



3Q 2015 Earnings Presentation

October 19, 2015

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Forward Looking Statements and Non-GAAP Information

Certain comments made in this presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. Those statements by their nature address matters that are uncertain to different degrees. 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. Any forward-looking statement made during this presentation speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements. These charts and the associated remarks and comments are integrally related, and are intended to be presented and understood together.

In an effort to provide additional and useful information regarding the company's financial results and other financial information as determined by generally accepted accounting principles (GAAP), the company also discusses, in its earnings press release and earnings presentation materials, certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included in supplemental materials entitled "Non-GAAP Supplemental Materials" that are posted on the Company's investor relations web site at <http://www.ibm.com/investor/events/earnings/3q15.html> The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated October 19, 2015.

3Q Overview

	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue (\$B)	\$ 19.3	(1%)*
Yr/Yr As Reported		(14%)
Operating (Non-GAAP) EPS	\$ 3.34	(9%)

* Revenue growth rate @CC and excluding divested System x business

- Continued strength in Strategic Imperatives
 - YTD revenue growth > 30% yr/yr
- Expanded gross and net margins
 - Reflects shift to higher value
- Investing and adding capabilities
 - Building platforms and ecosystems
- Continued progress in transformation of business

Key Financial Metrics

\$ in Billions, except EPS

P&L Highlights

	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue	\$ 19.3	(1%)
PTI – Operating	\$ 4.0	(14%)
NI – Operating	\$ 3.3	(11%)
EPS – Operating	\$ 3.34	(9%)

P&L Ratios (Operating)

	<u>3Q15</u>	<u>B/(W) Yr/Yr</u>
GP Margin	50.0%	0.8 pts
PTI Margin	20.7%	0.0 pts
Tax Rate	18.0%	2.8 pts
NI Margin	17.0%	0.6 pts

Revenue growth rate @CC and excluding divested System x business

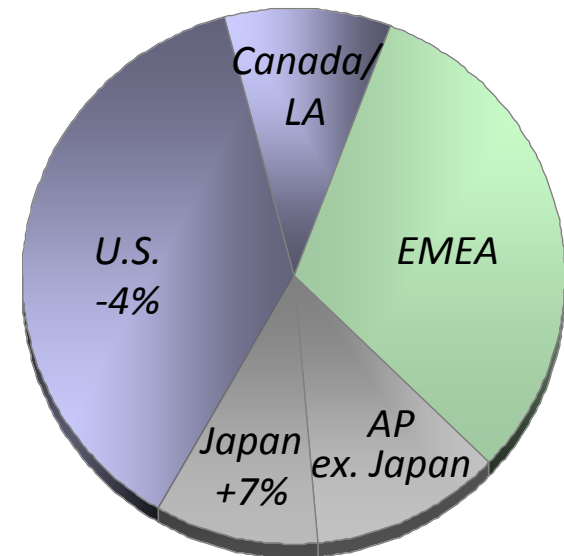
Cash Highlights

	<u>3Q15</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl. GF Receivables)	\$ 2.6	\$ 13.6
Share Repurchase (Gross)	1.5	4.0
Dividends	1.3	4.7
Cash Balance @ September 30	9.6	

Revenue by Geography

\$ in Billions

	<u>3Q15</u>	<u>Yr/Yr</u>
Americas	\$9.1	(3%)
Europe/ME/Africa	6.1	1%
Asia Pacific	4.1	(1%)
IBM	\$19.3	(1%)
<i>Major Markets</i>		<i>(1%)</i>
<i>Growth Markets</i>		<i>(3%)</i>
<i>BRIC Countries</i>		<i>(7%)</i>



Revenue growth rate @CC and excluding divested System x business

Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue		Operating Gross Profit Margin	
	<u>3Q15</u>	<u>Yr/Yr</u>	<u>3Q15</u>	<u>Yr/Yr Pts</u>
Global Technology Services	\$ 7.9	1%	38.1%	(1.0 pts)
Global Business Services	4.2	(5%)	29.7%	(1.3 pts)
Software	5.1	(3%)	86.4%	(1.2 pts)
Systems Hardware	1.5	(2%)	44.7%	10.8 pts
Global Financing	0.4	7%	48.4%	0.6 pts
Total Revenue & Op. GP Margin	\$19.3	(1%)	50.0%	0.8 pts

Revenue growth rates @CC and excluding divested System x business

Expense Summary

\$ in Billions

	<u>3Q15</u>	<u>B/(W) Yr/Yr</u>
SG&A – Operating	\$4.6	11%
RD&E – Operating	1.3	7%
IP and Development Income	(0.2)	29%
Other (Income)/Expense	(0.1)	30%
Interest Expense	<u>0.1</u>	7%
Operating Expense & Other Income	\$5.7	12%

Drivers

	<u>B/(W) Yr/Yr</u>
Currency	9 pts
System x Divestiture	2 pts
Workforce Rebalancing	(2 pts)

Services Segments

Global Technology Services (GTS)

\$ in Billions

	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$7.9	1%
Gross Margin (External)	38.1%	(1.0 pts)
PTI Margin	15.7%	(2.2 pts)

Global Business Services (GBS)

\$ in Billions

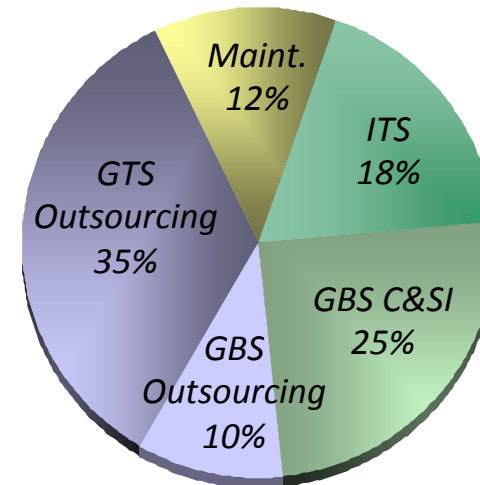
	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$4.2	(5%)
Gross Margin (External)	29.7%	(1.3 pts)
PTI Margin	15.6%	(1.7 pts)

<u>GTS 3Q15 Revenue</u>	<u>Yr/Yr</u>
GTS Outsourcing	Flat
Integrated Technology Services	4%
Maintenance	1%

<u>GBS 3Q15 Revenue</u>	
GBS Outsourcing	1%
Consulting & Systems Integration	(7%)

	<u>3Q15</u>	
Backlog	\$118B	1%

3Q15 Revenue
(% of Total Services)



Revenue growth rates @CC and excluding divested System x business; Backlog @CC

Software Segment

\$ in Billions

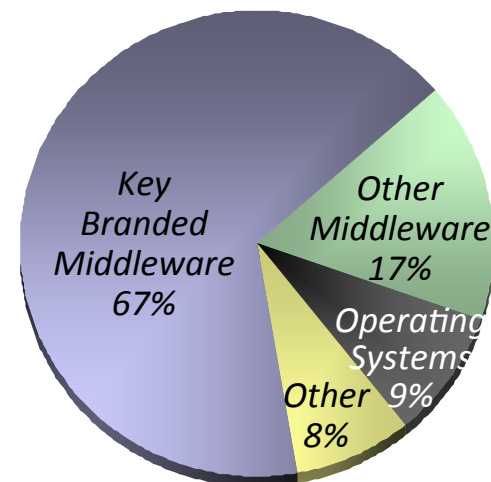
	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$5.1	(3%)
Gross Margin (External)	86.4%	(1.2 pts)
PTI Margin	32.1%	(3.4 pts)

3Q15 Revenue

	<u>Yr/Yr</u>
WebSphere	1%
Information Management	1%
Tivoli	(2%)
Workforce Solutions	(3%)
Rational	(11%)
Key Branded Middleware	(1%)
Total Middleware	(2%)
Total Software	(3%)

Revenue growth rates @CC

*3Q15 Revenue
(% of Total Software)*



Systems Hardware Segment

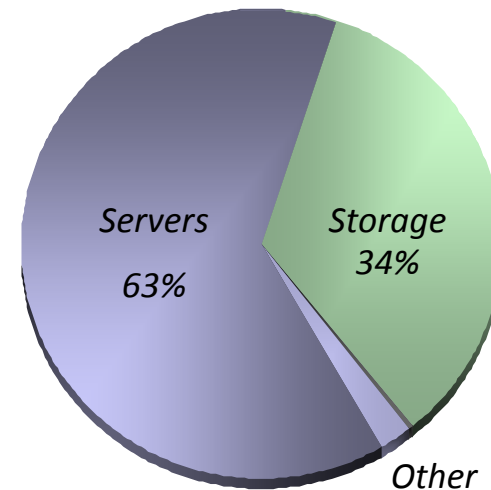
\$ in Billions

	<u>3Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$1.5	(2%)
Gross Margin (External)	44.7%	10.8 pts
PTI Margin	(1.5%)	2.3 pts

3Q15 Revenue

	<u>Yr/Yr</u>
z Systems	20%
Power Systems	2%
Storage	(14%)
Total Systems Hardware	(2%)

*3Q15 Revenue
(% of Total Sys Hardware)*



Revenue growth rates @CC and excluding divested System x business

Cash Flow Summary

\$ in Billions	<u>3Q15</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>YTD</u> <u>3Q15</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$4.2	\$0.3	\$11.7	\$0.9
Less: Global Financing Receivables	<u>0.7</u>	<u>0.0</u>	<u>2.0</u>	<u>(0.3)</u>
Net Cash from Operations (excluding GF Receivables)	3.5	0.3	9.8	1.2
Net Capital Expenditures	<u>(0.9)</u>	<u>0.1</u>	<u>(2.8)</u>	<u>0.0</u>
Free Cash Flow (excluding GF Receivables)	2.6	0.4	7.0	1.2
Acquisitions	(0.1)	(0.1)	(0.8)	(0.2)
Divestitures	(0.6)	(0.6)	(0.5)	(1.0)
Dividends	(1.3)	(0.2)	(3.6)	(0.5)
Share Repurchases (Gross)	(1.5)	0.2	(3.8)	9.7
Non-GF Debt	0.4	0.9	0.8	(3.8)
Other (includes GF A/R & GF Debt)	<u>1.4</u>	<u>0.4</u>	<u>2.1</u>	<u>(3.0)</u>
Change in Cash & Marketable Securities	\$0.8	\$1.0	\$1.1	\$2.6

Balance Sheet Summary

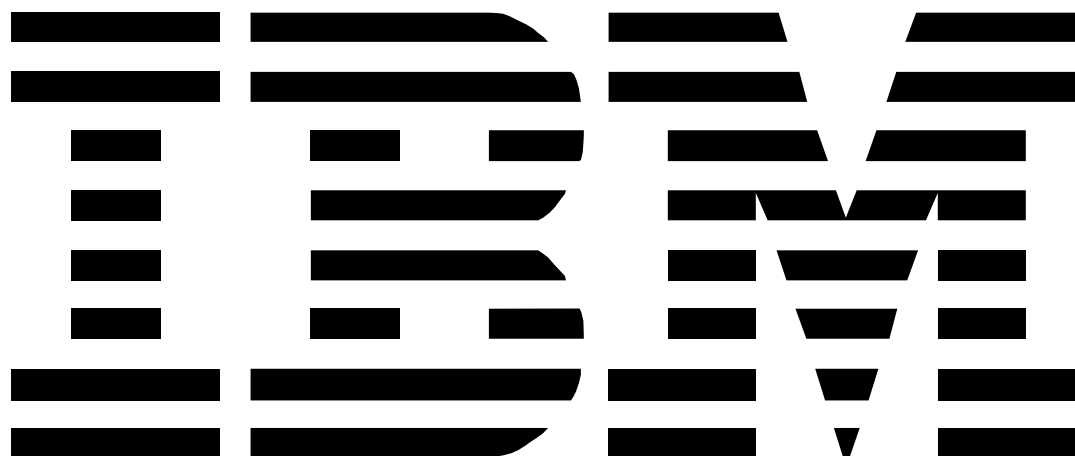
\$ in Billions	<u>Sept. 14</u>	<u>Dec. 14</u>	<u>Sept. 15</u>
Cash & Marketable Securities	\$9.6	\$8.5	\$9.6
Non-GF Assets*	74.5	71.7	67.5
Global Financing Assets	34.8	37.3	31.5
Total Assets	118.9	117.5	108.6
Other Liabilities	58.8	64.7	55.5
Non-GF Debt*	17.1	11.7	13.7
Global Financing Debt	28.6	29.1	26.0
Total Debt	45.7	40.8	39.7
Total Liabilities	104.5	105.5	95.2
Equity	14.4	12.0	13.5
Non-GF Debt / Capital	62%	59%	58%
Global Financing Leverage	7.4	7.2	7.0

* Includes eliminations of inter-company activity

Summary

- Strong performance in Strategic Imperatives
- Margin expansion reflects shift to higher value
- Investing and adding capabilities
- 2015 Full Year Expectations
 - Operating EPS of \$14.75 - \$15.75
 - Free Cash Flow relatively flat yr/yr

Continued progress in transformation of the business



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 Hardware, Software
- Global Financing Portfolio
- Cash Flow (FAS 95)
- Non-GAAP Supplemental Materials
 - Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items, Constant Currency
 - Cash Flow, Debt-to-Capital Ratio, Customer Care Outsourcing and System x Business Divestiture
 - Reconciliation of Operating Earnings Per Share
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2015
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2014
 - GAAP to Operating (Non-GAAP) Bridge – 3Q YTD 2015
 - GAAP to Operating (Non-GAAP) Bridge – 3Q YTD 2014
 - GAAP to Operating (Non-GAAP) Bridge – 3Q 2015 and 3Q 2014
 - Reconciliation of Free Cash Flow (excluding GF Receivables) – 12 months ended 9/30/15
 - Reconciliation of Debt-to-Capital Ratio
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q15</u>	<u>Yr/Yr</u>	<u>2Q15</u>	<u>Yr/Yr</u>	<u>3Q15</u>	<u>Yr/Yr</u>	<u>10/16 Spot</u>	<u>4Q15</u>	<u>Yr/Yr @ 10/16 Spot</u>		<u>2Q16</u>
									<u>FY15</u>	<u>1Q16</u>	
Euro	0.89	(22%)	0.90	(24%)	0.90	(19%)	0.88	(10%)	(18%)	1%	3%
Pound	0.66	(9%)	0.65	(10%)	0.65	(8%)	0.65	(2%)	(7%)	2%	1%
Yen	119	(16%)	121	(19%)	122	(17%)	119	(4%)	(14%)	0%	2%
<hr/>											
IBM Revenue Impact		(8 pts)		(9 pts)		(9 pts)		~(5 pts)	~(7-8 pts)	~(1pts)	~(0-1 pts)
Prior View (July 2015)						(8-9 pts)		(5-6 pts)	(7-8 pts)		
					<u>(US\$B)</u>	<u>Yr/Yr</u>					
Revenue As Reported					\$19.3	(14%)					
Currency Impact					(1.9)	(9 pts)					
Revenue @ CC						(5%)					

Supplemental Segment Information – 3Q 2015

Global Services Revenue

<u>Revenue Growth</u>	<u>Yr/Yr</u>
GTS Outsourcing	Flat
Integrated Tech Services	4%
Maintenance	1%
Total GTS	1%
GBS Outsourcing	1%
GBS C&SI	(7%)
Total GBS	(5%)
Total Outsourcing	Flat
Total Transactional	(2%)
Maintenance	1%

Global Services Backlog / Signings

<i>\$ in Billions</i>		
<u>Backlog</u>	<u>3Q15</u>	<u>Yr/Yr</u>
Total Backlog	\$118	1%
<u>Change in Backlog due to Currency</u>		
Quarter-to-Quarter	(\$2)	
Year-to-Year	(\$11)	
Outsourcing Backlog	\$74	4%
<u>Signings</u>	<u>3Q15</u>	<u>Yr/Yr</u>
Outsourcing	\$3.9	(15%)
- GTS O/S, GBS O/S		
Transactional	5.4	(1%)
- ITS, Consulting & AMS SI (incl. US Federal)		
Total Signings	\$9.3	(7%)

Growth rates @CC and excluding divested System x business

Actual backlog calculated using Sept 30 currency spot rates

Supplemental Segment Information – 3Q 2015

Systems Hardware

<u>Revenue Growth</u>	<u>Yr/Yr</u>	<u>GP%</u>
z Systems	20%	↓
Power Systems	2%	↓
Storage	(14%)	↑
Total Systems Hardware	(2%)	

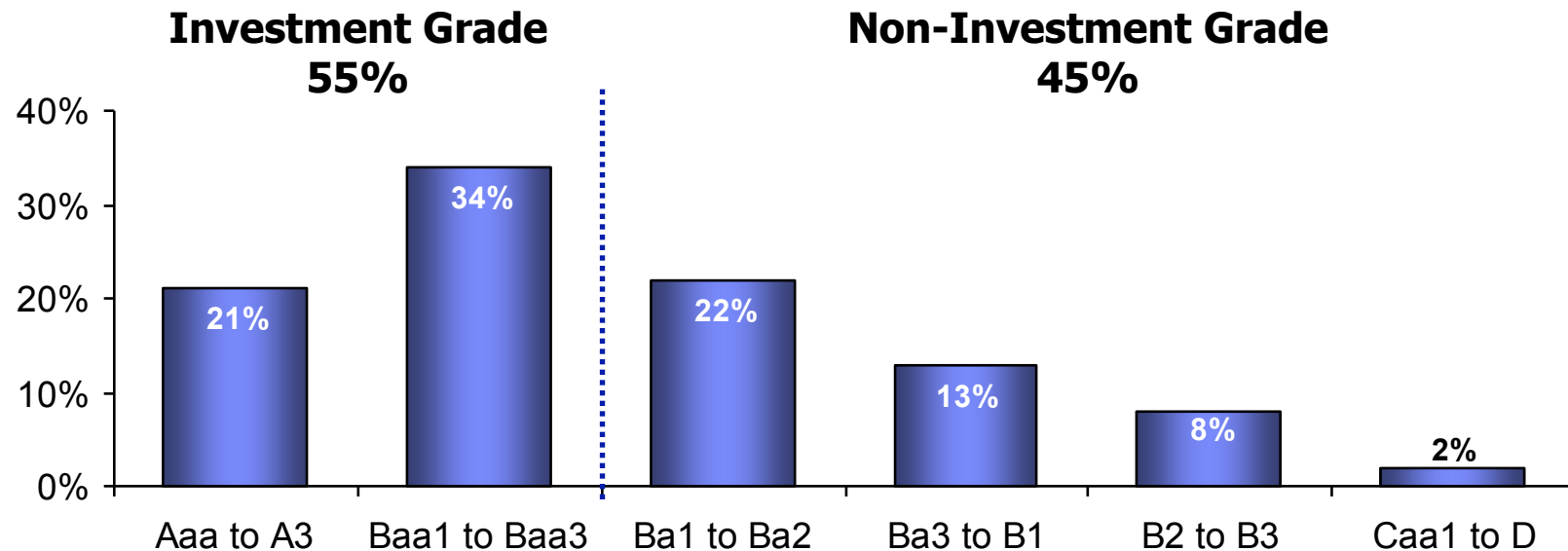
Software

<u>Revenue Growth</u>	<u>Yr/Yr</u>
WebSphere	1%
Information Management	1%
Tivoli	(2%)
Workforce Solutions	(3%)
Rational	(11%)
Key Branded Middleware	(1%)
Other Middleware	(7%)
Total Middleware	(2%)
Operating Systems	(7%)
Other Software/Services	(10%)
Total Software	(3%)

Revenue growth rates @CC and excluding divested System x business

Global Financing Portfolio

3Q15 – \$25.2B Net External Receivables



	3Q15	2Q15	3Q14
Identified Loss Rate	2.1%	2.1%	1.5%
Anticipated Loss Rate	0.3%	0.3%	0.3%
Reserve Coverage	2.4%	2.4%	1.8%
Client Days Delinquent Outstanding	4.2	3.8	4.0
Commercial A/R > 30 days	\$33M	\$45M	\$28M

Cash Flow (FAS 95)

\$ in Billions	QTD <u>3Q15</u>	QTD <u>3Q14</u>	YTD <u>3Q15</u>	YTD <u>3Q14</u>
Net Income from Operations	\$3.0	\$0.0	\$8.7	\$6.5
Depreciation / Amortization of Intangibles	0.9	1.1	2.9	3.4
Stock-based Compensation	0.1	0.2	0.4	0.4
Working Capital / Other	(0.5)	(1.5)	(2.2)	(5.2)
Global Financing A/R	0.7	0.7	2.0	2.2
Loss on Microelectronics Business Disposal	0.0	3.3	0.0	3.3
Net Cash provided by Operating Activities	4.2	3.9	11.7	10.8
Capital Expenditures, net of payments & proceeds	(0.9)	(1.0)	(2.8)	(2.8)
Divestitures, net of cash transferred	(0.6)	0.1	(0.5)	0.5
Acquisitions, net of cash acquired	(0.1)	(0.0)	(0.8)	(0.6)
Marketable Securities / Other Investments, net	0.3	0.2	1.4	1.2
Net Cash used in Investing Activities	(1.3)	(0.8)	(2.7)	(1.8)
Debt, net of payments & proceeds	0.9	(0.2)	(0.6)	6.4
Dividends	(1.3)	(1.1)	(3.6)	(3.2)
Common Stock Repurchases	(1.5)	(1.7)	(3.8)	(13.5)
Common Stock Transactions - Other	0.1	0.1	0.3	0.5
Net Cash used in Financing Activities	(1.8)	(2.8)	(7.8)	(9.8)
Effect of Exchange Rate changes on Cash	0.0	(0.4)	(0.2)	(0.4)
Net Change in Cash & Cash Equivalents	1.1	(0.2)	1.0	(1.2)

Non-GAAP Supplemental 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.

Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items

Management presents certain financial measures from continuing operations excluding the effects of certain acquisition-related charges, non-operating retirement-related costs and any related tax impacts. Management uses the term "operating" to describe this view of the company's financial results and other financial information. For acquisitions, these measures exclude 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 its operating results. Non-operating retirement-related costs include 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 these operating measures, as presented, may differ from similarly titled measures reported by other companies.

Overall, management believes that providing investors with an operating view 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 its earnings per share guidance, the company is utilizing an operating view to establish its objectives and track its progress. The company's segment financial results and performance reflect operating earnings, consistent with the company's management and measurement system.

Constant Currency

Management refers to growth rates at constant currency or adjusting for currency so that certain financial 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. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior year period's currency conversion rate. This approach is used for countries where the functional currency is the local 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.

Non-GAAP Supplemental Materials

Cash Flow

Management uses a free cash flow measure to evaluate the company's operating results, plan share repurchase levels, evaluate strategic investments and assess the company's ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. The company defines free cash flow as net cash from operating activities less the change in Global Financing receivables and net capital expenditures, including the investment in software. A key objective of the Global Financing business is to generate strong returns on equity, and increasing receivables is the basis for growth. Accordingly, management considers Global Financing receivables as a profit-generating investment, not as working capital that should be minimized for efficiency. Therefore, management includes presentations of both free cash flow and cash flow from operations that exclude the effect of Global Financing receivables.

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.

Customer Care Outsourcing and System x Business Divestiture

With respect to the sale of IBM's worldwide customer care outsourcing services business to SYNnex, the initial closing date was January 31, 2014. With respect to the sale of IBM's x86 server business to Lenovo, the initial closing date was October 1, 2014. Management believes that presenting financial information without either or both of these items 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 to investors.

Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

	2015 <u>Expectations</u>
IBM GAAP EPS	\$13.25 - \$14.25
IBM Operating EPS (Non-GAAP)	\$14.75 - \$15.75

Adjustments

Acquisition-Related Charges *	\$0.70
Non-Operating Retirement-Related Items	\$0.80

* Includes acquisitions through September 30, 2015

The above serves to reconcile the Non-GAAP financial information contained in the "Full-Year Expectations" and "Summary" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q 2015

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$9,436	\$89	\$118	\$9,643
SG&A	4,731	(76)	(74)	4,581
RD&E	1,287	-	(12)	1,275
Other Income & Expense	(133)	0	-	(133)
Total Operating Expense & Other Income	5,815	(76)	(86)	5,652
Pre-Tax Income from Continuing Operations	3,621	165	204	3,991
Tax ***	659	(5)	64	718
Net Income from Continuing Operations	2,962	170	140	3,272
Diluted Earnings Per Share from Continuing Operations	\$3.02	\$0.18	\$0.14	\$3.34

* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

** Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

***The tax impact on the Operating (Non-GAAP) Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "3Q Overview", "Key Financial Metrics" and "Expense Summary" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q 2014

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$10,874	\$106	\$43	\$11,023
SG&A	5,281	(96)	(48)	5,137
RD&E	1,354	-	19	1,373
Other Income & Expense	(103)	0	-	(103)
Total Operating Expense & Other Income	6,513	(96)	(29)	6,389
Pre-Tax Income from Continuing Operations	4,361	202	71	4,634
Tax ***	906	42	14	963
Net Income from Continuing Operations	3,455	159	57	3,671
Diluted Earnings Per Share from Continuing Operations	\$3.46	\$0.16	\$0.06	\$3.68

* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

** Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

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The above serves to reconcile the Non-GAAP financial information contained in the "3Q Overview", "Key Financial Metrics" and "Expense Summary" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q YTD 2015

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$29,278	\$268	\$350	\$29,896
SG&A	15,273	(230)	(445)	14,598
RD&E	3,885	-	(36)	3,849
Other Income & Expense	(578)	(5)	-	(583)
Total Operating Expense & Other Income	18,431	(235)	(481)	17,715
Pre-Tax Income from Continuing Operations	10,846	503	831	12,181
Tax ***	1,943	52	234	2,228
Net Income from Continuing Operations	8,904	452	597	9,953
Diluted Earnings Per Share from Continuing Operations	\$9.03	\$0.46	\$0.60	\$10.09

* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

** Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

***The tax impact on the Operating (Non-GAAP) Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "Year-To-Date 2015 Results" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q YTD 2014

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$33,545	\$315	\$141	\$34,001
SG&A	17,146	(291)	(162)	16,693
RD&E	4,117	-	56	4,173
Other Income & Expense	(433)	0	-	(433)
Total Operating Expense & Other Income	20,654	(292)	(106)	20,257
Pre-Tax Income from Continuing Operations	12,891	607	246	13,744
Tax ***	2,655	123	49	2,827
Net Income from Continuing Operations	10,237	483	197	10,917
Diluted Earnings Per Share from Continuing Operations	\$10.09	\$0.48	\$0.19	\$10.76

* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

** Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

***The tax impact on the Operating (Non-GAAP) Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "Year-To-Date 2015 Results" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 3Q 2015 and 3Q 2014

<u>3Q 2015</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement-related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin from Continuing Operations	48.9%	0.5 pts	0.6 pts	50.0%
PTI Margin from Continuing Operations	18.8%	0.9 pts	1.1 pts	20.7%
Tax Rate ***	18.2%	-0.9 pts	0.7 pts	18.0%
Net Income Margin from Continuing Operations	15.4%	0.9 pts	0.7 pts	17.0%

3Q 2014

Gross Profit Margin from Continuing Operations	48.6%	0.5 pts	0.2 pts	49.2%
PTI Margin from Continuing Operations	19.5%	0.9 pts	0.3 pts	20.7%
Tax Rate ***	20.8%	0.0 pts	0.0 pts	20.8%
Net Income Margin from Continuing Operations	15.4%	0.7 pts	0.3 pts	16.4%

* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

** Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

***The tax impact on the Operating (Non-GAAP) Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "Key Financial Metrics" and "Revenue and Gross Profit Margin by Segment" discussions in the company's earnings presentation. See Slide 21 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Free Cash Flow (excluding GF Receivables)

\$ in Billions	12 months ended <u>9/30/15</u>
Net Cash from Operations	\$17.8
Less: Global Financing Receivables	<u>0.5</u>
Net Cash from Operations (excluding GF Receivables)	17.3
Net Capital Expenditures	<u>(3.7)</u>
Free Cash Flow (excluding GF Receivables)	\$13.6

The above serves to reconcile the Non-GAAP financial information contained in the “Key Financial Metrics” discussions in the company’s earnings presentation. See Slide 22 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Debt-to-Capital Ratio

	<u>Sept. 2015</u>	<u>Dec. 2014</u>	<u>Sept. 2014</u>
Non-Global Financing Debt / Capital	58%	59%	62%
IBM Consolidated Debt / Capital	75%	77%	76%

The above serves to reconcile the Non-GAAP financial information contained in the “Balance Sheet Summary” discussions in the company’s earnings presentation. See Slide 22 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

3Q YTD 2015 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Businesses</u>
IBM	(13%)	(5%)	(1%)

3Q 2015 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Business</u>
Total Strategic Imperatives	17%	25%	27%

The above serves to reconcile the Non-GAAP financial information contained in the "Strategic Imperatives" and "Year-To-Date 2015 Results" discussions in the company's earnings presentation. See Slides 21-22 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

	<u>3Q15 Yr/Yr</u>		
	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Business</u>
Americas	(10%)	(5%)	(3%)
U.S.	(7%)	(7%)	(4%)
Europe/ME/Africa	(16%)	(3%)	1%
Asia Pacific	(19%)	(8%)	(1%)
Japan	(11%)	4%	7%
Major Markets	(11%)	(3%)	(1%)
Growth Markets	(22%)	(11%)	(3%)
BRIC Countries	(30%)	(18%)	(7%)
Brazil	(35%)	(6%)	(4%)
China	(35%)	(34%)	(17%)

	<u>2Q15 Yr/Yr</u>		
	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Business</u>
Growth Markets	(21%)	(13%)	(5%)
BRIC Countries	(35%)	(28%)	(18%)

The above serves to reconcile the Non-GAAP financial information contained in the “Revenue by Geography” discussions in the company’s earnings presentation. See Slides 21-22 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

3Q15 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>
GTS Outsourcing	(11%)	Flat
Integrated Technology Services	(6%)	4%
GBS Outsourcing	(8%)	1%
Consulting & Systems Integration	(15%)	(7%)
Total Outsourcing	(11%)	Flat
Total Transactional	(11%)	(2%)

3Q15 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Business</u>
Global Technology Services (GTS)	(10%)	1%	1%
Maintenance	(13%)	(3%)	1%

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue and Gross Profit Margin by Segment", "Services Segment" and "Supplemental Segment Information-3Q 2015" discussions in the company's earnings presentation. See Slides 21-22 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

3Q15 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>
WebSphere	(5%)	1%
Information Management	(7%)	1%
Tivoli	(8%)	(2%)
Workforce Solutions	(10%)	(3%)
Rational	(17%)	(11%)
Total Middleware	(9%)	(2%)
Other Middleware	(15%)	(7%)
Other Software/Services	(16%)	(10%)

3Q15 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Business</u>
Systems Hardware Segment	(39%)	(35%)	(2%)

The above serves to reconcile the Non-GAAP financial information contained in the "Revenue and Gross Profit Margin by Segment", "Software Segment", "Systems Hardware Segment" and "Supplemental Segment Information-3Q 2015" discussions in the company's earnings presentation. See Slides 21-22 of this presentation for additional information on the use of these Non-GAAP financial measures.

