



4Q 2008 Earnings Presentation

January 20, 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.

2008 Summary

4Q 2008 Highlights

- PTI Margin +2.5pts yr/yr
 - GTS +4.1 pts yr/yr
 - GBS +3.6 pts yr/yr
 - SW +4.2 pts yr/yr
- EPS \$3.28 +17% yr/yr
- \$7.9B Free Cash Flow*
- Signings \$17.2B
 - Strategic Outsourcing +20%
 - GBS Short Term \$4.5B
- Software revenue +9% @CC

Full Year Highlights

- PTI Margin 16.1%, +1.5 pts yr/yr
 - GTS +1.9 pts yr/yr
 - GBS +2.2 pts yr/yr
 - SW +1.7 pts yr/yr
- EPS \$8.93 +24% yr/yr
- \$14.3B Free Cash Flow* +\$1.9B yr/yr
- Signings \$57B, Backlog \$117B
- Record Revenue, Pre-Tax Income, EPS and Free Cash Flow*

* Excluding GF Receivables

Expect at least \$9.20 EPS for 2009

2008 – Demonstration of IBM's Transformation

Transformational Highlights

- Shift to higher value business
- Invest in Growth Markets
- Global Integration
- Invest in Innovation
- Ongoing productivity and margin improvement

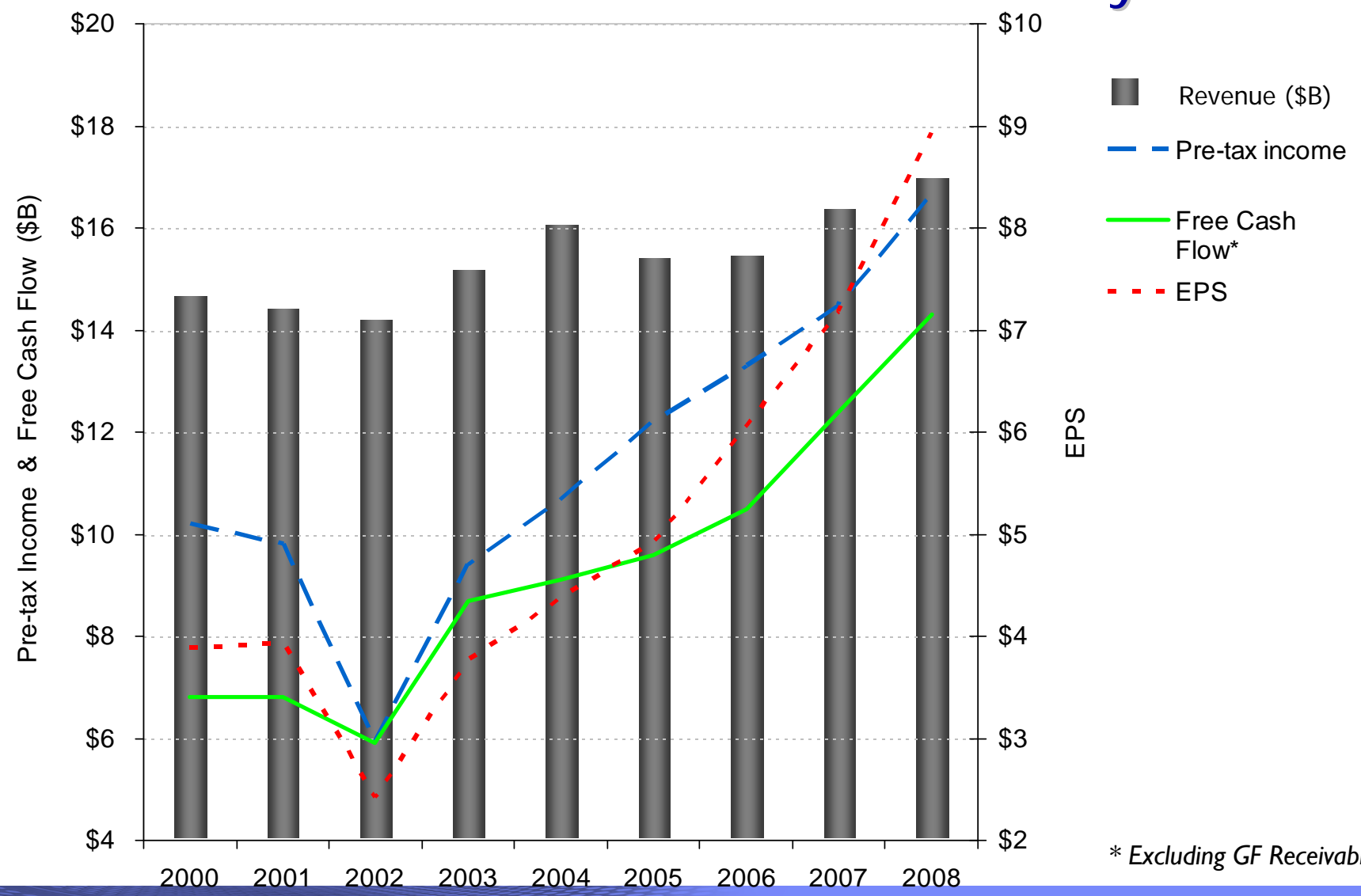
2002 - 2008

- Pre-Tax Profit: +\$10B
- Margin: More than doubled
- Earnings Per Share: More than tripled
- Free Cash Flow: \$65B cumulative
excl. GF Receivables

Sustained Performance

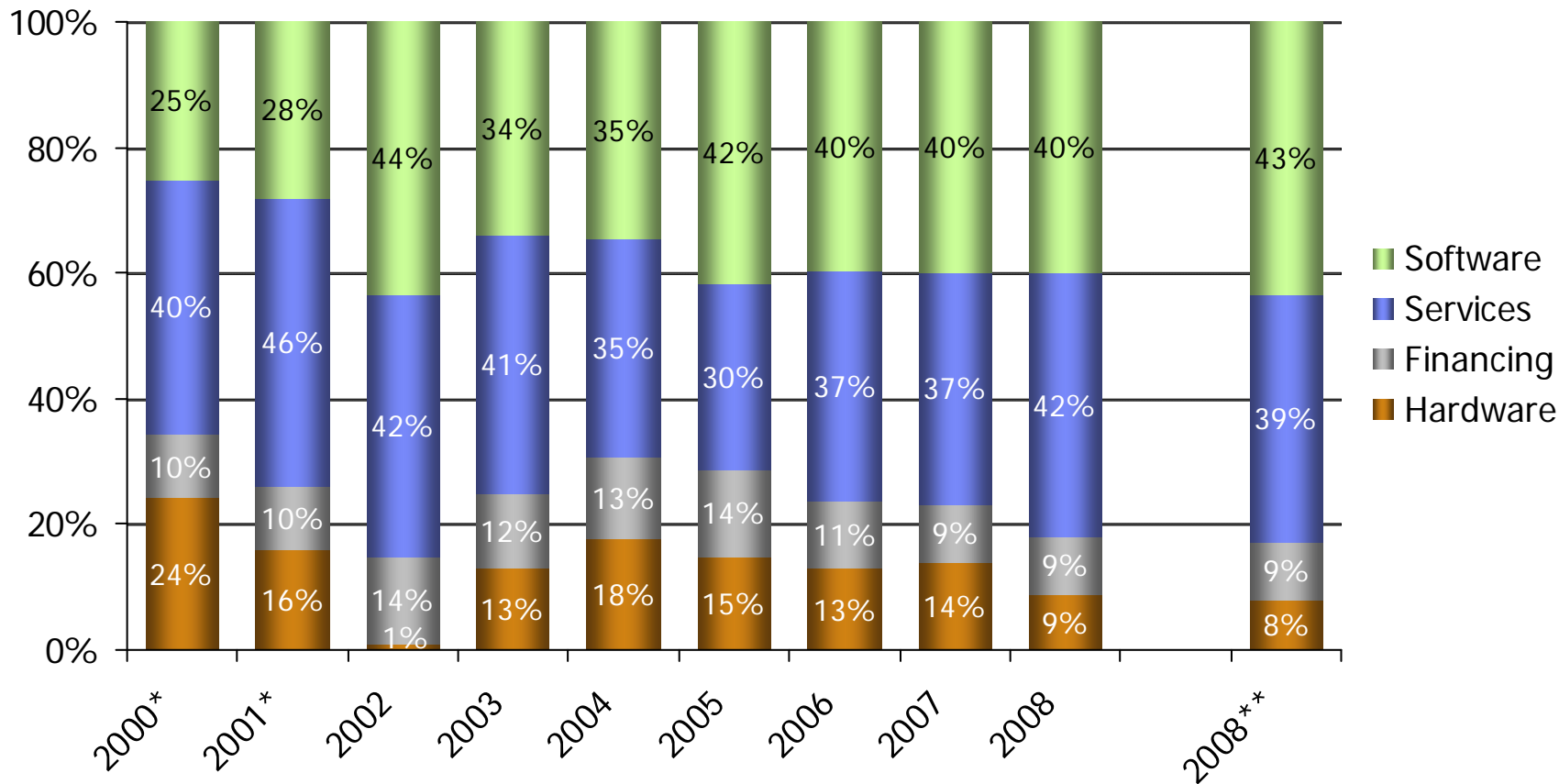


IBM Financial Performance History



* Excluding GF Receivables

Transformational Impact on Segment PTI Mix



* Excludes Enterprise Investments segment and stock-based compensation

** Excludes Yr/Yr pension savings and amortization of acquired intangibles

4Q / FY 2008 Financial Summary

\$ in Billions, except EPS

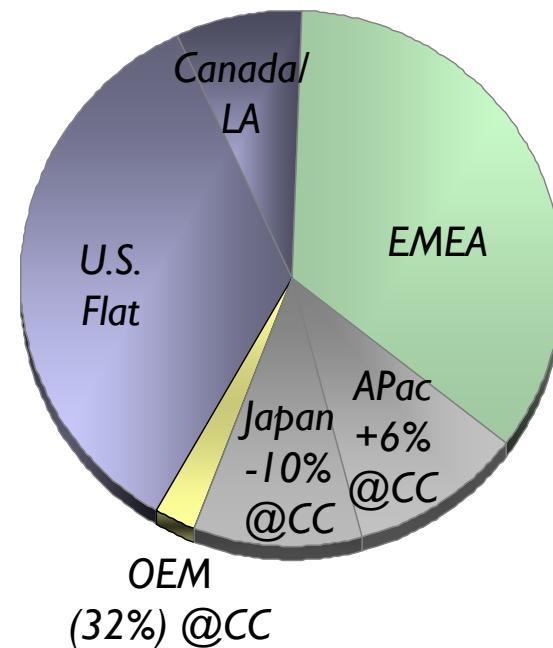
	<u>4Q08</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>FY08</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Revenue	\$27.0	(6%)	\$103.6	5%
@CC		(1%)		2%
GP %	47.9%	3.0 pts	44.1%	1.8 pts
Expense	\$7.1	5%	\$28.9	(6%)
Pre-Tax Income	\$5.8	6%	\$16.7	15%
PTI Margin	21.5%	2.5 pts	16.1%	1.5 pts
Tax Rate	23.8%	4.2 pts	26.2%	1.9 pts
Net Income	\$4.4	12%	\$12.3	18%
Shares (Diluted) (M)	1,347.9	5%	1,381.8	5%
EPS	\$3.28	17%	\$8.93	24%

Strong margins drive record profit performance

Revenue by Geography

\$ in Billions

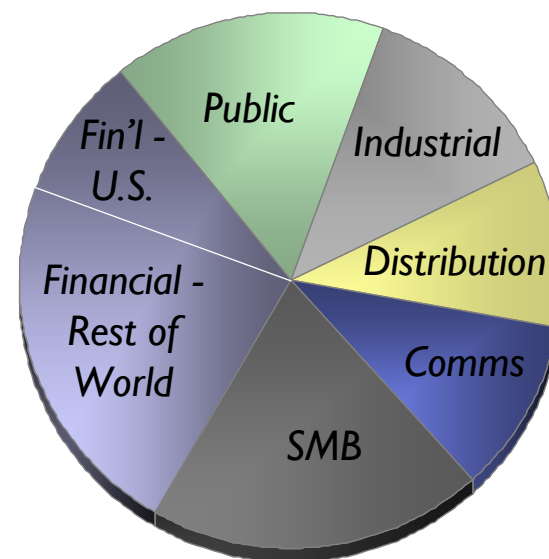
	<u>4Q08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Americas	\$11.5	(2%)	2%
Europe/ME/A	9.5	(12%)	(1%)
Asia Pacific	5.5	(1%)	(1%)
Total Geographies	\$26.4	(6%)	Flat
IBM	\$27.0	(6%)	(1%)
<i>Major Markets</i>		<i>(5%)</i>	<i>(1%)</i>
<i>Growth Markets</i>		<i>(7%)</i>	<i>6%</i>
<i>BRIC Countries</i>		<i>2%</i>	<i>13%</i>



Revenue by Key Industry Sales Unit

\$ in Billions

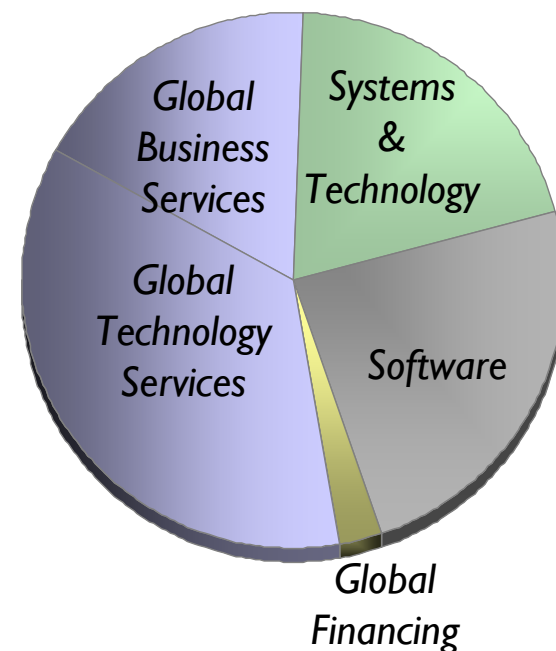
	<u>4Q08</u>	<u>B/(W)</u>	<u>Yr/Yr</u>
		<u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.9	(6%)	(1%)
Public	4.2	(1%)	5%
Industrial	3.1	(8%)	(5%)
Distribution	2.6	(6%)	(1%)
Communications	2.7	(4%)	3%
Small / Medium Business	5.1	(9%)	(3%)
All Sectors	\$26.4	(6%)	Flat
Total IBM	\$27.0	(6%)	(1%)



Revenue by Segment

\$ in Billions

	<u>4Q08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Global Technology Services	\$9.6	(4%)	3%
Global Business Services	4.7	(5%)	Flat
Systems & Technology	5.4	(20%)	(16%)
Software	6.4	3%	9%
Global Financing	0.7	(1%)	5%
Total Segments	\$26.8	(6%)	(1%)
Total IBM	\$27.0	(6%)	(1%)



Annuity businesses provide solid revenue base

Expense Summary

\$ in Billions	<u>4Q08</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	\$5.8	3%	6 pts	(5 pts)	3 pts
RD&E	1.5	4%	4 pts	(6 pts)	6 pts
IP and Development Income	(0.3)	39%			
Other (Income)/Expense	(0.1)	(1%)			
Interest Expense	<u>0.2</u>	11%			
Total Expense & Other Income	\$7.1	5%	8 pts	(6 pts)	2 pts

* Includes Acquisitions made in the last twelve months

Aligning investments with growth opportunities

SG&A Ops: Growth Markets grew 9% yrlyr, Rest of World down 5% yrlyr

Margins by Segment

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>4Q08</u>	<u>B/(W) Yr/Yr Pts</u>	<u>4Q08</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	34.9%	4.8 pts	14.4%	4.1 pts
Global Business Services	28.7%	5.6 pts	14.9%	3.6 pts
Systems & Technology	39.9%	(5.8 pts)	12.7%	(6.7 pts)
Software	87.7%	0.6 pts	39.1%	4.2 pts
Global Financing	50.0%	4.5 pts	38.2%	7.5 pts
Total Segments	47.8%	2.4 pts	21.2%	2.4 pts
Total IBM	47.9%	3.0 pts	21.5%	2.5 pts

Business mix and ongoing productivity initiatives drive margin expansion

Services Segments

Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$9.6	(4%)	3%
Gross Margin (External)	34.9%	4.8 pts	
PTI Margin	14.4%	4.1 pts	

Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.7	(5%)	Flat
Gross Margin (External)	28.7%	5.6 pts	
PTI Margin	14.9%	3.6 pts	

Global Services Signings @ Act.

	<u>4Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$7.3	(7%)
Total Long Term Signings	9.9	(3%)

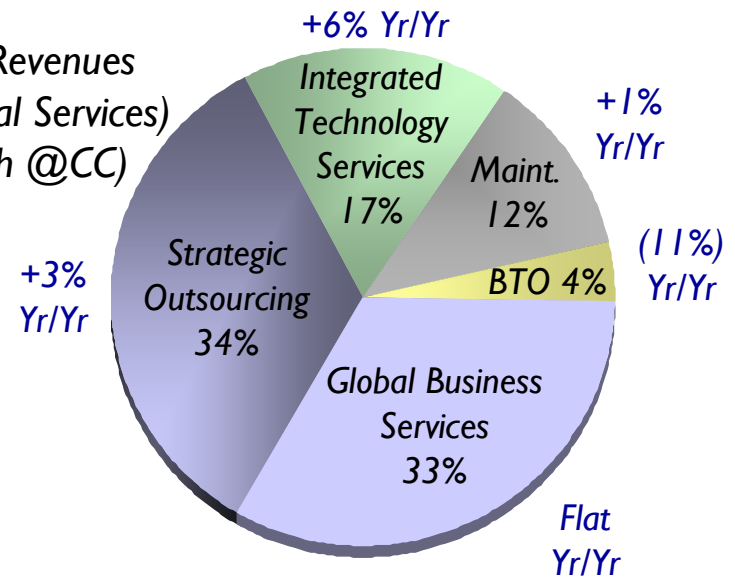
Total Signings @ Actual	\$17.2	(5%)
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Global Services Signings @ CC

	<u>4Q08</u>	<u>Yr/Yr</u>
Total Short Term Signings	\$6.6	(1%)
Total Long Term Signings	9.0	3%

Total Signings @ CC	\$15.6	2%
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4Q08 Revenues
(% of Total Services)
(Growth @CC)



Services PTI +32% yr/yr: GTS +35%, GBS +26%

Software Segment

B/(W) Yr/Yr

\$ in Billions

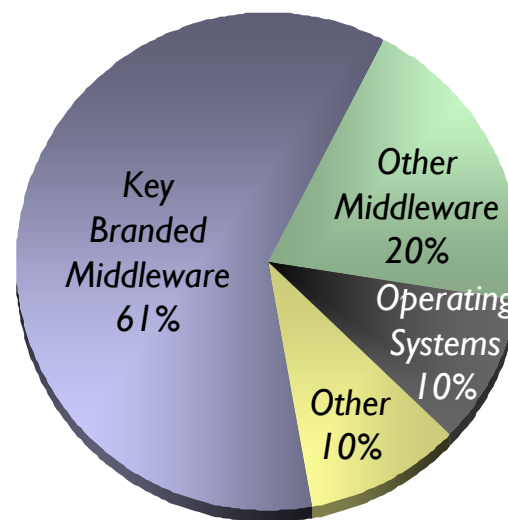
	<u>4Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$6.4	3%	9%
Gross Margin (External)	87.7%	0.6 pts	
PTI Margin	39.1%	4.2 pts	

4Q08 Revenue

Yr/Yr

	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	(1%)	5%
Information Management	18%	25%
Tivoli	(4%)	4%
Lotus	Flat	6%
Rational	(1%)	5%
Key Branded Middleware	6%	13%
Total Middleware	4%	11%
Total Software	3%	9%

4Q08 Revenue
(% of Total Software)



Full year profit doubled in last five years

Systems & Technology Segment

\$ in Billions

B/(W) Yr/Yr

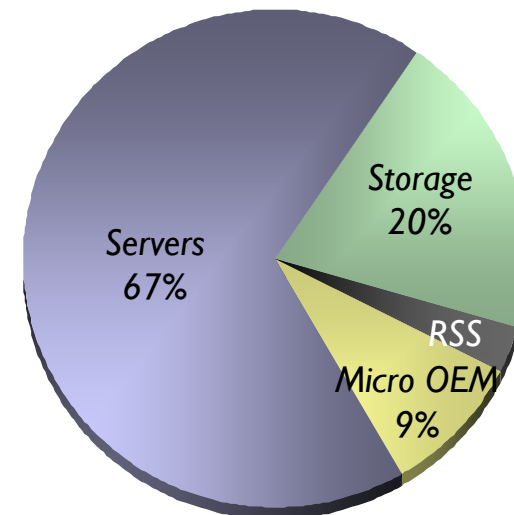
	<u>4Q08</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$5.4	(20%)	(16%)
Gross Margin (External)	39.9%	(5.8 pts)	
PTI Margin	12.7%	(6.7 pts)	

4Q08 Revenue

Yr/Yr

	<u>Rptd</u>	<u>@CC</u>
System z	(6%)	1%
Converged System p	8%	14%
Legacy System i	(92%)	(91%)
System x Servers	(32%)	(28%)
Storage	(20%)	(16%)
Retail Store Solutions	(28%)	(22%)
Total Systems	(18%)	(14%)
Microelectronics OEM	(34%)	(35%)
Total Systems & Technology	(20%)	(16%)

4Q08 Revenue
(% of Total S&TG)



Virtualization and consolidation drive high-end performance

Cash Flow Analysis

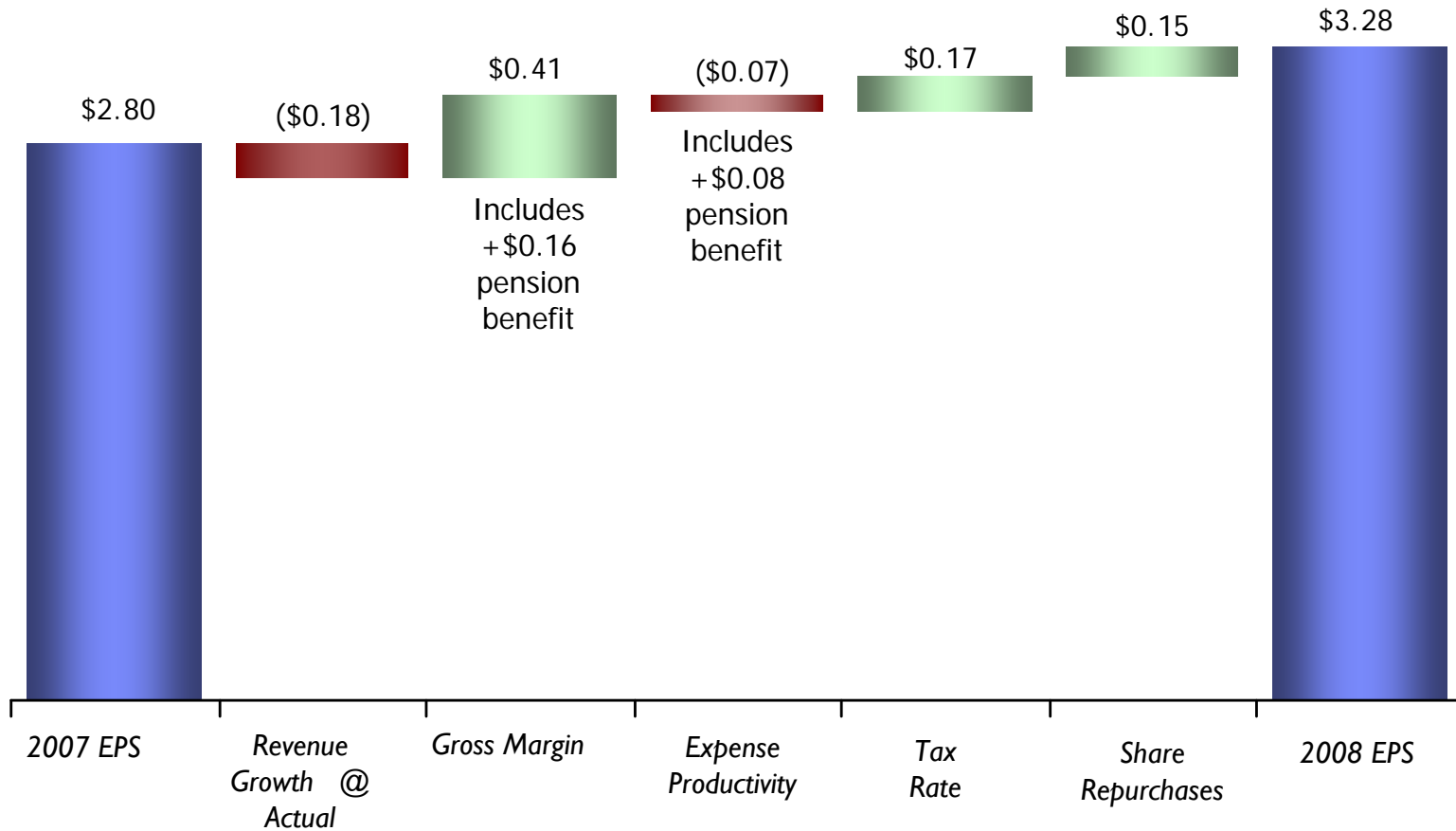
\$ in Billions	B/(W)		B/(W)	
	<u>4Q08</u>	<u>Yr/Yr</u>	<u>FY08</u>	<u>Yr/Yr</u>
Net Cash from Operations	\$6.6	\$1.5	\$18.8	\$2.7
Less: Global Financing Receivables	<u>(2.3)</u>	<u>1.3</u>	<u>0.0</u>	<u>1.3</u>
Net Cash from Operations (excluding GF Receivables)	8.9	0.2	18.8	1.4
Net Capital Expenditures	<u>(1.0)</u>	<u>0.4</u>	<u>(4.5)</u>	<u>0.4</u>
Free Cash Flow (excluding GF Receivables)	7.9	0.6	14.3	1.9
Acquisitions	(0.3)	0.0	(6.3)	(5.3)
Divestitures	0.0	0.0	0.1	(0.2)
Dividends	(0.7)	(0.1)	(2.6)	(0.4)
Share Repurchases	(0.7)	(0.3)	(10.6)	8.2
Non-GF Debt	(1.8)	(1.0)	(3.2)	(14.1)
Other (includes GF A/R & GF Debt)	<u>(1.2)</u>	<u>1.6</u>	<u>5.0</u>	<u>1.2</u>
Change in Cash & Marketable Securities	\$3.2	\$0.8	(\$3.2)	(\$8.7)

Balance Sheet Summary

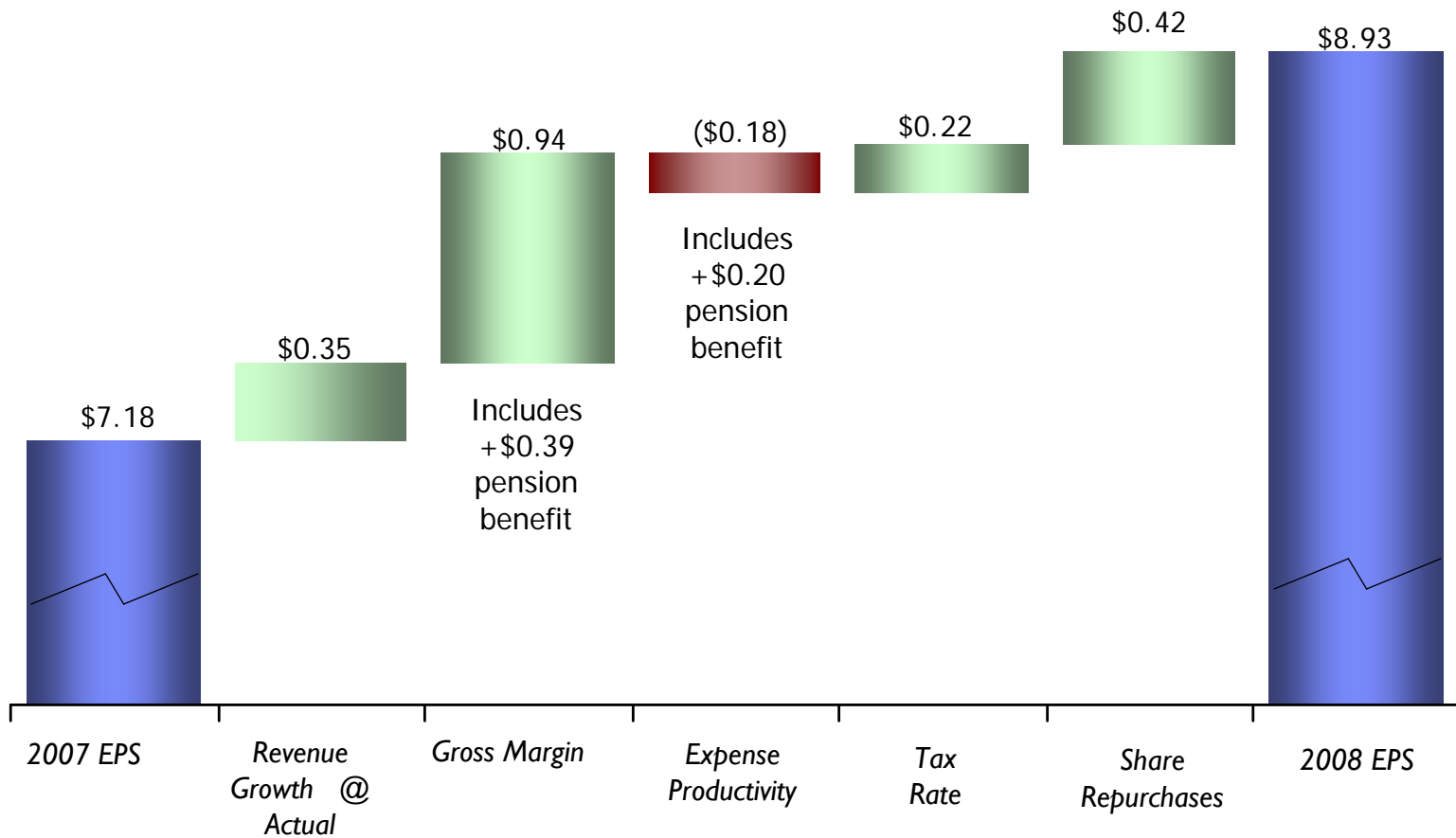
\$ in Billions	<u>Dec. 07</u>	<u>Dec. 08</u>
Cash & Marketable Securities	\$16.1	\$12.9
Non-GF Assets*	67.5	61.8
Global Financing Assets*	36.8	34.9
Total Assets	120.4	109.5
Other Liabilities	56.7	62.1
Non-GF Debt	10.7	9.6
Global Financing Debt	24.5	24.4
Total Debt	35.3	33.9
Total Liabilities	92.0	96.1
Equity	28.5	13.5
Non-GF Debt / Capital	30%	49%
Global Financing Leverage	7.1	7.0

*Excluding Cash & Marketable Securities

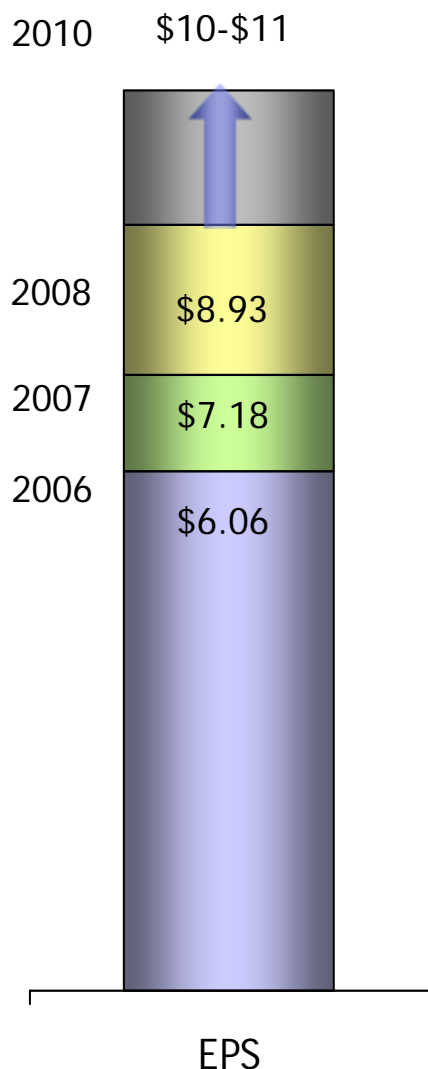
EPS Bridge – 4Q07 to 4Q08



EPS Bridge – 2007 to 2008

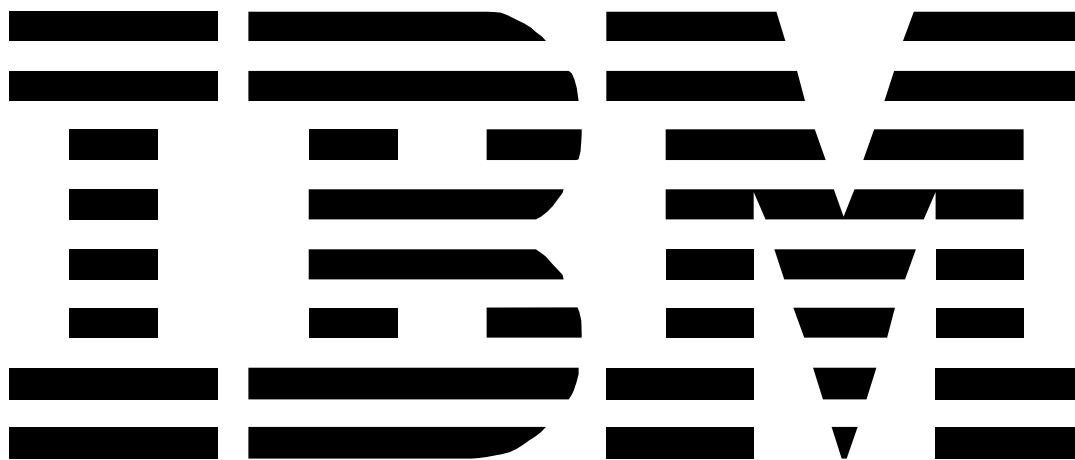


Well-Positioned Entering 2009



- Leadership through innovation and transformation
 - Strategic shift to high end offerings and products
 - Capture opportunity in growth and major markets
 - Flexible model that addresses all market conditions
- Stable base of business
 - Large annuity base drives margin and cash
 - Mission critical products and services
- Continuous productivity and margin improvement
 - Global delivery framework
 - Global integration and virtualization
- Financial Flexibility
 - Free cash flow of \$14.3B and cash balance of nearly \$13B
- Positioned to strengthen our business even more
 - Flight to quality vendors in IT
 - Global demand for new innovation like "Smarter Planet" initiatives

*Expect EPS of at least \$9.20 in 2009
Ahead of pace for roadmap to \$10-\$11 EPS*



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
- Summary and Selected Items – FY 2008
- Revenue by Geography – FY 2008
- Revenue by Key Industry Sales Unit – FY 2008
- Revenue by Segment – FY 2008
- Margins by Segment – FY 2008
- Expense Summary – FY 2008
- Cash Flow (FAS 95)
- Non-GAAP Supplementary Materials
 - Constant Currency, Cash Flow
 - Non-Recurring and Unique Items, Acquisitions, Amortization of Acquired Intangible Assets, Stock-Based Compensation
 - Reconciliation of Free Cash Flows (excluding GF Receivables)
 - Reconciliation of Software Pre-Tax Profit
 - Reconciliation of Asia Pacific Revenue Growth
 - Reconciliation of Revenue Growth in Selected Countries
 - Reconciliation of Revenue Growth in Selected Segments
 - Reconciliation of Managed Labor Costs
 - Reconciliation of Revenue Growth of Original Equipment Manufacturer (OEM)
 - Reconciliation of SG&A
 - Reconciliation of Retirement-Related Plan Costs
 - Reconciliation of Impact on Segment PTI Mix
- Computation of 2008 Global Financing Return on Equity

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>3Q08</u>	<u>Yr/Yr</u>	<u>4Q08</u>	<u>Yr/Yr</u>	<u>1/19 Spot</u>	<u>Yr/Yr @ 1/19 Spot</u>			
						<u>1Q09</u>	<u>2Q09</u>	<u>3Q09</u>	<u>4Q09</u>
Euro	0.67	8%	0.76	(10%)	0.76	(14%)	(19%)	(14%)	0%
Pound	0.53	(7%)	0.64	(31%)	0.69	(37%)	(36%)	(31%)	(8%)
Yen	108	9%	96	15%	90	14%	14%	16%	6%

IBM Revenue Impact	4 pts	(5 pts)	(7 pts)	(8 pts)	(6 pts)	0 pts
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	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$27.0	(6%)
Currency Impact	(1.6)	(5 pts)
Revenue @CC	\$28.6	(1%)

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

Supplemental Segment Information – 4Q 2008

<i>Global Services</i>	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
Strategic Outsourcing	(3%)	3%
Business Transformation Outsourcing	(19%)	(11%)
Integrated Tech Services	Flat	6%
Maintenance	<u>(4%)</u>	<u>1%</u>
Global Technology Services	(4%)	3%
Global Business Services	(5%)	Flat

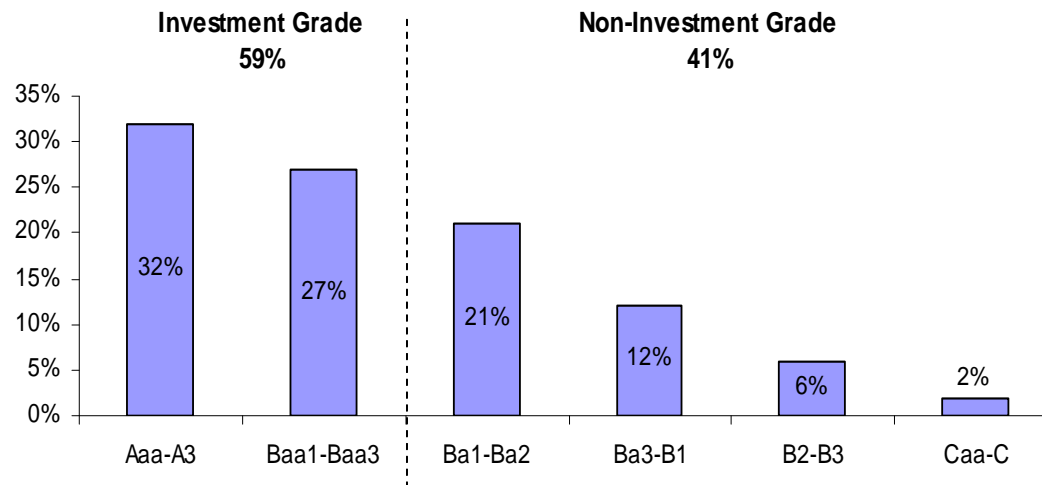
<i>Global Services</i>	<u>Signings (\$B)</u>	
	<u>4Q08</u>	<u>Yr/Yr</u>
<u>Global Services Signings @ Actual</u>	\$17.2	(5%)
GBS Short-Term	4.5	(1%)
GTS Short-Term	2.8	(15%)
GBS Long-Term	1.7	(25%)
GTS Long-Term	8.2	4%
SO	7.4	20%
BTO	0.8	(53%)
<u>Global Services Signings @ CC</u>	\$15.6	2%
GBS Short-Term	4.0	4%
GTS Short-Term	2.6	(7%)
GBS Long-Term	1.6	(16%)
GTS Long-Term	7.5	9%
SO	6.7	23%
BTO	0.8	(44%)

Supplemental Segment Information – 4Q 2008

<i>Systems & Technology Group</i>	<u>Revenue</u>				<i>Software</i>	<u>Revenue Growth</u>	
	<i>Yr/Yr</i>	<i>@CC</i>	<i>GP%</i>	<i>Share</i>		<i>Yr/Yr</i>	<i>@CC</i>
System z	(6%)	1%	↓	=	WebSphere Family	(1%)	5%
Converged System p	8%	14%	↓	↑	Information Management	18%	25%
Legacy System i	(92%)	(91%)	↓	↓	Tivoli	(4%)	4%
System x Servers	(32%)	(28%)	↓	↓	Lotus	Flat	6%
System Storage	(20%)	(16%)	↓	↓	Rational	<u>(1%)</u>	<u>5%</u>
Retail Store Solutions	(28%)	(22%)	↓	↓	Key Branded Middleware	6%	13%
Total Systems	(18%)	(14%)	↓		Other Middleware	<u>Flat</u>	<u>6%</u>
Microelectronics OEM	(34%)	(35%)	↓		Total Middleware	4%	11%
Total Systems & Technology	(20%)	(16%)	↓		Operating Systems	(6%)	(2%)
					Other Software/Services	<u>(3%)</u>	<u>3%</u>
					Total Software	3%	9%

Global Financing Portfolio

4Q08 - \$26.1B External Receivables



	<u>4Q08</u>	<u>4Q07</u>
Identified Loss Rate	1.4%	0.8%
Anticipated Loss Rate	0.6%	0.5%
Reserve Coverage	2.0%	1.3%
Client Days Delinquent Outstanding	3.2	3.6
Commercial A/R > 30 Days	\$41M	\$61M

Summary and Selected Items – FY 2008

\$ in Billions, except EPS

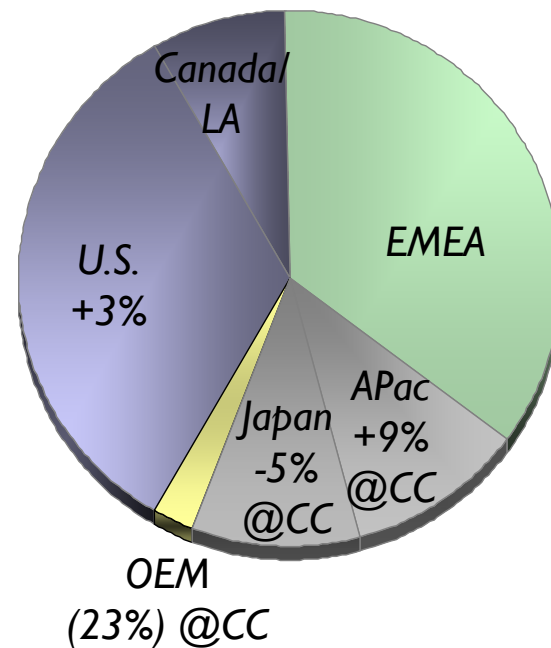
	<u>FY08</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>Includes:</u>	<u>Pre-Tax</u> <u>Income</u>
Revenue	\$103.6	5%		
Pre-Tax Income	\$16.7	15%	Retirement-Related Benefits	(1.4)
PTI Margin	16.1%	1.5 pts	Stock-Based Compensation	(0.7)
Net Income	\$12.3	18%	Amort. of Purchased Intangibles	(0.5)
EPS	\$8.93	24%	Workforce Rebalancing	(0.7)

Reported results include \$3.3B PTI impact from selected items

Revenue by Geography – FY 2008

\$ in Billions

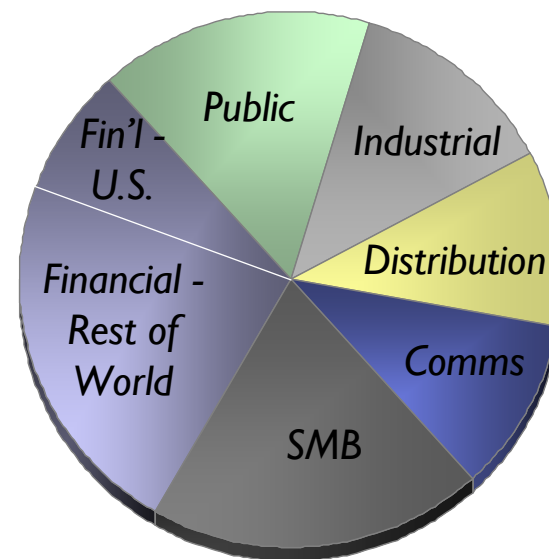
	<u>FY08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Americas	\$42.8	4%	4%
Europe/ME/A	37.0	7%	3%
Asia Pacific	21.1	8%	2%
Total Geographies	\$100.9	6%	3%
IBM	\$103.6	5%	2%
<i>Major Markets</i>		<i>5%</i>	<i>2%</i>
<i>Growth Markets</i>		<i>10%</i>	<i>10%</i>
<i>BRIC Countries</i>		<i>18%</i>	<i>15%</i>



Revenue by Key Industry Sales Unit – FY 2008

\$ in Billions

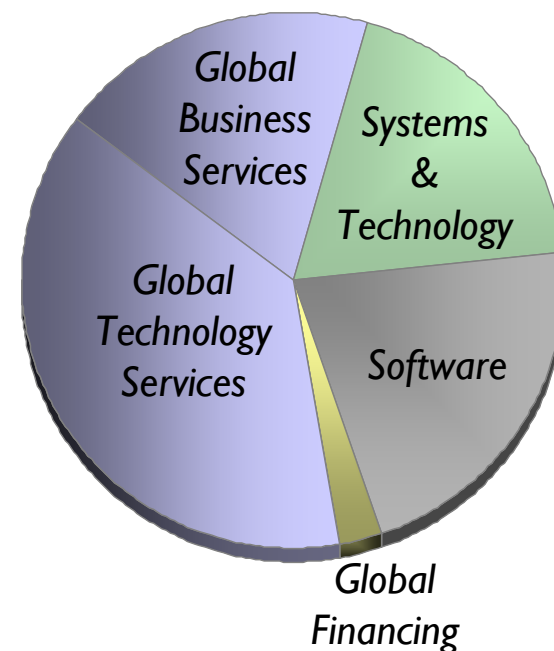
	<u>FY08</u>	<u>B/(W) Yr/Yr</u> <u>Rptd @CC</u>	
Financial Services	\$29.3	7%	3%
Public	15.8	8%	6%
Industrial	12.3	4%	Flat
Distribution	10.2	4%	1%
Communications	10.4	7%	6%
Small / Medium Business	19.5	4%	1%
All Sectors	\$101.1	6%	3%
Total IBM	\$103.6	5%	2%



Revenue by Segment – FY 2008

\$ in Billions

	<u>FY08</u>	<u>B/(W) Rptd</u>	<u>Yr/Yr @CC</u>
Global Technology Services	\$39.3	9%	6%
Global Business Services	19.6	9%	5%
Systems & Technology	19.3	(10%)	(11%)
Software	22.1	11%	8%
Global Financing	2.6	2%	Flat
Total Segments	\$102.8	5%	2%
Total IBM	\$103.6	5%	2%



Margins by Segment – FY 2008

	External Gross Profit Margins		Total Pre-Tax Margins	
	<u>FY08</u>	<u>B/(W) Yr/Yr Pts</u>	<u>FY08</u>	<u>B/(W) Yr/Yr Pts</u>
Global Technology Services	32.6%	2.7 pts	11.3%	1.9 pts
Global Business Services	26.7%	3.2 pts	13.0%	2.2 pts
Systems & Technology	38.1%	(1.7 pts)	7.7%	(2.0 pts)
Software	85.4%	0.2 pts	28.5%	1.7 pts
Global Financing	51.3%	4.6 pts	36.3%	1.5 pts
Total Segments	44.3%	1.7 pts	15.8%	1.5 pts
Total IBM	44.1%	1.8 pts	16.1%	1.5 pts

Expense Summary – FY 2008

\$ in Billions	<u>FY08</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	\$23.4	(6%)	(2 pts)	(5 pts)	1 pts
RD&E	6.3	(3%)	(1 pts)	(5 pts)	3 pts
IP and Development Income	(1.2)	20%			
Other (Income)/Expense	(0.3)	(52%)			
Interest Expense	<u>0.7</u>	(10%)			
Total Expense & Other Income	\$28.9	(6%)	(2 pts)	(5 pts)	1 pts

* Includes Acquisitions made in the last twelve months

Cash Flow (FAS 95)

\$ in Billions

	<u>4Q08</u>	<u>4Q07</u>	<u>FY08</u>	<u>FY07</u>
Net Income from Operations	\$4.4	\$4.0	\$12.3	\$10.4
Depreciation / Amortization of Intangibles	1.3	1.3	5.4	5.2
Stock-based Compensation	0.2	0.2	0.7	0.7
Working Capital / Other	3.0	3.2	0.4	1.1
Global Financing A/R	(2.3)	(3.5)	0.0	(1.3)
Net Cash provided by Operating Activities	6.6	5.2	18.8	16.1
Capital Expenditures, net of payments & proceeds	(1.0)	(1.4)	(4.5)	(5.0)
Divestitures, net of cash transferred	0.0	0.0	0.1	0.3
Acquisitions, net of cash acquired	(0.3)	(0.3)	(6.3)	(1.0)
Marketable Securities / Other Investments, net	0.4	2.8	1.5	1.0
Net Cash used in Investing Activities	(0.9)	1.1	(9.3)	(4.7)
Debt, net of payments & proceeds	(1.6)	(0.3)	(2.4)	12.1
Dividends	(0.7)	(0.6)	(2.6)	(2.1)
Common Stock Repurchases	(0.7)	(0.5)	(10.6)	(18.8)
Common Stock Transactions - Other	0.1	0.7	3.8	4.1
Net Cash used in Financing Activities	(2.9)	(0.6)	(11.8)	(4.7)
Effect of Exchange Rate changes on Cash	0.1	0.1	0.1	0.3
Net Change in Cash & Cash Equivalents	\$3.0	\$5.7	(\$2.2)	\$7.0

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.

Non-GAAP Supplementary Materials

Non-Recurring and Unique Items

Management presents certain financial results excluding the effects of the following items: (1) a one-time gain in 4Q'08 from retirement-related plan costs in Japan, (2) year-to-year improvement in retirement-related expenses in the company's segment results and (3) the operational performance of the company's Enterprise Investments business for the 2000 and 2001 fiscal years. Given the unique and/or non-recurring nature of these items, management believes that presenting certain financial information without these items is more representative of the company's operational performance and provides additional insight into, and clarifies the basis for, historical and/or future performance, which may be more useful for investors.

Acquisitions

Management excludes the impact of acquisitions from SG&A in certain markets to facilitate a more meaningful view of the company's operating performance. Acquisition-related expenses are inconsistent in amount and frequency and are significantly impacted by the timing and magnitude of the company's acquisitions.

Amortization of Acquired Intangible Assets

Management excludes the impact of amortization of acquired intangible assets from the segments to facilitate a more meaningful view of the company's segment performance. Amortization related to acquired intangible assets is inconsistent in amount and frequency and is impacted by the timing and magnitude of the company's acquisitions.

Stock-Based Compensation

Management excludes stock-based compensation from the presentation of certain financial results for fiscal years 2000 and 2001. Stock-based compensation expense was not recorded at the segment level in fiscal years 2000 and 2001, therefore stock-based compensation expense has been excluded from the Segment PTI analysis.

Non-GAAP Supplementary Materials

Reconciliation of Free Cash Flows (excluding GF Receivables)

\$ in Billions	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net Cash from Operations	\$8.6	\$13.7	\$13.8	\$14.5	\$15.3
Less: Global Financing Receivables	<u>(2.5)</u>	<u>2.0</u>	<u>3.3</u>	<u>1.9</u>	<u>2.5</u>
Net Cash from Operations (excluding GF Receivables)	11.1	11.7	10.5	12.6	12.9
Net Capital Expenditures	<u>(4.3)</u>	<u>(4.9)</u>	<u>(4.6)</u>	<u>(3.9)</u>	<u>(3.7)</u>
Free Cash Flow (excluding GF Receivables)	6.7	6.8	5.9	8.7	9.1
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Net Cash from Operations	\$14.9	\$15.0	\$16.1	\$18.8	
Less: Global Financing Receivables	<u>1.8</u>	<u>(0.3)</u>	<u>(1.3)</u>	<u>0.0</u>	
Net Cash from Operations (excluding GF Receivables)	13.1	15.3	17.4	18.8	
Net Capital Expenditures	<u>(3.5)</u>	<u>(4.7)</u>	<u>(5.0)</u>	<u>(4.5)</u>	
Free Cash Flow (excluding GF Receivables)	9.6	10.5	12.4	14.3	

The above serves to reconcile the Non-GAAP financial information contained in the discussion regarding Cash Flow in the company's earnings presentation. See Slide 34 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of Software Pre-Tax Profit

\$ in Millions	<u>FY 2008</u>		
	<u>Software</u>	<u>Sum of Segments</u>	<u>Percentage</u>
Pre-Tax profit	\$7,075	\$17,531	40%
YTY Impact of retirement-related savings	(191)	(1,181)	
Amortization of acquired intangibles	<u>386</u>	<u>520</u>	
Pre-Tax profit excluding YTY retirement-related savings and amortization of acquired intangibles	\$7,270	\$16,870	43%

The above serves to reconcile the Non-GAAP financial information contained in the "Transformational Impact on Segment PTI Mix" discussion regarding retirement related expense and amortization of acquired intangibles in the company's earnings presentation. See Slide 35 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of Asia Pacific Revenue Growth

	<u>4Q'08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Asia Pacific Revenue, other than Japan	(7%)	6%
Japan Revenue	7%	(10%)
	<u>FY 2008 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Asia Pacific Revenue, other than Japan	8%	9%
Japan Revenue	8%	(5%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" and "Revenue by Geography – FY 2008" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 34 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>As Rptd</u>	<u>4Q08 Yr/Yr</u> <u>@CC</u>
Germany	(2%)	7%
France	(7%)	2%
Italy	(16%)	(8%)
United Kingdom	(21%)	4%
Canada	(14%)	6%
China	14%	9%
Russia	(22%)	(22%)
Chile	5%	20%
Egypt	35%	35%

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 34 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 Segments

	<u>4Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Distributed Relational Database (Software)	27%	35%
Converged System P: High-end Servers (Hardware)	9%	16%
Mid-range Servers (Hardware)	10%	16%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Segment" discussion regarding revenue growth in the software and STG segments in the company's earnings presentation. See Slide 34 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of Managed Labor Costs

FY 2008 Yr/Yr

Managed labor costs excluding retirement-related expense	5%
Managed labor costs including retirement-related expense	1%

The above serves to reconcile the Non-GAAP financial information contained in the "Margins by Segment" discussion regarding costs in certain segments in the company's earnings presentation. See Slide 35 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>4Q08 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Revenue from Original Equipment Manufacturer (OEM)	(31%)	(32%)
	<u>FY 2008 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>
Revenue from Original Equipment Manufacturer (OEM)	(22%)	(23%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue by Geography" and "Revenue by Geography – FY 2008" discussion regarding revenue growth in certain countries in the company's earnings presentation. See Slide 34 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of SG&A

\$ in Billions	<u>4Q08</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 – Worldwide	\$5.8	3%	6 pts	(5 pts)	3 pts
SG&A – Growth Markets					(9 pts)
SG&A – Rest of World					5 pts

The above serves to reconcile the Non-GAAP financial information contained in the “Expense Summary” discussion regarding SG&A in certain markets in the company’s earnings presentation. See Slide 35 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of Retirement-Related Plan Costs

\$ in Billions	<u>FY 2008 Yr/Yr Impact</u>
Retirement-related plan costs	\$1.2
Impact of Japan – one time gain	<u>0.1</u>
Retirement-related excluding gain	\$1.0

The above serves to reconcile the Non-GAAP financial information contained in the “Expense Summary” discussion regarding pension related expense in the company's earnings presentation. See Slide 35 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplementary Materials

Reconciliation of Impact on Segment PTI Mix

(\$ in millions)

As reported in 2000 and 2001 which
excludes Stock-based compensation:

	2000	%PTI	2001	%PTI
Software	\$2,793	26%	\$3,168	29%
Services	4,517	41%	5,161	47%
Financing	1,176	11%	1,143	10%
Hardware	2,719	25%	1,854	17%
Enterprise Investments	(297)	-3%	(317)	-3%
	\$10,908		\$11,009	

Excludes Enterprise Investments Segment:

	2000	%PTI	2001	%PTI
Software	\$2,793	25%	\$3,168	28%
Services	4,517	40%	5,161	46%
Financing	1,176	10%	1,143	10%
Hardware	2,719	24%	1,854	16%
	\$11,205		\$11,326	

The above serves to reconcile the Non-GAAP financial information contained in the "Transformational Impact on Segment PTI Mix" discussion regarding PTI mix in certain segments in the company's earnings presentation. See Slide 35 of this presentation for additional information on the use of these Non-GAAP financial measures.

Computation of 2008 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 Millions		<u>FY 2008</u>
Numerator:		
Global Financing After Tax Income*	(a)	\$1,049
Denominator:		
Average Global Financing Equity**	(b)	\$3,572
Global Financing Return on Equity	(a)/(b)	29%*

* 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.

