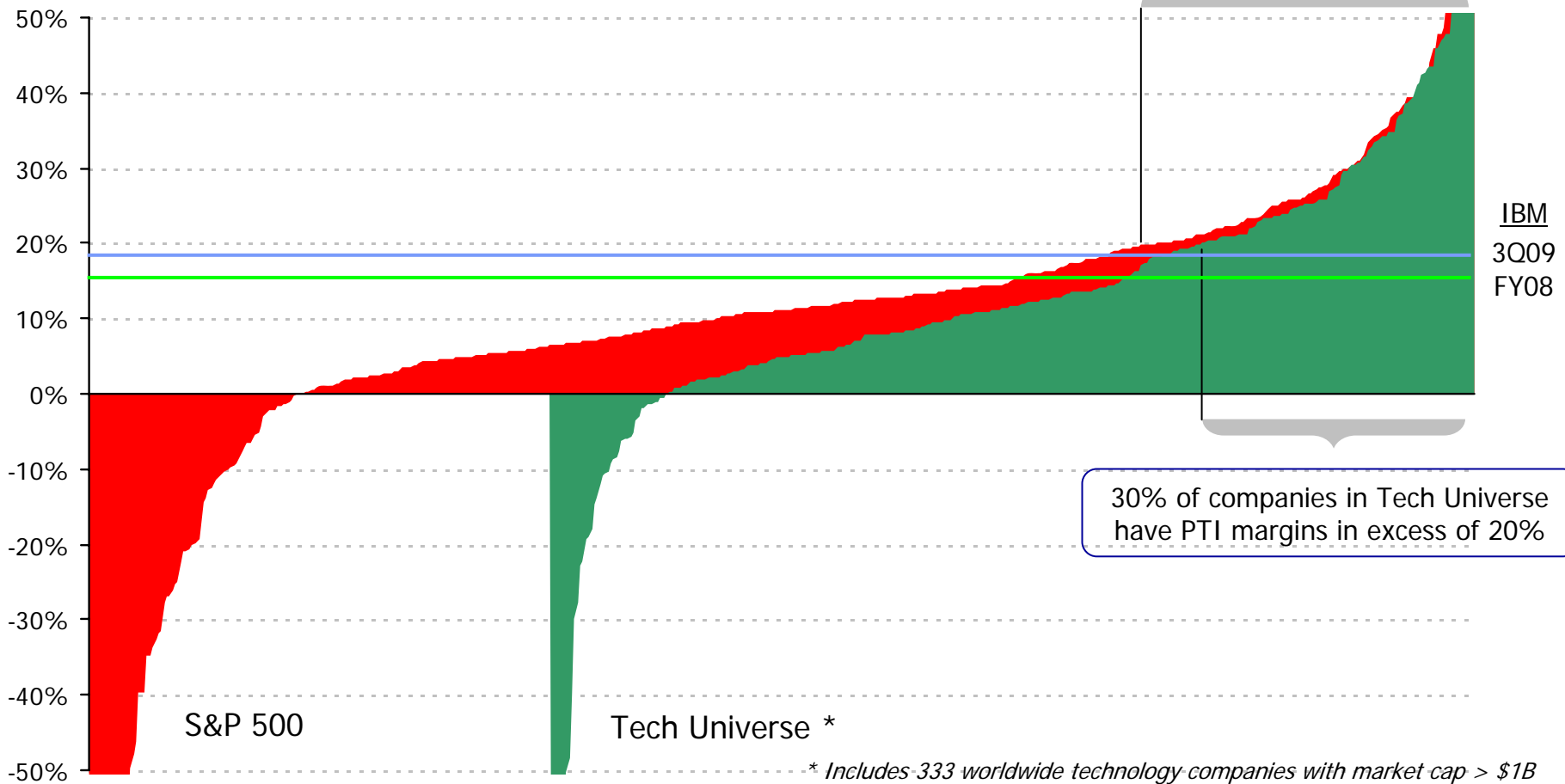
Margins by Segment

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>3Q09</u>	<u>B/(W) Yr/Yr Pts</u>	<u>3Q09</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	35.5%	2.8 pts	15.0%	3.4 pts
Global Business Services	28.7%	1.3 pts	14.5%	0.5 pts
Software	85.7%	0.9 pts	32.1%	6.2 pts
Systems & Technology	35.6%	(0.6 pts)	5.4%	(0.7 pts)
Global Financing	44.4%	(4.7 pts)	42.7%	10.7 pts
Total Segments	45.5%	1.9 pts	18.3%	3.2 pts
Total IBM	45.1%	1.8 pts	18.6%	3.2 pts

Margin expansion led by Software and Services

Margin Opportunity

Pre-tax Income Margin



Services Segments

Global Technology Services (GTS)

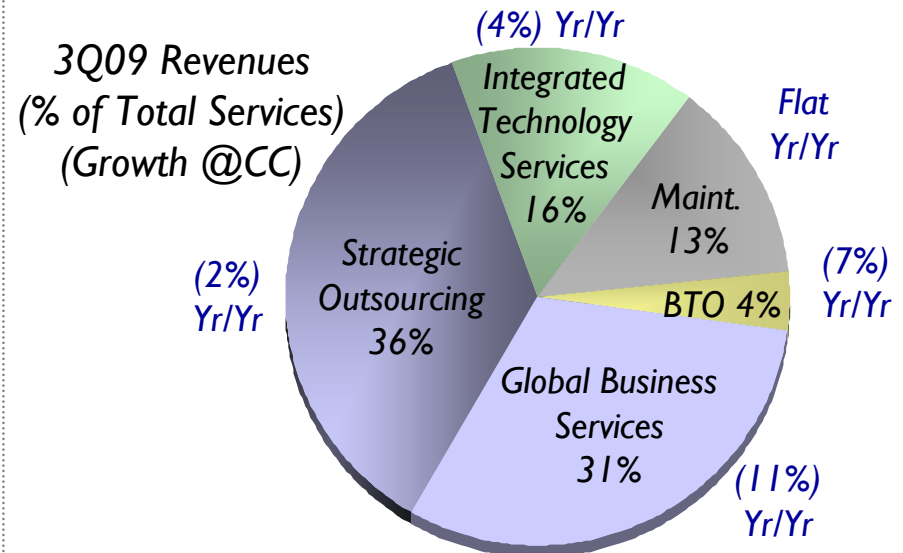
\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q09</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$9.4	(4%)	(2%)
Gross Margin (External)	35.5%	2.8 pts	
PTI Margin	15.0%	3.4 pts	

Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q09</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.3	(11%)	(11%)
Gross Margin (External)	28.7%	1.3 pts	
PTI Margin	14.5%	0.5 pts	

<u>GTS Signings</u>	<u>3Q09</u>	<u>Yr/Yr</u>	<u>@CC</u>
Integrated Technology Svcs	\$2.1	(12%)	(12%)
Outsourcing (SO + BTO)	4.6	(10%)	(9%)
Total GTS Signings	\$6.7	(11%)	(10%)

<u>GBS Signings</u>	<u>3Q09</u>	<u>Yr/Yr</u>	<u>@CC</u>
Consulting & Systems Integ.	\$3.0	(18%)	(18%)
Application Outsourcing	2.0	42%	39%
Total GBS Signings	\$5.1	(1%)	(2%)
Total Global Services Signings	\$11.8	(7%)	(7%)



Double-digit profit growth through margin expansion

Systems & Technology Segment

\$ in Billions

B/(W) Yr/Yr

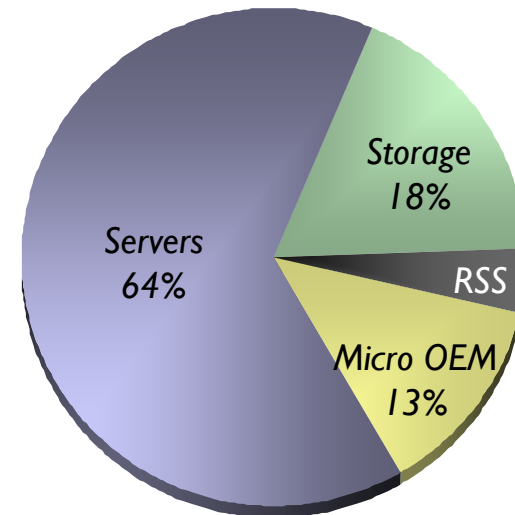
	<u>3Q09</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$3.9	(12%)	(11%)
Gross Margin (External)	35.6%	(0.6 pts)	
PTI Margin	5.4%	(0.7 pts)	

3Q09 Revenue

Yr/Yr

	<u>Rptd</u>	<u>@CC</u>
System z	(26%)	(25%)
Converged System p	(10%)	(9%)
System x Servers	1%	3%
Storage	(13%)	(13%)
Retail Store Solutions	(15%)	(14%)
Total Systems	(13%)	(11%)
Microelectronics OEM	(1%)	(1%)
Total Systems & Technology	(12%)	(11%)

3Q09 Revenue
(% of Total S&T)



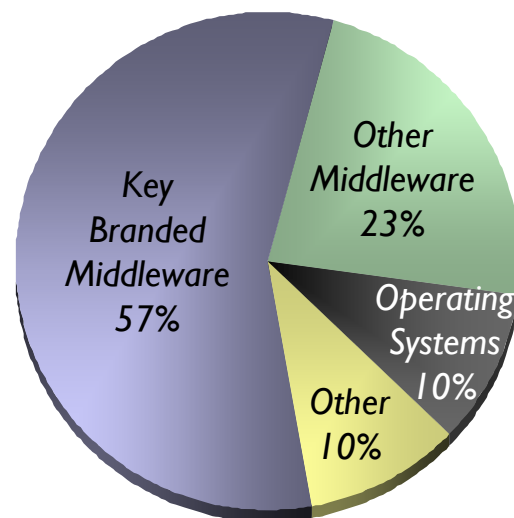
Systems share gain led by System p (+5 pts), System x (+2 pts) and Storage

Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>3Q09</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.1	(3%)	Flat
Gross Margin (External)	85.7%	0.9 pts	
PTI Margin	32.1%	6.2 pts	

<u>3Q09 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	14%	17%
Information Management	Flat	3%
Tivoli	5%	8%
Lotus	(9%)	(8%)
Rational	2%	5%
Key Branded Middleware	2%	5%
Total Middleware	1%	3%
Total Software	(3%)	Flat

3Q09 Revenue
(% of Total Software)



Continued strength in Branded Middleware

Cash Flow Analysis

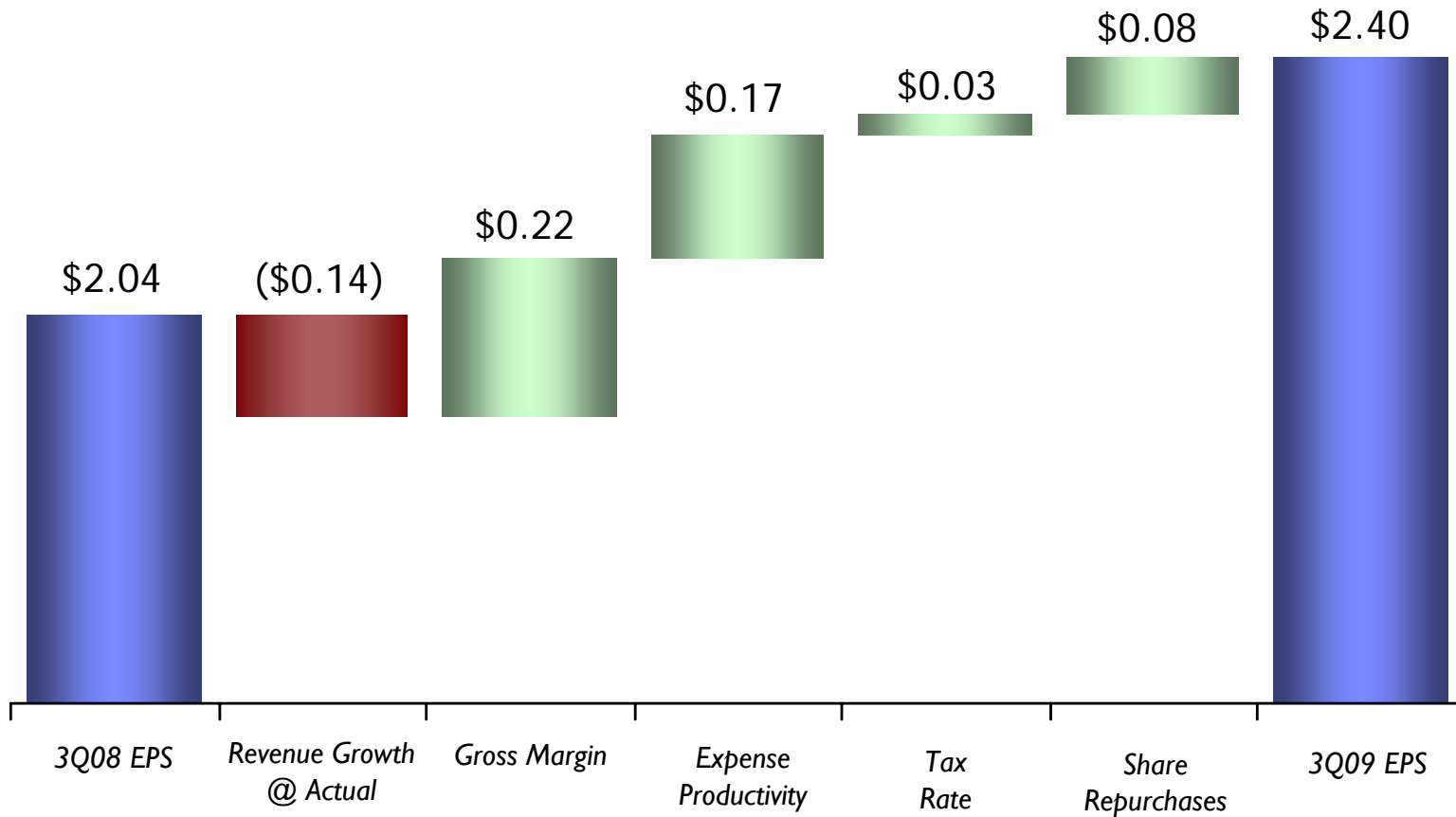
\$ in Billions	<u>3Q09</u>	<u>B/(W) Yr/Yr</u>	<u>3Q09 YTD</u>	<u>B/(W) Yr/Yr</u>
Net Cash from Operations	\$5.2	\$1.5	\$14.3	\$2.1
Less: Global Financing Receivables	<u>0.8</u>	<u>0.3</u>	<u>3.8</u>	<u>1.6</u>
Net Cash from Operations (excluding GF Receivables)	4.4	1.1	10.5	0.6
Net Capital Expenditures	<u>(1.0)</u>	<u>0.2</u>	<u>(2.6)</u>	<u>0.9</u>
Free Cash Flow (excluding GF Receivables)	3.4	1.3	7.9	1.5
Acquisitions	0.0	0.1	(0.1)	5.9
Divestitures	0.1	0.0	0.4	0.3
Dividends	(0.7)	0.0	(2.1)	(0.2)
Share Repurchases	(0.9)	1.7	(4.4)	5.5
Non-GF Debt	(4.0)	(3.9)	(6.2)	(4.8)
Other (includes GF A/R & GF Debt)	<u>1.2</u>	<u>(0.1)</u>	<u>3.1</u>	<u>(3.1)</u>
Change in Cash & Marketable Securities	(\$1.0)	(\$0.9)	(\$1.4)	\$5.0

Balance Sheet Summary

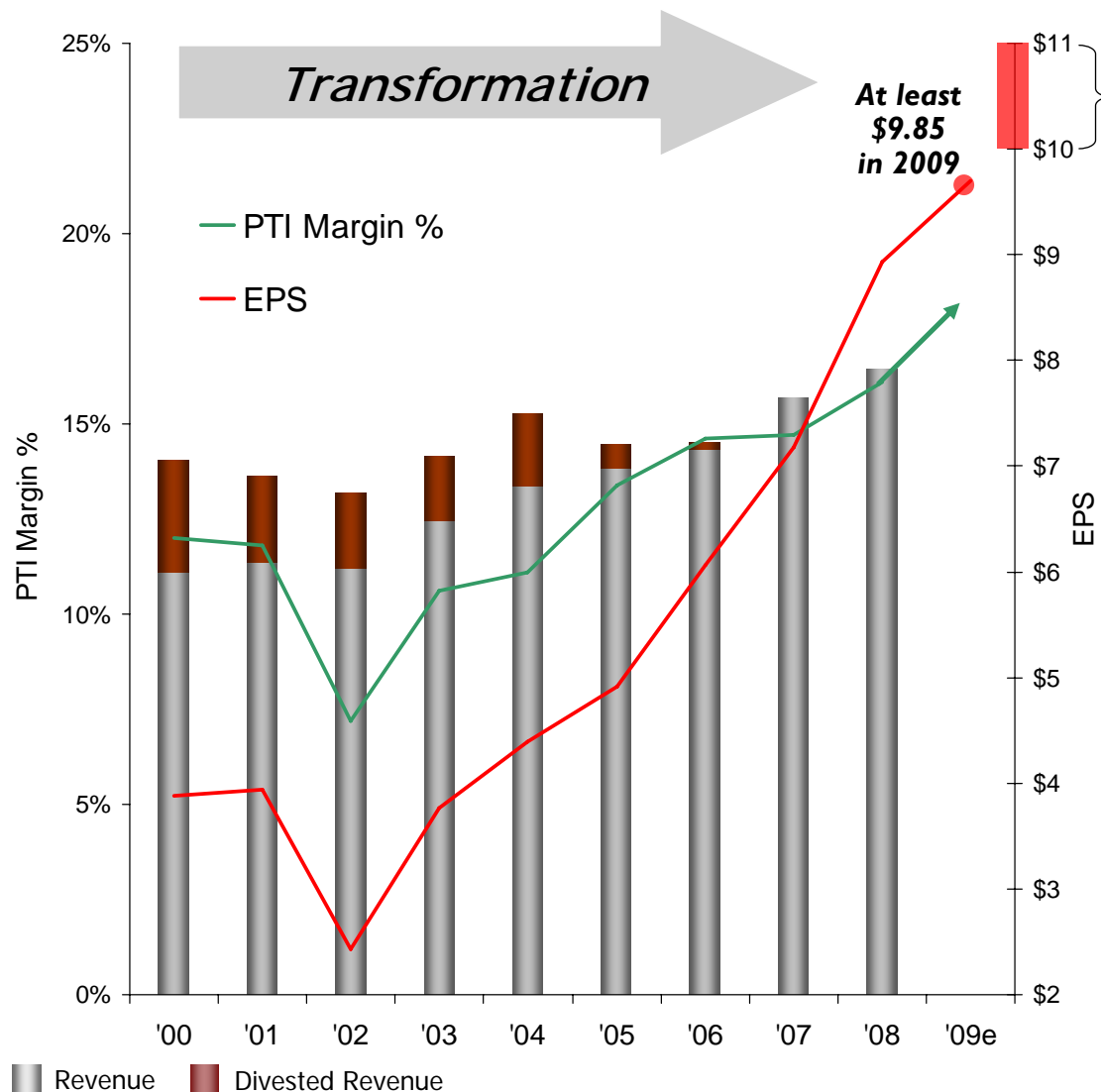
\$ in Billions	<u>Sept. 08</u>	<u>Dec. 08</u>	<u>Sept. 09</u>
Cash & Marketable Securities	\$9.8	\$12.9	\$11.5
Non-GF Assets*	73.4	61.8	61.5
Global Financing Assets	32.8	34.9	30.7
Total Assets	115.9	109.5	103.7
Other Liabilities	53.9	62.0	59.7
Non-GF Debt*	9.9	9.6	2.5
Global Financing Debt	24.5	24.4	22.9
Total Debt	34.4	33.9	25.5
Total Liabilities	88.3	95.9	85.2
Equity	27.6	13.6	18.5
Non-GF Debt / Capital	29%	49%	14%
Global Financing Leverage	7.1	7.0	7.0

* Includes eliminations of inter-company activity

EPS Bridge – 3Q08 to 3Q09



3Q 2009 Summary

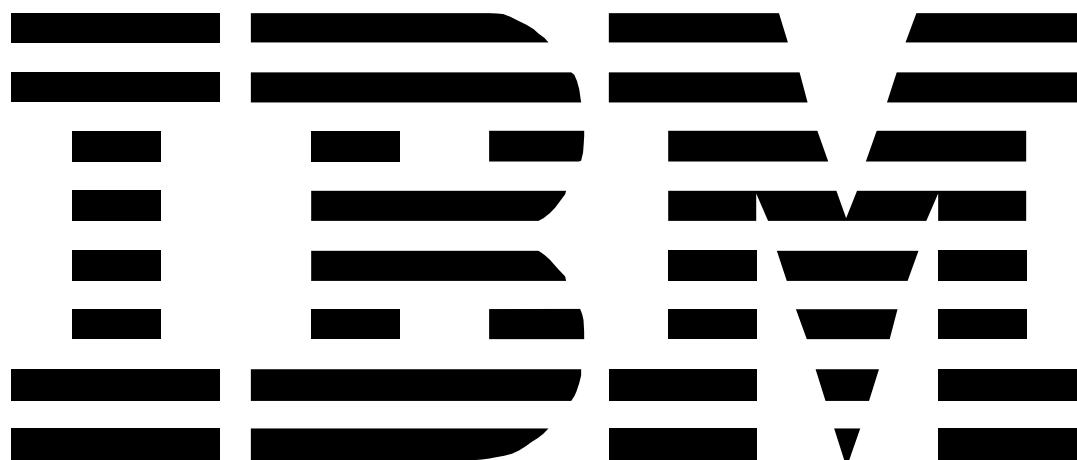


- Shifting portfolio to higher value spaces
- Driving productivity and efficiency in our cost structure
- Investing in skills and capabilities to drive future growth
- Returning capital to shareholders
- Significant operating leverage in businesses with improved long-term growth prospects

Increasing EPS expectations to at least \$9.85 in 2009

Well ahead of pace for 2010 roadmap

Note: EPS has been restated to reflect the adoption of EITF 03-6-1



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
- Cash Flow (FAS 95)
- Supplemental EPS Information – Acquisition-Related Activity
- Non-GAAP Supplementary Materials
 - Constant Currency, Cash Flow, Debt-to-Capital Ratio
 - Reconciliation of Sequential Improvements in Revenue Growth
 - Reconciliation of Geography Revenue Growth
 - Reconciliation of Software Segment Revenue Growth
 - Reconciliation of Debt-to-Capital Ratio

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q09</u>	<u>Yr/Yr</u>	<u>2Q09</u>	<u>Yr/Yr</u>	<u>3Q09</u>	<u>Yr/Yr</u>	10/14 <u>Spot</u>	@ 10/14 <u>Spot</u> <u>4Q09</u>
Euro	0.77	(15%)	0.73	(15%)	0.70	(5%)	0.67	12%
Pound	0.70	(38%)	0.65	(27%)	0.61	(15%)	0.63	2%
Yen	93	11%	97	7%	94	13%	90	7%

IBM Revenue Impact (8 pts) (7 pts) (2 pts) ~6-7 pts

IBM hedges its major cross-border cash flows to mitigate the effect of currency volatility. 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	\$23.6	(7%)
Currency Impact	(0.5)	(2 pts)
Revenue @CC	\$24.0	(5%)

Negative Yr/Yr growth signifies a translation hurt

Supplemental Segment Information – 3Q 2009

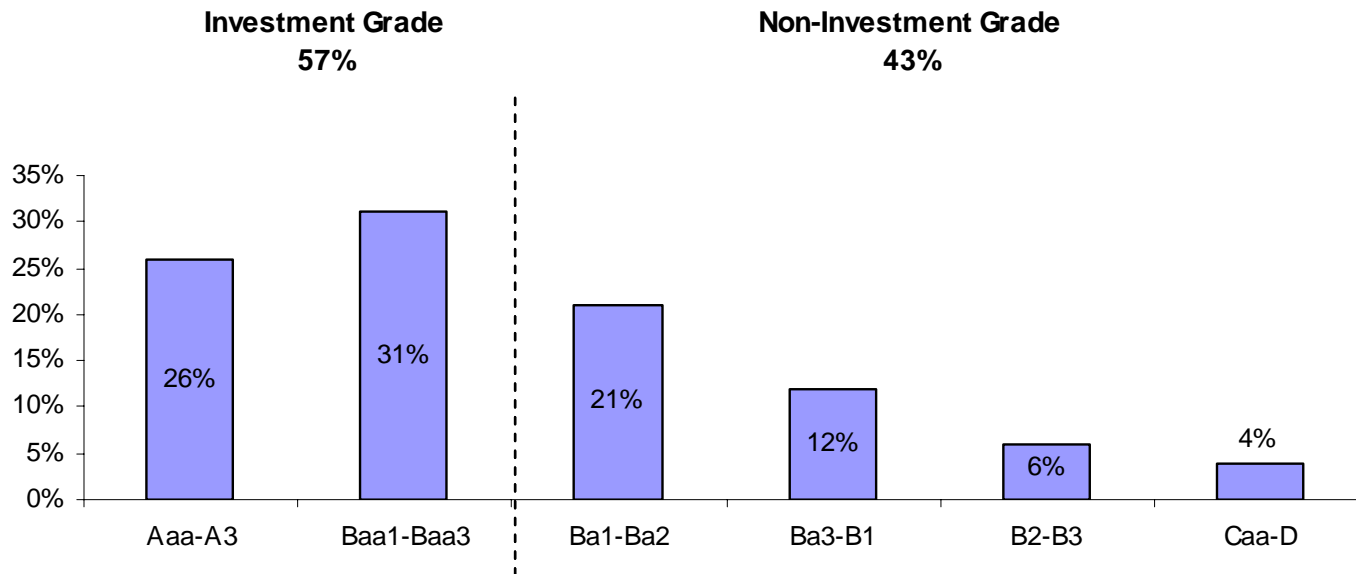
<i>Global Services</i>	<u>Revenue Growth</u>		<i>Global Services</i>	<u>Signings (\$B)</u>		
	<u>Yr/Yr</u>	<u>@CC</u>		<u>3Q09</u>	<u>Yr/Yr</u>	<u>@CC</u>
Strategic Outsourcing	(4%)	(2%)	<u>Global Services (C&SI / ITS)</u>	\$5.1	(16%)	(15%)
Business Transformation Outsourcing	(11%)	(7%)	GBS (C&SI)	3.0	(18%)	(18%)
Integrated Tech Services	(5%)	(4%)	GTS (ITS)	2.1	(12%)	(12%)
Maintenance	<u>(3%)</u>	<u>Flat</u>	<u>Global Services Outsourcing</u>	\$6.7	1%	1%
Global Technology Services	(4%)	(2%)	GBS (App. Outsourcing)	2.0	42%	39%
Global Business Services	(11%)	(11%)	GTS (SO & BTO)	4.6	(10%)	(9%)
			SO		(11%)	(10%)
			BTO		1%	6%
Backlog	\$134B					
<u>Change in Backlog due to Currency</u>						
Quarter-to-Quarter	\$4B					
Year-to-Year	\$4B					

Supplemental Segment Information – 3Q 2009

<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	(26%)	(25%)	↑	↓	WebSphere Family	14%	17%
Converged System p	(10%)	(9%)	=	↑	Information Management	Flat	3%
System x Servers	1%	3%	↑	↑	Tivoli	5%	8%
Storage	(13%)	(13%)	↑	↑	Lotus	(9%)	(8%)
Retail Store Solutions	(15%)	(14%)	↑	=	Rational	<u>2%</u>	<u>5%</u>
Total Systems	(13%)	(11%)	↑	↑	Key Branded Middleware	2%	5%
Microelectronics OEM	(1%)	(1%)	↓		Other Middleware	<u>(4%)</u>	<u>(1%)</u>
Total Systems & Technology	(12%)	(11%)	↓	↑	Total Middleware	1%	3%
					Operating Systems	(12%)	(8%)
					Other Software/Services	<u>(14%)</u>	<u>(12%)</u>
					Total Software	(3%)	Flat

Global Financing Portfolio

3Q09 – \$22.5B Net External Receivables



	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Identified Loss Rate	1.7%	1.7%	1.3%
Anticipated Loss Rate	0.6%	0.6%	0.5%
Reserve Coverage	2.3%	2.3%	1.8%
Client Days Delinquent Outstanding	3.1	3.4	4.8
Commercial A/R > 30 Days	\$34M	\$48M	\$76M

Cash Flow (FAS 95)

\$ in Billions	<u>QTD</u> <u>3Q09</u>	<u>QTD</u> <u>3Q08</u>	<u>3Q09</u> <u>YTD</u>	<u>3Q08</u> <u>YTD</u>
Net Income from Operations	\$3.2	\$2.8	\$8.6	\$7.9
Depreciation / Amortization of Intangibles	1.3	1.4	3.7	4.1
Stock-based Compensation	0.1	0.2	0.4	0.5
Working Capital / Other	(0.2)	(1.1)	(2.3)	(2.6)
Global Financing A/R	0.8	0.5	3.8	2.3
Net Cash provided by Operating Activities	5.2	3.7	14.3	12.2
Capital Expenditures, net of payments & proceeds	(1.0)	(1.1)	(2.6)	(3.5)
Divestitures, net of cash transferred	0.1	0.0	0.4	0.1
Acquisitions, net of cash acquired	0.0	(0.1)	(0.1)	(6.0)
Marketable Securities / Other Investments, net	(1.4)	(0.3)	(1.9)	1.0
Net Cash used in Investing Activities	(2.3)	(1.5)	(4.2)	(8.4)
Debt, net of payments & proceeds	(4.5)	0.5	(8.5)	(0.9)
Dividends	(0.7)	(0.7)	(2.1)	(1.9)
Common Stock Repurchases	(0.9)	(2.7)	(4.4)	(9.8)
Common Stock Transactions - Other	1.0	1.0	1.5	3.7
Net Cash used in Financing Activities	(5.2)	(1.9)	(13.5)	(9.0)
Effect of Exchange Rate changes on Cash	0.2	(0.2)	0.2	(0.1)
Net Change in Cash & Cash Equivalents	(\$2.1)	\$0.1	(\$3.2)	(\$5.2)

Supplemental EPS Information – Acquisition-Related Activity

The company is including a view of the impact of certain acquisition-related charges on IBM's earnings results.

Management's view is that this supplemental information provides additional insight into the company's ongoing operations and enables a more meaningful comparison to other companies in the technology sector who present similar information.

Supplemental EPS Information – Acquisition-Related Activity - 2009

\$ in Millions, except EPS

1Q09

2Q09

3Q09

As Reported

Pre-Tax Income	\$3,122	\$4,262	\$4,373
Net Income	\$2,295	\$3,103	\$3,214
EPS	\$1.70	\$2.32	\$2.40

Adjustments

Pre-Tax Income Total	\$125	\$122	\$125
Amortization of Acquired Intangibles	125	122	124
In Process R&D	0	0	0
Acquisition-Related Charges	0	0	2
Net Income	\$90	\$88	\$90
EPS	\$0.07	\$0.07	\$0.07

Non-GAAP

Pre-Tax Income	\$3,247	\$4,384	\$4,498
Net Income	\$2,385	\$3,191	\$3,304
EPS	\$1.77	\$2.39	\$2.47

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.

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.

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.

Non-GAAP Supplementary Materials

Reconciliation of Sequential Improvements in Revenue Growth

	<u>2Q09</u>		<u>3Q09</u>		Change <u>@CC</u>
	<u>As Rptd</u>	<u>@CC</u>	<u>As Rptd</u>	<u>@CC</u>	
Americas	(9%)	(7%)	(5%)	(4%)	3 pts
Financial Services	(14%)	(7%)	(3%)	(2%)	5 pts

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" and "Revenue by Key Industry Sales Unit" discussion regarding revenue growth in certain geographies/countries 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 Supplementary Materials

Reconciliation of Geography Revenue Growth

	<u>3Q09 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
China	26%	26%
Asia Pacific Revenue, other than Japan	(2%)	3%
Japan Revenue	1%	(12%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" discussion regarding revenue growth in certain geographies/countries 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 Supplementary Materials

Reconciliation of Software Segment Revenue Growth

	<u>3Q09 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Business Integration	28%	34%
Fast Payback Software Products (such as WebSphere Portal & Tivoli Storage)	6%	8%

The above serves to reconcile the Non-GAAP financial information contained in the "Software Segment" discussion regarding revenue growth in certain products 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 Supplementary Materials

Reconciliation of Debt-to-Capital Ratio

	<u>3Q08</u>	<u>FY08</u>	<u>2Q09</u>	<u>3Q09</u>
Non-GF Debt / Capital	29%	49%	35%	14%
IBM Consolidated Debt / Capital	55%	71%	65%	58%

The above serves to reconcile the Non-GAAP financial information contained in the "Balance Sheet Summary" discussion regarding the non-GF debt to capital ratio in the company's earnings presentation. See Slide 27 of this presentation for additional information on the use of these Non-GAAP financial measures.

