



## International Business Machines Corporation

### Offers to Exchange any and all of its

**7.125% Debentures due 2096 (CUSIP No. 459200 AP 6) and 8.000% Notes due 2038 (CUSIP No. 459200 GL 9) and up to \$800,000,000 aggregate principal amount of its 5.600% Notes due 2039 (CUSIP No. 459200 GS 4), for its 4.000% Notes due 2042 and Cash**

Each Exchange Offer will expire at 12:00 midnight, New York City time, on June 18, 2012, unless extended by us. We refer to this date and time, as it may be extended, as the “Expiration Date.” In order to be eligible to receive the Early Exchange Consideration (as defined herein), holders of Old Notes (as defined herein) must tender their Old Notes at or before 5:00 p.m., New York City time, on June 4, 2012, unless extended by us. We refer to this date and time, as it may be extended, as the “Early Exchange Date.” Holders of Old Notes may validly withdraw tenders of Old Notes at or before 5:00 p.m., New York City time, on June 4, 2012, unless extended by us. We refer to this date and time, as it may be extended, as the “Withdrawal Date.”

### The Exchange Offers

We, International Business Machines Corporation, are offering to holders of Old Notes the opportunity to exchange any and all of their 7.125% Debentures due December 1, 2096, which we refer to as the “7.125% Notes,” any and all of their 8.000% Notes due October 15, 2038, which we refer to as the “8.000% Notes” and up to \$800,000,000 aggregate principal amount (the “5.600% Notes Cap”) of their 5.600% Notes due November 30, 2039, which we refer to as the “5.600% Notes” and which we refer to together with the 7.125% Notes and the 8.000% Notes as the “Old Notes,” for new 4.000% Notes due June 20, 2042, which we refer to as the “New Notes,” and cash. All tenders of the 5.600% Notes are subject to proration as described under “Description of the Exchange Offers — 5.600% Notes Cap; Proration”, and any reference to the 5.600% Notes must be considered in light of the possibility of such proration.

### Early Exchange Premium

For each \$1,000 principal amount of 8.000% Notes and 5.600% Notes validly tendered at or before the Early Exchange Date and not validly withdrawn, holders of such series of Old Notes will be eligible to receive the applicable Early Exchange Consideration set out in the table below, which includes the applicable Early Exchange Premium set out in the table below. For each \$1,000 principal amount of 8.000% Notes and 5.600% Notes validly tendered after the Early Exchange Date but on or prior to the Expiration Date, holders of such series will be eligible to receive the applicable Exchange Consideration set out in the table below.

For each \$1,000 principal amount of 7.125% Notes validly tendered at any time at or before the Expiration Date and not validly withdrawn, holders of 7.125% Notes will be eligible to receive the applicable Exchange Consideration set out in the table below.

The following table sets forth the Early Exchange Consideration, Early Exchange Premium and Exchange Consideration for each series of Old Notes for which the New Notes are being offered.

Old Notes	Maturity Date	Principal Amount Outstanding	Early Exchange Consideration <sup>(1)(2)</sup>	Early Exchange Premium <sup>(1)</sup>	Exchange Consideration <sup>(1)</sup>
7.125% Notes	December 1, 2096	\$322,088,000	N/A	N/A	\$1,369.69 principal amount of New Notes and a cash amount of \$200.00
8.000% Notes	October 15, 2038	\$186,670,000	\$1,694.80 principal amount of New Notes	\$40 principal amount of New Notes	\$1,654.80 principal amount of New Notes
5.600%	November	\$1,545,095,000	\$1,155.07 principal amount	\$40 principal amount of	\$1,115.07 principal amount

Notes	30, 2039	of New Notes and a cash amount of \$150.00	New Notes	of New Notes and a cash amount of \$150.00
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<sup>(1)</sup> For each \$1,000 principal amount of Old Notes.

<sup>(2)</sup> Includes Early Exchange Premium.

In addition to the Early Exchange Consideration or Exchange Consideration, as applicable, set forth above, we will pay accrued and unpaid interest on the Old Notes accepted in the Exchange Offers to, but not including, the Settlement Date (as defined herein). Tendering holders of Old Notes must tender Old Notes in integral multiples of \$1,000. New Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. We refer to these offers to exchange collectively as the “Exchange Offers” and to each offer for an individual series of Old Notes as an “Exchange Offer.”

See “Description of the Exchange Offers — 5.600% Notes Cap; Proration” for more information on proration of the Exchange Offer for the 5.600% Notes.

**You should consider carefully the risk factors beginning on page 10 of this exchange circular before you decide whether to participate in the Exchange Offers.**

### Conditions

The conditions to our completion of the Exchange Offers include:

- We must issue at least \$500 million aggregate principal amount of New Notes in exchange for all Old Notes tendered and accepted for exchange.

We are making each Exchange Offer independently of the other Exchange Offers, and, except as described above, no Exchange Offer is conditioned upon completion of any other Exchange Offer. We may waive any condition to any Exchange Offer in our sole discretion at any time prior to the Expiration Date. For a more complete description of the conditions to the Exchange Offers, see “Description of the Exchange Offers — Conditions to the Exchange Offers.”

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**Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this exchange circular. Any representation to the contrary is a criminal offense.**

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**We are making the Exchange Offers in reliance on the exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), afforded by Section 3(a)(9) thereof. Therefore, we will not pay any commission or other remuneration to any broker, dealer, salesperson, or other person for soliciting tenders of the Old Notes. However, our regular employees may contact holders of Old Notes and will answer inquiries concerning the Exchange Offers. These employees will not receive additional compensation for these services.**

**Based on interpretations by the staff of the Division of Corporation Finance of the Securities and Exchange Commission, which we refer to as the “SEC,” we believe that the New Notes issued in the Exchange Offers, like the Old Notes, may be offered for resale, resold and otherwise transferred by any holder thereof who is not an affiliate of ours without compliance with the registration requirements of the Securities Act.**

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**We have made no arrangements for and have no understanding with any dealer, salesperson or other person regarding the solicitation of tenders in connection with the Exchange Offers, and no person has been authorized to give any information or to make any representation not contained in this exchange circular in connection with the Exchange Offers, and if given or made, any such information must not be relied upon as having been authorized by us or by any other person. Neither the delivery of this exchange circular nor any exchange made in connection with the Exchange Offers will, under any circumstances, create any implication**

that there has been no change in our business since the date as of which information is given or incorporated by reference in this exchange circular.

**There are no guaranteed delivery provisions provided for by us in conjunction with the Exchange Offers. Holders must tender their Old Notes in accordance with the procedures set forth under “Description of the Exchange Offers — Procedures for Tendering.”**

**No brokerage commissions are payable by tendering holders of the Old Notes to us or the exchange and information agent. Holders who tender their Old Notes through a custodian broker, dealer, commercial bank, trust company or other nominee should consult that institution to determine whether it charges any services fees.**

**We will not receive any proceeds from the Exchange Offers. We have agreed to bear the expenses of the Exchange Offers, other than any fees and commissions of beneficial owners to custodians tendering on their behalf.**

**None of us, our board of directors, our executive officers or the exchange and information agent makes any recommendation to holders of Old Notes as to whether to exchange or refrain from exchanging their Old Notes. In addition, no one had been authorized to make any such recommendation. You must make your own decision whether or when to exchange Old Notes pursuant to the Exchange Offers and, if so, the aggregate principal amount of Old Notes to exchange.**

**The Exchange Offers are not being made to, nor will we accept tenders of Old Notes from, holders in any jurisdiction in which the Exchange Offers or the acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.**

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The date of this exchange circular is May 21, 2012.

## **The New Notes**

The New Notes will mature on June 20, 2042 and will bear interest from the Settlement Date (as defined herein) at a rate per annum of 4.000%. The New Notes will be our unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness.

## **Early Exchange Consideration**

If you validly tender 8.000% Notes or 5.600% Notes at or before the Early Exchange Date and such Old Notes are not validly withdrawn, you will be eligible to receive for each \$1,000 principal amount of 8.000% Notes and 5.600% Notes the Early Exchange Consideration of \$1,694.80 principal amount of New Notes in the case of the 8.000% Notes and \$1,155.07 principal amount of New Notes and a cash amount of \$150.00 in the case of the 5.600% Notes. These amounts include the applicable Early Exchange Premium set out in the table on the cover page of this exchange circular.

## **Exchange Consideration**

If you validly tender 8.000% Notes or 5.600% Notes after the Early Exchange Date but at or before the Expiration Date, you will be eligible to receive for each \$1,000 principal amount of 8.000% Notes and 5.600% Notes the Exchange Consideration of \$1,654.80 principal amount of New Notes in the case of the 8.000% Notes and \$1,115.07 principal amount of New Notes and a cash amount of \$150.00 in the case of the 5.600% Notes.

If you validly tender 7.125% Notes at any time at or before the Expiration Date, you will be eligible to receive the Exchange Consideration of \$1,369.69 principal amount of New Notes and a cash amount of \$200.00 for each \$1,000 principal amount of 7.125% Notes.

Any Old Notes tendered after the Withdrawal Date may not be withdrawn.

## IMPORTANT DATES

Please take note of the following important dates and times in connection with the Exchange Offers. These dates assume no extension of the Early Exchange Date, the Withdrawal Date or the Expiration Date.

<b>Date</b>	<b>Calendar Date</b>	<b>Event</b>
Early Exchange Date .....	5:00 p.m., New York City time, Monday, June 4, 2012	The last day for holders to tender 8.000% Notes or 5.600% Notes in order to qualify for the payment of the Early Exchange Consideration on the Settlement Date.
Withdrawal Date.....	5:00 p.m., New York City time, Monday, June 4, 2012	The deadline for holders to validly withdraw tenders of Old Notes.
Expiration Date.....	12:00 midnight, New York City time, Monday, June 18, 2012	The last day for holders to tender Old Notes in order to qualify for payment of the Exchange Consideration on the Settlement Date.
Settlement Date .....	Wednesday, June 20, 2012	The exchange and information agent will pay the Early Exchange Consideration or Exchange Consideration, as applicable, plus accrued and unpaid interest up to but not including the Settlement Date

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## SUMMARY

*This summary highlights selected information from this exchange circular and is therefore qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference, in this exchange circular. It may not contain all the information that is important to you. We urge you to read carefully this exchange circular and the other documents to which it refers and the related letter of transmittal to understand fully the terms of the New Notes and the Exchange Offers. References in this exchange circular to “we,” “us,” “our,” “ours” and “IBM” refer to International Business Machines Corporation and its consolidated subsidiaries, unless we indicate otherwise.*

### **International Business Machines Corporation**

International Business Machines Corporation (IBM) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological invention, and its operations and aims have been international in nature. This was signaled over 85 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: the company creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing.

### **The Exchange Offers**

The Exchange Offers .....	We are offering to holders of Old Notes the opportunity to exchange their Old Notes for New Notes and cash. The holders of 8.000% Notes and 5.600% Notes will be eligible to receive the applicable Early Exchange Consideration set forth under “— Early Exchange Consideration” below for 8.00% Notes and 5.600% Notes validly tendered at or before the Early Exchange Date and not validly withdrawn. For 8.000% Notes and 5.600% Notes validly tendered after the Early Exchange Date and at or before the Expiration Date, the holders of 8.00% Notes and 5.600% Notes will be eligible to receive the applicable Exchange Consideration set forth under “— Exchange Consideration” below. The holders of 7.125% Notes will be eligible to receive the applicable Exchange Consideration set forth under “—Exchange Consideration” below for 7.125% Notes validly tendered at any time at or before the Expiration Date and not validly withdrawn. The New Notes will only be issued in whole multiples of \$1,000. Any fractional portions of New Notes will be paid in cash on the Settlement Date. The Early Exchange Consideration includes an Early Exchange Premium as an incentive for holders of 8.000% Notes and 5.600% Notes to tender their 8.000% Notes and 5.600% Notes at or before the Early Exchange Date. We will also pay accrued and unpaid interest on the Old Notes accepted in the Exchange Offers to, but not including, the Settlement Date. The Exchange Offers are independent with respect to each series of Old Notes and may be amended, extended or terminated with respect to each individual series of Old Notes. See “Description of the Exchange Offers — Terms of the Exchange Offers.”
Purpose of the Exchange Offers .....	We are conducting the Exchange Offers to retire high coupon long-dated debt in a favorable interest rate environment.
Early Exchange Date .....	The Early Exchange Date is 5:00 p.m., New York City time, on June

	4, 2012, unless extended by us one or more times in our sole discretion.
Expiration Date.....	The Exchange Offers will expire at 12:00 midnight, New York City time, on June 18, 2012. We have the right to extend any of the Exchange Offers one or more times in our sole discretion.
Early Exchange Premium .....	For each \$1,000 principal amount of 8.000% Notes and 5.600% Notes validly tendered at or before the Early Exchange Date and not validly withdrawn, holders of such series will be eligible to receive the Early Exchange Consideration, which includes the Early Exchange Premium equal to \$40 principal amount of New Notes and \$40 principal amount of New Notes, respectively. If the Exchange Offers are completed, the Early Exchange Premium will be paid only to holders who validly tender their 8.000% Notes or 5.600% Notes at or before the Early Exchange Date and do not validly withdraw their tenders and whose 8.000% Notes and 5.600% Notes are accepted for exchange. Holders who validly tender their 8.000% Notes and 5.600% Notes after the Early Exchange Date but at or before the Expiration Date will not receive the Early Exchange Premium. See “Description of the Exchange Offers — Terms of the Exchange Offers.”
Early Exchange Consideration .....	<p>The Early Exchange Consideration for each \$1,000 principal amount of 8.000% Notes tendered at or before the Early Exchange Date will equal:</p> <ul style="list-style-type: none"> <li>• \$1,694.80 principal amount of our New Notes.</li> </ul> <p>The Early Exchange Consideration for each \$1,000 principal amount of 5.600% Notes tendered at or before the Early Exchange Date will equal:</p> <ul style="list-style-type: none"> <li>• \$1,155.07 principal amount of our New Notes; plus</li> <li>• a cash amount of \$150.00.</li> </ul> <p>See “Description of the Exchange Offers — Early Exchange Consideration.”</p>
Exchange Consideration .....	<p>The Exchange Consideration for each \$1,000 principal amount of 7.125% Notes tendered at any time at or before the Expiration Date will equal:</p> <ul style="list-style-type: none"> <li>• \$1,369.69 principal amount of our New Notes; plus</li> <li>• a cash amount of \$200.00.</li> </ul> <p>The Exchange Consideration for each \$1,000 principal amount of 8.000% Notes tendered after the Early Exchange Date and at or before the Expiration Date will equal:</p> <ul style="list-style-type: none"> <li>• \$1,654.80 principal amount of our New Notes.</li> </ul> <p>The Exchange Consideration for each \$1,000 principal amount of</p>



	<p>5.600% Notes tendered after the Early Exchange Date and at or before the Expiration Date will equal:</p> <ul style="list-style-type: none"> <li>• \$1,115.07 principal amount of our New Notes; plus</li> <li>• a cash amount of \$150.00.</li> </ul> <p>See “Description of the Exchange Offers — Exchange Consideration.”</p>
Settlement Date .....	<p>If the conditions to the Exchange Offers are then satisfied, we expect to settle the Exchange Offers and make payment in respect of any and all Old Notes that are validly tendered in that Exchange Offer at or before the Expiration Date on June 20, 2012, or two business days following the Expiration Date if we extend the Expiration Date.</p> <p>We refer to this date as the “Settlement Date.”</p>
5.600% Notes Cap .....	<p>The Exchange Offer for the 5.600% Notes only is limited to purchasing up to \$800,000,000 aggregate principal amount (the “5.600% Notes Cap”). See “Description of the Exchange Offers — 5.600% Notes Cap; Proration” for more information on proration of the Exchange Offer for the 5.600% Notes.</p>
Withdrawal Rights.....	<p>The Withdrawal Date is 5:00 p.m., New York City time, on June 4, 2012, unless extended by us one or more times in our sole discretion. You may withdraw the tender of your Old Notes at any time at or before the Withdrawal Date by submitting a notice of withdrawal and upon compliance with the other procedures described herein. Any Old Notes tendered at or before the Withdrawal Date that are not validly withdrawn at or before the Withdrawal Date may not be withdrawn thereafter. Any Old Notes tendered after the Withdrawal Date may not be withdrawn.</p>
Conditions to the Exchange Offers.....	<p>The Exchange Offers are subject to certain conditions, which we may assert or waive. These conditions include that we must issue at least \$500 million aggregate principal amount of New Notes in exchange for all Old Notes tendered and accepted for exchange. See “Description of the Exchange Offers — Conditions to the Exchange Offers.”</p> <p>Subject to applicable laws, we reserve the right, in our sole discretion, before any Old Notes are accepted for exchange, to:</p> <ul style="list-style-type: none"> <li>• waive or modify any and all conditions to any of the Exchange Offers;</li> <li>• extend the Early Exchange Date, the Withdrawal Date, the Expiration Date or any related dates;</li> <li>• otherwise amend the Exchange Offers in any respect; or</li> <li>• terminate or withdraw any of the Exchange Offers if any condition to that Exchange Offer is not satisfied.</li> </ul>

	<p>In the event that any of the Exchange Offers is withdrawn or otherwise not completed, the Early Exchange Consideration or the Exchange Consideration, as applicable to that Exchange Offer, will not be paid or become payable to holders that have validly tendered Old Notes in connection with that Exchange Offer, and such Old Notes received by the exchange and information agent will be promptly returned.</p>
Procedures for Tendering .....	<p>If you wish to participate in the Exchange Offers and your Old Notes are held by a custodial entity, such as a broker, dealer, commercial bank, trust company or other nominee, you must instruct that custodial entity to tender your Old Notes on your behalf pursuant to the procedures of that custodial entity. If your Old Notes are registered in your name, you must complete, sign, and date the accompanying letter of transmittal (which we call the “letter of transmittal”), or a facsimile of the letter of transmittal, according to the instructions contained in this exchange circular and the letter of transmittal. You must also mail or otherwise deliver the executed letter of transmittal, or a facsimile of the letter of transmittal, together with the Old Notes, to the exchange and information agent at its address listed in the letter of transmittal.</p> <p>Custodial entities that are participants in The Depository Trust Company, which we refer to as “DTC,” may tender Old Notes through the Automated Tender Offer Program maintained by DTC, known as “ATOP,” by which the custodial entity and the beneficial owner on whose behalf the custodial entity is acting agree to be bound by the letter of transmittal. <b>A letter of transmittal need not accompany tenders effected through ATOP.</b> Currently all Old Notes are represented by global notes issued to Cede &amp; Co. as nominee of DTC.</p>
Consequences of Failure to Exchange .....	<p>For a description of the consequences of failing to exchange your Old Notes, see “Risk Factors.”</p>
Return of Notes Not Exchanged .....	<p>Any principal amount of Old Notes tendered but not exchanged pursuant to an Exchange Offer will be returned to the tendering holders at our expense promptly following the earlier of the Expiration Date or the date on which the Exchange Offer is terminated.</p>
Tax Considerations .....	<p>For a summary of the material U.S. Federal income tax consequences of the Exchange Offers, see “Material United States Federal Income Tax Considerations.”</p>
Information .....	<p>Any questions concerning the terms of the Exchange Offers should be directed to us or to the exchange and information agent at the telephone numbers listed on the back cover page of this exchange circular.</p> <p>Questions concerning tender procedures and requests for additional copies of this exchange circular should be directed to us or to the exchange and information agent at the addresses or telephone numbers listed on the back cover page of this exchange circular.</p>
Exchange and Information Agent .....	<p>Global Bondholder Services Corporation is the exchange and</p>

information agent for the Exchange Offers. The addresses and telephone numbers of the exchange and information agent are listed on the back cover page of this exchange circular.

**Summary of the New Notes**

Issuer .....	International Business Machines Corporation
Maturity Date.....	June 20, 2042
Interest .....	Interest will accrue from the Settlement Date and will be payable semiannually, in arrears, on June 20 and December 20 of each year, beginning on December 20, 2012.
Interest Rate.....	The per annum interest rate on the New Notes will be 4.000%.
Ratings.....	The New Notes are expected to be rated Aa3 by Moody’s Investors Service, Inc., or “Moody’s” and A+ by Standard & Poor’s Ratings Services, or “S&P.” Such ratings reflect only the views of Moody’s and S&P, respectively, and are not recommendations to buy, sell or hold the New Notes.
Rankings .....	The New Notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness.
Optional Redemption.....	We may redeem the New Notes, in whole or in part at any time and from time to time, at the redemption price set forth under “Description of the New Notes — Optional Redemption.”
Form and Denomination.....	The New Notes will be issued in fully registered form. The New Notes will be represented by one or more global notes, deposited with a trustee as a custodian for DTC and registered in the name of Cede & Co., DTC’s nominee. Beneficial interests in the global notes will be shown on, and any transfer will be effective only through, records maintained by DTC and its participants. The New Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.
Covenants .....	The indenture under which the New Notes will be issued will limit, subject to the exceptions described herein, our ability to incur secured indebtedness without securing the New Notes equally and ratably with the other secured indebtedness and will limit our ability to enter into sale and leaseback transactions. The indenture will also include requirements that must be met if we consolidate or merge with, or sell, lease or convey all or substantially all of our assets to, another entity. These covenants are substantially the same as the covenants for the Old Notes. See “Description of the New Notes — Covenants.”
Events of Default.....	For a discussion of events that will permit acceleration of the payment of the principal of and accrued interest on the New Notes, see “Description of the New Notes — Events of Default, Notice and Waiver.”
Securities Law Registration.....	We are offering the New Notes pursuant to the exemption from the

	registration requirements of the Securities Act provided by Section 3(a)(9) thereof.
Listing .....	We do not intend to list the New Notes on any securities exchange.
Governing Law .....	The New Notes and the indenture will be governed by, and construed in accordance with, the laws of the State of New York.
Book-Entry .....	DTC
Trustee .....	The Bank of New York Mellon

### Comparison of Old Notes and New Notes

The following is a brief comparison of the principal features of the Old Notes and the New Notes. The following descriptions are brief summaries, do not purport to be complete and are qualified in their entirety by reference, with respect to the Old Notes, to the Old Notes and the governing indenture of those notes, and, with respect to the New Notes, to the New Notes and the governing indenture of those notes. The New Notes will be issued under the Indenture, dated as of October 1, 1993, between IBM and The Bank of New York Mellon, as Trustee, as supplemented by the First Supplemental Indenture, dated as of December 15, 1995 (as so supplemented, the "Indenture").

The New Notes are a new series of debt securities under the Indenture. For further information regarding the New Notes and for definitions of capitalized terms used with respect to the New Notes but not otherwise defined in this summary, see "Description of the New Notes."

	<u>7.125% Notes</u>	<u>8.000% Notes</u>	<u>5.600% Notes</u>	<u>New Notes</u>
<b>Issuer</b> .....	IBM	IBM	IBM	IBM
<b>Trustee</b> .....	The Bank of New York Mellon	Same.	Same.	Same.
<b>Maturity</b> .....	December 1, 2096	October 15, 2038	November 30, 2039	June 20, 2042
<b>Interest Rate</b> ...	7.125% per annum	8.000% per annum	5.600% per annum	4.000% per annum
<b>Interest Payment Dates</b>	Semiannually on June 1 and December 1	Semiannually on April 15 and October 15	Semiannually on May 30 and November 30	Semiannually on June 20 and December 20
<b>Ranking</b> .....	The 7.125% Notes are unsecured obligations of IBM and rank <i>pari passu</i> with all existing and future unsecured indebtedness of IBM	The 8.000% Notes are unsecured obligations of IBM and rank <i>pari passu</i> with all existing and future unsecured indebtedness of IBM	The 5.600% Notes are unsecured obligations of IBM and rank <i>pari passu</i> with all existing and future unsecured indebtedness of IBM	The New Notes will be unsecured obligations of IBM and rank <i>pari passu</i> with all existing and future unsecured indebtedness of IBM
<b>Optional Redemption</b> ....	The 7.125% Notes are redeemable as a whole or in part, at the option of IBM at any time, on at least 30 days, but not more than 60 days, prior notice to holders, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed; and (ii) the sum of the present values of the remaining scheduled payments thereon discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 15 basis points, plus in either case accrued interest on the principal amount being redeemed to the date of	The 8.000% Notes are redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, plus accrued interest, if any, to the redemption date; and (ii) the sum of the present values of the remaining scheduled payments discounted, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the treasury rate plus 50 basis points, plus accrued interest to the date of redemption	The 5.600% Notes are redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, plus accrued interest, if any, to the redemption date; and (ii) the sum of the present values of the remaining scheduled payments discounted, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the treasury rate plus 25 basis points, plus accrued interest to the date of redemption	The New Notes will be redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, plus accrued interest, if any, to the redemption date; and (ii) the sum of the present values of the remaining scheduled payments discounted, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the treasury rate plus 20 basis points, plus accrued interest to the date of redemption

	redemption.	which has not been paid.	which has not been paid.	which has not been paid. See “Description of the New Notes — Optional Redemption.”
<b>Certain Covenants</b> .....	The Indenture provides for certain limitations on secured indebtedness and sale and leaseback transactions.	Same.	Same.	Same.
<b>Consolidation, Mergers and Sales of Assets</b> .....	IBM may, without the consent of the holders of the debt securities, merge into or consolidate with any other corporation, or convey or transfer all or substantially all of our properties and assets to another person provided that: (a) the successor is a U.S. corporation; (b) the successor assumes on the same terms and conditions all the obligations under the notes and the Indenture; and (c) immediately after giving effect to the transaction, there is no default under the Indenture. The remaining or acquiring corporation will take over all of IBM’s rights and obligations under the Indenture.	Same.	Same.	Same.
<b>Acceleration</b> ....	If an event of default for any series of notes occurs and continues, the trustee or the holders of at least 25% in principal amount of that series of notes (or, in the case of certain events of bankruptcy, insolvency and reorganization, holders of at least 25% of all outstanding IBM debt securities voting as a single class) may declare the entire principal amount of all the debt securities of that series, together with accrued interest thereon, if any, to be due and	Same.	Same.	Same.

	payable immediately.			
<b>Defeasance</b> .....	The notes are subject to defeasance and covenant defeasance under certain circumstances.	Same.	Same.	Same.
<b>Transfer Restrictions</b> .....	Freely transferable under the Securities Act	Same.	Same.	Same.

**Risk Factors**

See “Risk Factors” beginning on page 10 for a discussion of factors that should be considered by holders of Old Notes before tendering their Old Notes in the Exchange Offers.

## **RISK FACTORS**

*As you review all of the information included in or incorporated by reference into this exchange circular and consider whether to tender your Old Notes in the Exchange Offers, you should consider carefully the following risk factors relating to the Exchange Offers, the Old Notes and the New Notes.*

***Your decision to exchange your 8.000% Notes or 5.600% Notes for New Notes exposes you to the risk of nonpayment for a longer period of time.***

The 8.000% Notes mature in 2038. The 5.600% Notes mature in 2039. The New Notes will mature in 2042. If, following the maturity date of the 8.000% Notes and/or 5.600% Notes but before the maturity date of the New Notes, we become subject to a bankruptcy or similar proceeding, the holders of the 8.000% Notes and/or 5.600% Notes who did not exchange their Old Notes for New Notes could have been paid in full and there would exist a risk that holders of the 8.000% Notes or 5.600% Notes who exchanged their Old Notes for New Notes would not be paid in full, if at all. Your decision to tender your Old Notes should be made with the understanding that the lengthened maturity of the New Notes exposes you to the risk of nonpayment for a longer period of time.

***Purchase of the 5.600% Notes is limited by the 5.600% Notes Cap.***

Since the Exchange Offer for the 5.600% Notes is limited by the 5.600% Notes Cap, you will not be able to determine if all of the Notes you wish to tender will be exchanged in the Exchange Offer or if you will be subject to proration. Accordingly, until after the Expiration Date, you will not be certain what percentage of your 5.600% Notes will be exchanged.

***An active trading market may not develop for the New Notes, and you may not be able to resell your New Notes.***

The New Notes are new securities, and no market currently exists where you can resell them. We have not engaged any person to buy and sell, or “make a market” in, the New Notes, and no person is required to do so. If any person starts market-making activities, it could stop those activities at any time without notice. In addition, any market-making activities will be subject to limits imposed by the Securities Act and the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Moreover, any trading market for the New Notes that does develop could become more limited or cease to exist due to our redemption of New Notes. As a result, your ability to resell the New Notes may be limited. We do not intend to apply for listing of the New Notes on any securities exchange. We cannot assure you that any market for the New Notes will develop or be sustained. If an active market does not develop or is not sustained, the market price and liquidity of the New Notes may be adversely affected.

***The Exchange Offers may result in reduced liquidity for the Old Notes that are not exchanged.***

The trading market for Old Notes that are not exchanged could become more limited than the existing trading market for the Old Notes and could cease to exist altogether due to the reduction in the principal amount of the Old Notes outstanding upon completion of the Exchange Offers. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Old Notes. If a market for Old Notes that are not exchanged exists or develops, the Old Notes may trade at a discount to the price at which they would trade if the principal amount outstanding were not reduced. There can be no assurance that an active market in the Old Notes will exist, develop or be maintained after the Exchange Offers are completed or as to the prices at which the Old Notes may trade.

***The completion of the Exchange Offers may not occur.***

We are not obligated to complete the respective Exchange Offers for the Old Notes unless and until we issue at least \$500 million in aggregate principal amount of New Notes in exchange for all Old Notes tendered and accepted for exchange as a condition to accepting tenders at the Expiration Date. The Exchange Offers are also subject to other conditions, some of which are outside our control. We are permitted, but not obligated, to waive any condition to any Exchange Offer before any Old Notes are accepted for exchange. Accordingly, the Exchange Offers may not be completed. Even if the Exchange Offers are completed, they may not be completed on the schedule described in



this exchange circular. Accordingly, holders participating in the Exchange Offers may have to wait longer than expected to receive their New Notes and cash, during which time those holders of Old Notes will not be able to effect transfers of their Old Notes tendered in the Exchange Offers.

***The consideration to be received in the Exchange Offers does not reflect any valuation of the Old Notes or the New Notes.***

Our board of directors has made no determination that the consideration to be received in the Exchange Offers represents a fair valuation of either the Old Notes or the New Notes. We have not obtained a fairness opinion from any financial advisor about the fairness to us or to you of the consideration to be received by holders of Old Notes.

## **FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

Except for the historical information and discussions contained herein, statements contained in this exchange circular may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on our current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and corporate IT spending budgets; our failure to meet growth and productivity objectives, a failure of our innovation initiatives; risks from investing in growth opportunities; failure of our intellectual property portfolio to prevent competitive offerings and our failure to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and our pension plans; ineffective internal controls; our use of accounting estimates; our ability to attract and retain key personnel and our reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; our ability to successfully manage acquisitions and alliances; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in our Form 10-Q, Form 10-K and in our other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated herein and therein by reference. Any forward-looking statement in this exchange circular speaks only as of the date on which it is made. We assume no obligation to update or revise any forward-looking statements.

## **INTERNATIONAL BUSINESS MACHINES CORPORATION**

International Business Machines Corporation (IBM) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological invention, and its operations and aims have been international in nature. This was signaled over 85 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing.

## **DESCRIPTION OF THE EXCHANGE OFFERS**

### **Terms of the Exchange Offers**

We are offering to holders of Old Notes the opportunity to exchange their Old Notes for New Notes and cash. The holders of 8.000% Notes and 5.600% Notes will be eligible to receive the applicable Early Exchange Consideration set forth under “— Early Exchange Consideration” below for 8.000% Notes and 5.600% Notes validly tendered at or before the Early Exchange Date and not validly withdrawn. For 8.000% Notes and 5.600% Notes tendered after the Early Exchange Date and at or before the Expiration Date, the holders of such 8.000% Notes and 5.600% Notes will be eligible to receive the applicable Exchange Consideration set forth under “—

Exchange Consideration” below. The holders of 7.125% Notes will be eligible to receive the applicable Exchange Consideration set out in the table below for 7.125% Notes validly tendered at any time at or before the Expiration Date and not validly withdrawn. Any fractional portions of New Notes will be paid in cash on the Settlement Date. The Early Exchange Consideration includes an Early Exchange Premium as an incentive for holders of 8.000% Notes and 5.600% Notes to tender their 8.000% Notes and 5.600% Notes at or before the Early Exchange Date. In addition, holders whose Old Notes are accepted for exchange pursuant to the Exchange Offers will receive a cash payment representing accrued and unpaid interest on the Old Notes to, but not including, the Settlement Date. Tendering holders of Old Notes must tender Old Notes in integral multiples of \$1,000. New Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

Old Notes	Maturity Date	Principal Amount Outstanding	Early Exchange Consideration <sup>(1)(2)</sup>	Early Exchange Premium <sup>(1)</sup>	Exchange Consideration <sup>(1)</sup>
7.125% Notes	December 1, 2096	\$322,088,000	N/A	N/A	\$1,369.69 principal amount of New Notes and a cash amount of \$200.00
8.000% Notes	October 15, 2038	\$186,670,000	\$1,694.80 principal amount of New Notes	\$40 principal amount of New Notes	\$1,654.80 principal amount of New Notes
5.600% Notes	November 30, 2039	\$1,545,095,000	\$1,155.07 principal amount of New Notes and a cash amount of \$150.00	\$40 principal amount of New Notes	\$1,115.07 principal amount of New Notes and a cash amount of \$150.00

<sup>(1)</sup> For each \$1,000 principal amount of Old Notes.

<sup>(2)</sup> Includes Early Exchange Premium.

### 5.600% Notes Cap; Proration

The amount of 5.600% Notes that are exchanged in the Exchange Offer for the 5.600% Notes will be based on the 5.600% Notes Cap and may be prorated.

If the aggregate principal amount of 5.600% Notes tendered for exchange exceeds the 5.600% Notes Cap, only \$800,000,000 in aggregate principal amount of 5.600% Notes will be accepted for exchange. If the principal amount of 5.600% Notes tendered for exchange exceeds the 5.600% Notes Cap, then we will accept validly tendered 5.600% Notes on a pro rata basis (with adjustments to avoid the exchange of 5.600% Notes in a principal amount other than in integral multiples of \$1,000). In such an event, we would accept from each Holder of tendered 5.600% Notes that portion of the Holder’s tendered 5.600% Notes that is equal to the total amount of such tendered 5.600% Notes multiplied by a fraction, the numerator of which would be equal to the amount of the 5.600% Notes Cap and the denominator of which would be equal to the total principal amount of 5.600% Notes validly tendered for exchange, rounded downward to the nearest \$1,000 principal amount.

We will not be able to determine whether the Exchange Offer for the 5.600% Notes is oversubscribed or what the effects of proration may be until after the Expiration Date has passed.

### Purpose of the Exchange Offers

We are conducting the Exchange Offers to retire high coupon long-dated debt in a favorable interest rate environment.

### Early Exchange Consideration

The Early Exchange Consideration for each \$1,000 principal amount of 8.000% Notes tendered at or before the Early Exchange Date will equal:

- \$1,694.80 principal amount of New Notes.

The Early Exchange Consideration for each \$1,000 principal amount of 5.600% Notes tendered at or before the Early Exchange Date will equal:

- \$1,155.07 principal amount of New Notes; plus
- a cash amount of \$150.00.

### **Exchange Consideration**

The Exchange Consideration for each \$1,000 principal amount of 7.125% Notes validly tendered at any time at or before the Expiration Date will equal:

- \$1,369.69 principal amount of New Notes; plus
- a cash amount of \$200.00.

The Exchange Consideration for each \$1,000 principal amount of 8.000% Notes validly tendered after the Early Exchange Date and at or before the Expiration Date will equal:

- \$1,654.80 principal amount of New Notes.

The Exchange Consideration for each \$1,000 principal amount of 5.600% Notes validly tendered after the Early Exchange Date and at or before the Expiration Date will equal:

- \$1,115.07 principal amount of New Notes; plus
- a cash amount of \$150.00.

### **Early Exchange Date; Withdrawal Date; Expiration Date**

For purposes of the Exchange Offers, the term “Early Exchange Date” means 5:00 p.m., New York City time, on June 4, 2012, subject to our right to extend that time and date for any Exchange Offer in our absolute discretion, in which case the Early Exchange Date means the latest time and date to which the Early Exchange Date is extended for that Exchange Offer.

For purposes of the Exchange Offers, the term “Withdrawal Date” means 5:00 p.m., New York City time, on June 4, 2012, subject to our right to extend that time and date for any Exchange Offer in our absolute discretion, in which case the Withdrawal Date means the latest time and date to which the Withdrawal Date is extended for that Exchange Offer.

For purposes of the Exchange Offers, the term “Expiration Date” means 12:00 midnight, New York City time, on June 18, 2012, subject to our right to extend that time and date for any Exchange Offer in our absolute discretion, in which case the Expiration Date means the latest time and date to which the Expiration Date is extended for that Exchange Offer.

### **Settlement Date**

The “Settlement Date” is the date on which payment is made in respect of any Old Notes that are validly tendered at or before the Expiration Date, and that we accept. We expect the Settlement Date will be June 20, 2012, or two business days following the Expiration Date if we extend the Expiration Date. No tenders will be valid if submitted after the Expiration Date.

In addition to the Early Exchange Consideration or the Exchange Consideration, as applicable, holders that validly tender and do not validly withdraw their tenders and whose Old Notes are accepted will also receive accrued and unpaid interest for their Old Notes from the interest payment date immediately preceding the Settlement Date to,

but not including, the Settlement Date, payable on the Settlement Date. Under no circumstances will any interest be payable because of any delay in the transmission of funds to holders by the exchange and information agent.

### **Extensions; Amendments; Termination**

We reserve the right, in our absolute discretion but subject to applicable laws, by giving oral or written notice to the exchange and information agent, to:

- waive or modify any and all of the conditions to any of the Exchange Offers;
- extend the Early Exchange Date, the Withdrawal Date or the Expiration Date or any related dates for any of the Exchange Offers;
- amend any of the Exchange Offers in any respect; and
- terminate or withdraw any of the Exchange Offers, if a condition to our obligation to exchange Old Notes for New Notes is not satisfied or waived before the Expiration Date.

Each Exchange Offer is being made independently of the other Exchange Offers and may be amended, extended or terminated with respect to each individual series of Old Notes. If an Exchange Offer is amended in a manner that we determine constitutes a material change, we will extend the Exchange Offer for such period as we determine appropriate, depending upon the significance of the amendment and the manner of disclosure to the holders.

In the event that an Exchange Offer is withdrawn or otherwise not completed, the Early Exchange Consideration or Exchange Consideration, as applicable, will not be paid or become payable.

We will promptly announce any extension, amendment or termination of the Early Exchange Date, the Withdrawal Date or the Expiration Date, as the case may be, by issuing a press release. We will announce any extension of the Early Exchange Date, the Withdrawal Date or the Expiration Date no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled Early Exchange Date, Withdrawal Date or Expiration Date, as the case may be. We have no other obligation to publish, advertise or otherwise communicate any information about any extension, amendment or termination.

### **Conditions to the Exchange Offers**

Notwithstanding any other provisions of the Exchange Offers or any extension of the Exchange Offers, we will not be required to issue New Notes or pay any cash amounts, and we may terminate the Exchange Offers or, at our option, modify, extend or otherwise amend the Exchange Offers, if any of the following conditions have not been satisfied or waived before the Expiration Date:

- we must issue at least \$500 million aggregate principal amount of New Notes in exchange for all Old Notes tendered and accepted for exchange;
- no action or event shall have occurred or been threatened, no action shall have been taken, and no statute, rule, regulation, judgment, order, stay, decree or injunction shall have been promulgated, enacted, entered, enforced or deemed to be applicable to an Exchange Offer or the exchange of Old Notes for New Notes under an Exchange Offer by or before any court or governmental regulatory or administrative agency, authority or tribunal, including, without limitation, taxing authorities, that either:
  - challenges the making of the Exchange Offer or the exchange of Old Notes for New Notes under the Exchange Offer or might, directly or indirectly, prohibit, prevent, restrict or delay consummation of, or might otherwise adversely affect in any material manner, the Exchange Offer or the exchange of Old Notes for New Notes under the Exchange Offer; or

- in our reasonable judgment, could materially adversely affect our business, condition (financial or otherwise), income, operations, properties, assets, liabilities or prospects or materially impair the contemplated benefits to us of the Exchange Offer, the exchange of Old Notes for New Notes under the Exchange Offer or the delivery of any cash amounts;
- nothing has occurred or may occur that would or might, in our reasonable judgment, prohibit, prevent or delay an Exchange Offer or impair us from realizing the anticipated benefits of an Exchange Offer;
- there shall not have occurred:
  - any general suspension of or limitation on trading in securities on the New York Stock Exchange or in the over-the-counter market, whether or not mandatory,
  - any material adverse change in the prices of the Old Notes or the price of the New Notes,
  - a material impairment in the general trading market for debt securities,
  - a declaration of a banking moratorium or any suspension of payments in respect of banks by federal or state authorities in the United States, whether or not mandatory,
  - a commencement of a war, armed hostilities, a terrorist act or other national or international calamity directly or indirectly relating to the United States,
  - any limitation, whether or not mandatory, by any governmental authority on, or other event having a reasonable likelihood of affecting, the extension of credit by banks or other lending institutions in the United States,
  - any material adverse change in the securities or financial markets in the United States generally, or
  - in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer, a material acceleration or worsening thereof; and
- the trustee with respect to the indenture for the Old Notes and/or the New Notes shall not have objected in any respect to, or taken any action that could, in our reasonable judgment, adversely affect the completion of an Exchange Offer or the exchange of Old Notes for New Notes under an Exchange Offer, nor shall the trustee have taken any action that challenges the validity or effectiveness of the procedures used by us in making an Exchange Offer, the exchange of Old Notes for New Notes under an Exchange Offer or the delivery of any cash amounts.

The foregoing conditions are for our sole benefit and may be waived by us, in whole or in part, at our absolute discretion. Any determination made by us concerning an event, development or circumstance described or referred to above will be conclusive and binding. If any of the foregoing conditions are not satisfied, we may, at any time before the Old Notes are accepted for exchange:

- terminate an Exchange Offer and promptly return all tendered Old Notes to the respective tendering holders;
- modify, extend or otherwise amend an Exchange Offer and retain all tendered Old Notes until the Expiration Date, as extended, subject, however, to the withdrawal rights of holders before the Withdrawal Date; or
- waive the unsatisfied conditions with respect to an Exchange Offer and accept all Old Notes tendered and not previously validly withdrawn.

## **Effect of Tender**

Any tender by a holder, and our subsequent acceptance of that tender, of Old Notes will constitute a binding agreement between that holder and us upon the terms and subject to the conditions of the applicable Exchange Offer described in this exchange circular and in the letter of transmittal. The acceptance of the applicable Exchange Offer by a tendering holder of Old Notes will constitute the agreement by that holder to deliver good and marketable title to the tendered Old Notes, free and clear of any and all liens, restrictions, charges, pledges, security interests, encumbrances or rights of any kind of third parties.

## **Letter of Transmittal; Representations, Warranties and Covenants of Holders of Old Notes**

Upon the submission of the letter of transmittal, or the agreement to the terms of the letter of transmittal pursuant to an agent's message, a holder, or the beneficial holder of Old Notes on behalf of which the holder has tendered, will, subject to that holder's ability to withdraw its tender, and subject to the terms and conditions of the Exchange Offers generally, be deemed, among other things, to:

- irrevocably sell, assign and transfer to or upon our order or the order of our nominee all right, title and interest in and to, and any and all claims in respect of or arising or having arisen as a result of the holder's status as a holder of, all Old Notes tendered thereby, such that thereafter the holder shall have no contractual or other rights or claims in law or equity against us or any fiduciary, trustee, fiscal agent or other person connected with the Old Notes arising under, from or in connection with those Old Notes;
- waive any and all rights with respect to the Old Notes tendered thereby, including, without limitation, any existing or past defaults and their consequences in respect of those Old Notes; and
- release and discharge us and the trustee for the Old Notes from any and all claims that the holder may have, now or in the future, arising out of or related to the Old Notes tendered thereby, including, without limitation, any claims that the holder is entitled to receive additional principal or interest payments with respect to the Old Notes tendered thereby, other than accrued and unpaid interest on the Old Notes or as otherwise expressly provided in this exchange circular and in the letter of transmittal, or to participate in any redemption or defeasance of the Old Notes tendered thereby.

In addition, each holder of Old Notes will be deemed to represent, warrant and agree that:

- it has received and reviewed this exchange circular and the documents incorporated herein by reference;
- it is the beneficial owner (as defined herein) of, or a duly authorized representative of one or more beneficial owners of, the Old Notes tendered thereby, and it has full power and authority to tender the Old Notes;
- the Old Notes being tendered thereby were owned as of the date of tender, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to those Old Notes, free and clear of all liens, charges, claims, encumbrances, interests and restrictions of any kind, when we accept the same;
- it will not sell, pledge, hypothecate or otherwise encumber or transfer any Old Notes tendered thereby from the date of tender, and any purported sale, pledge, hypothecation or other encumbrance or transfer will be void and of no effect;
- in evaluating an Exchange Offer and in making its decision whether to participate in an Exchange Offer and tender its Old Notes, it has made its own independent appraisal of the matters referred to in this exchange circular and the letter of transmittal and in any related communications and it is not relying on any statement, representation or warranty, express or implied, made to it by us or the exchange and information agent, other than those contained in this exchange circular, as amended or supplemented through the Expiration Date;

- it will execute any further documents and give any further assurances that may be required in connection with any of the foregoing, in each case on and subject to the terms and conditions described or referred to in this exchange circular;
- its tender of Old Notes shall, subject to a holder's ability to withdraw its tender at or before the Withdrawal Date, and subject to the terms and conditions of the applicable Exchange Offer, constitute the irrevocable appointment of the exchange and information agent as its attorney and agent and an irrevocable instruction to that attorney and agent to complete and execute all of any forms of transfer and other documents at the discretion of that attorney and agent in relation to the Old Notes tendered thereby in favor of us or any other person or persons as we may direct and to deliver those forms of transfer and other documents in the attorney's and agent's discretion and the certificates and other documents of title relating to the registration of Old Notes and to execute all other documents and to do all other acts and things as may be in the opinion of that attorney or agent necessary or expedient for the purpose of, or in connection with, the acceptance of the Exchange Offers, and to vest in us or our nominees those Old Notes;
- if the Old Notes are assets of (i) an "employee benefits plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or "ERISA," that is subject to Title I of ERISA, (ii) a "plan" as defined in Section 4975 of the Internal Revenue Code of 1986, as amended, or the "Code," and that is subject to Section 4975 of the Code, (iii) a "governmental plan" as defined in Section 3(32) of ERISA or any other plan that is subject to a law substantially similar to Title I of ERISA or Section 4975 of the Code, or (iv) an entity deemed to hold plan assets of any of the foregoing, the exchange of the Old Notes and the acquisition, holding and disposition of the New Notes will not result in a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or any substantially similar applicable law;
- in the case of a tender for exchange of 5.600% Notes only, the holder represents and warrants that: (i) it has a "net long" position in the 5.600% Notes being tendered for exchange or equivalent securities at least equal to the 5.600% Notes tendered for exchange within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, and (ii) such tender for exchange of 5.600% Notes complies with Rule 14e-4; and
- the terms and conditions of the applicable Exchange Offer shall be deemed to be incorporated in, and form a part of, the letter of transmittal or the agreement to the terms of the letter of transmittal pursuant to an agent's message, which shall be read and construed accordingly.

The representations, warranties and agreements of a holder tendering Old Notes will be deemed to be repeated and reconfirmed on and as of the Early Exchange Date, the Expiration Date and the Settlement Date. For purposes of this exchange circular, the "beneficial owner" of any Old Notes means any holder that exercises investment discretion with respect to those Old Notes.

### **Absence of Dissenters' Rights**

Holders of the Old Notes do not have any appraisal or dissenters' rights in connection with the Exchange Offers.

### **Procedures for Tendering**

If you wish to participate in an Exchange Offer and your Old Notes are held by a custodial entity such as a broker, dealer, commercial bank, trust company, or other nominee, you must instruct that custodial entity to tender your Old Notes on your behalf pursuant to the procedures of that custodial entity.

To participate in an Exchange Offer, you must either:

- complete, sign and date a letter of transmittal, or a facsimile thereof, in accordance with the instructions in the letter of transmittal, including guaranteeing the signatures to the letter of transmittal, if required, and mail or otherwise deliver the letter of transmittal or a manually executed facsimile thereof, together with

the certificates representing your Old Notes specified in the letter of transmittal or deliver your Old Notes by book-entry transfer, to the exchange and information agent at the address listed in the letter of transmittal, for receipt at or before the Expiration Date in order to receive the Exchange Consideration or at or before the Early Exchange Date in order to receive the Early Exchange Consideration; or

- comply with the ATOP procedures for book-entry transfer described below at or before the Expiration Date in order to receive the Exchange Consideration or at or before the Early Exchange Date in order to receive the Early Exchange Consideration.

The exchange and information agent and DTC have confirmed that the Exchange Offers are eligible for ATOP. The letter of transmittal, or a facsimile thereof, with any required signature guarantees, or, in the case of book-entry transfer, an agent's message in lieu of the letter of transmittal, and any other required documents, must be transmitted to and received by the exchange and information agent at or before the Expiration Date in order to receive the Exchange Consideration or at or before the Early Exchange Date in order to receive the Early Exchange Consideration. Old Notes will not be deemed to have been tendered until the letter of transmittal and signature guarantees, if any, or agent's message, is received by the exchange and information agent.

**The method of delivery of Old Notes, the letter of transmittal, and all other required documents to the exchange and information agent is at the election and risk of the holder. Holders should use an overnight or hand delivery service, properly insured. In all cases, sufficient time should be allowed to assure delivery to and receipt by the exchange and information agent at or before the Expiration Date or the Early Exchange Date, as applicable. Do not send the letter of transmittal or any Old Notes to anyone other than the exchange and information agent.**

If you are tendering your Old Notes in exchange for New Notes and anticipate delivering your letter of transmittal and other documents other than through DTC, we urge you to contact promptly a broker, dealer, commercial bank, trust company or other intermediary that has the capability to hold notes custodially through DTC to arrange for receipt of any New Notes to be delivered pursuant to the Exchange Offers and to obtain the information necessary to provide the required DTC participant with account information in the letter of transmittal.

#### **Book-Entry Delivery Procedures for Tendering Old Notes Held with DTC**

If you wish to tender Old Notes held on your behalf by a nominee with DTC, you must:

- inform your nominee of your interest in tendering your Old Notes pursuant to the applicable Exchange Offer; and
- instruct your nominee to tender all Old Notes you wish to be tendered in the applicable Exchange Offer into the exchange and information agent's account at DTC at or before the Expiration Date or the Early Exchange Date, as applicable.

Any financial institution that is a nominee in DTC may tender Old Notes by effecting a book-entry transfer of Old Notes to be tendered in the applicable Exchange Offer into the account of the exchange and information agent at DTC by electronically transmitting its acceptance of the applicable Exchange Offer through the ATOP procedures for transfer. DTC will then verify the acceptance, execute a book-entry delivery to the exchange and information agent's account at DTC, and send an agent's message to the exchange and information agent. An "agent's message" is a message, transmitted by DTC to, and received by, the exchange and information agent and forming part of a book-entry confirmation, which states that DTC has received an express acknowledgement from an organization that participates in DTC, which we refer to as a "participant," tendering Old Notes that the participant has received and agreeing to be bound by the terms of the letter of transmittal and that we may enforce the agreement against the participant. **A letter of transmittal need not accompany tenders effected through ATOP.**



## Proper Execution and Delivery of the Letter of Transmittal

Signatures on a letter of transmittal or notice of withdrawal described under “— Withdrawal of Tenders,” as the case may be, must be guaranteed by a recognized participant in the Securities Transfer Agents Medallion Program, the NYSE Medallion Signature Program or the Stock Exchange Medallion Program (each, a “Medallion Signature Co-Obligor”) unless the letter of transmittal is signed by a participant in DTC whose name appears on a security position listing as the owner of the Old Notes or the Old Notes tendered pursuant to the letter of transmittal are tendered for the account of an eligible guarantor institution (as defined herein). If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, that guarantee must be made by a Medallion Signature Co-Obligor. If the letter of transmittal is signed by the holders of Old Notes tendered thereby, the signatures must correspond with the names as written on the face of the Old Notes without any change whatsoever. If any of the Old Notes tendered thereby are held by two or more holders, each holder must sign the letter of transmittal. If any of the Old Notes tendered thereby are registered in different names on different Old Notes, it will be necessary to complete, sign and submit as many separate letters of transmittal, and any accompanying documents, as there are different registrations of certificates.

If the letter of transmittal is signed by a person other than the holder of the Old Notes listed in the letter of transmittal, those Old Notes must be properly endorsed or accompanied by a properly completed bond power, signed by the holder exactly as the holder’s name appears on those Old Notes. If the letter of transmittal or any Old Notes, bond powers or other instruments of transfer are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, those persons should so indicate when signing, and, unless waived by us, evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal.

No alternative, conditional, irregular, or contingent tenders will be accepted. By executing the letter of transmittal, or facsimile thereof, the tendering holders of Old Notes waive any right to receive any notice of the acceptance for exchange of their Old Notes. Old Notes not tendered or exchanged will be returned to the tendering holder.

All questions as to the validity, form, eligibility, including time of receipt, and acceptance and withdrawal of tendered Old Notes will be determined by us in our absolute discretion, which determination will be final and binding. We reserve the absolute right to reject any and all tendered Old Notes determined by us not to be in proper form or not to be tendered properly or any tendered Old Notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive, in our absolute discretion, any defects, irregularities, or conditions of tender as to particular Old Notes, whether or not waived in the case of other Old Notes. Our interpretation of the terms and conditions of an Exchange Offer, including the terms and instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes must be cured within the time we determine. Although we intend to notify holders of defects or irregularities with respect to tenders of Old Notes, neither we, the exchange and information agent nor any other person will be under any duty to give that notification or shall incur any liability for failure to give that notification. Tenders of Old Notes will not be deemed to have been made until any defects or irregularities therein have been cured or waived.

## Withdrawal of Tenders

Tender of Old Notes may be validly withdrawn at any time at or before the Withdrawal Date. **After the Withdrawal Date, tenders of Old Notes may not be validly withdrawn unless we elect to change, with respect to any of the Old Notes, the Early Exchange Consideration, the Exchange Consideration or the principal amount of the Old Notes subject to an Exchange Offer, or if withdrawal is otherwise required to be permitted by applicable law.** In the event that any other change or modification is made to the Exchange Offers, the Withdrawal Date will be extended, if required by law. In the event of a termination of an Exchange Offer, the Old Notes tendered pursuant to that Exchange Offer will be promptly returned to the tendering holders.

For a withdrawal of a tender of Old Notes to be effective, a written or facsimile transmission notice of withdrawal must be received by the exchange and information agent at or before the Withdrawal Date (or other applicable date, if withdrawal is permitted pursuant to the preceding paragraph) at its address set forth on the back

cover of this exchange circular. Any such notice of withdrawal must (1) specify the name of the person that tendered the Old Notes to be withdrawn, (2) contain the description of the Old Notes to be withdrawn and the aggregate principal amount represented by such Old Notes, and (3) be signed by the holder of such Old Notes in the same manner as the original signature on the letter of transmittal by which such notes were tendered (including any required signature guarantees), if any, or be accompanied by documents of transfer sufficient to have the depository register the transfer of the Old Notes to the name of the person withdrawing such Old Notes and a properly completed irrevocable proxy that authorized such person to effect such revocation on behalf of such holder. If the Old Notes to be withdrawn have been delivered or otherwise identified to the depository, a signed notice of withdrawal is effective immediately upon written or facsimile notice of withdrawal even if physical release is not yet effected. Any Old Notes properly withdrawn will be deemed to be not validly tendered for purposes of an Exchange Offer.

Withdrawal of Old Notes can be accomplished only in accordance with the foregoing procedures.

**Neither we, the exchange and information agent, the trustee nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal, or incur any liability for failure to give any such notification.**

The signature on any notice of withdrawal must be guaranteed by a Medallion Signature Co-Obligor, unless the notice of withdrawal is signed by a participant in DTC whose name appears on a security position listing as the owner of the Old Notes or the Old Notes have been tendered for the account of an eligible guarantor institution. An “eligible guarantor institution” is one of the following firms or other entities identified in Rule 17Ad-15 under the Exchange Act (as the terms are used in Rule 17Ad-15):

- a bank;
- a broker, dealer, municipal securities dealer, municipal securities broker, government securities dealer, or government securities broker;
- a credit union;
- a national securities exchange, registered securities association or clearing agency; or
- a savings institution that is a participant in a Securities Transfer Association recognized program.

Withdrawal of tenders of Old Notes may not be rescinded, and any Old Notes validly withdrawn will thereafter be deemed not to have been validly tendered for purposes of an Exchange Offer. Validly withdrawn Old Notes may, however, be re-tendered by again following one of the procedures described in “— Procedures for Tendering” at or before the Expiration Date in order to be eligible to receive the Exchange Consideration or at or before the Early Exchange Date in order to be eligible to receive the Early Exchange Consideration.

### **Compliance with "Short Tendering" Rule**

It is a violation of Rule 14e-4 (promulgated under the Exchange Act) for a person, directly or indirectly, to tender for exchange 5.600% Notes for his own account unless the person so tendering (a) has a “net long” position equal to or greater than the aggregate principal amount of the 5.600% Notes being tendered for exchange and (b) will cause such 5.600% Notes to be delivered in accordance with the terms of the Exchange Offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A tender of 5.600% Notes under any of the procedures described above will constitute a binding agreement between the tendering Holder and us upon the terms and subject to the conditions of the Exchange Offer, including the tendering Holder’s acceptance of the terms and conditions of the Exchange Offer, as well as the tendering Holder’s representation and warranty that (a) such Holder has a “net long” position in the 5.600% Notes being tendered within the meaning of Rule 14e-4 under the Exchange Act and (b) the tender of such 5.600% Notes complies with Rule 14e-4.

## **Acceptance of Old Notes for Exchange and Delivery of New Notes and Cash**

On the Settlement Date, New Notes will be issued in exchange for Old Notes tendered in the Exchange Offers, if consummated. Such New Notes will be delivered in book-entry form, and payment of any cash amounts will be made by deposit of funds with DTC, which will transmit those payments to tendering holders.

If the aggregate principal amount of 5.600% Notes tendered for exchange exceeds the amount of the 5.600% Notes Cap, then, if we accept 5.600% Notes for exchange, we will accept such 5.600% Notes, in the aggregate, on a pro rata basis (and will round the principal amounts of the prorated 5.600% Notes down to the nearest integral multiple of \$1,000). See "—5.600% Notes Cap; Proration."

We will be deemed to accept validly tendered Old Notes that have not been validly withdrawn as provided in this exchange circular when, and if, we give oral or written notice of acceptance to the exchange and information agent. Subject to the terms and conditions of the Exchange Offers, delivery of the New Notes and any cash amounts will be made by the exchange and information agent on the Settlement Date upon receipt of that notice. The exchange and information agent will act as agent for tendering holders of Old Notes for the purpose of receiving Old Notes and transmitting New Notes and cash as of the Settlement Date. If any tendered Old Notes are not accepted for any reason described in the terms and conditions of the applicable Exchange Offer, such unaccepted Old Notes will be returned without expense to the tendering holders promptly after the expiration or termination of the applicable Exchange Offer.

## **Exchange and Information Agent**

Global Bondholder Services Corporation has been appointed as the exchange and information agent for the Exchange Offers. Letters of transmittal and all correspondence in connection with the Exchange Offers should be sent or delivered by each holder of Old Notes, or a beneficial owner's broker, dealer, commercial bank, trust company or other nominee, to the exchange and information agent at the address listed on the back cover page of this exchange circular. Questions concerning tender procedures and requests for additional copies of this exchange circular or the letter of transmittal should be directed to the exchange and information agent at the address and telephone numbers listed on the back cover page of this exchange circular. Holders of Old Notes may also contact their broker, dealer, commercial bank, trust company, or other nominee for assistance concerning the Exchange Offers. We will pay the exchange and information agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.

## **Financial Advisors**

Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Goldman, Sachs & Co. are the financial advisors for the Exchange Offers. We will pay the financial advisors a fixed fee for their services and will reimburse their reasonable out-of-pocket expenses. The financial advisors may hold Old Notes for their own account and, in addition to their roles and compensation as financial advisors, will be permitted to participate in the Exchange Offers on the same terms as are offered to other holders of Old Notes by this exchange circular.

**The financial advisors are not being engaged to and will not solicit any holders of Old Notes in connection with the exchange offers. None of the financial advisors makes any recommendation to holders of Old Notes as to whether to exchange or refrain from exchanging their Old Notes.**

## **Other Fees and Expenses**

We will bear the expenses of soliciting tenders of the Old Notes, which will include solicitation by mail, e-mail, facsimile transmission and telephone or in person by our employees.

Tendering holders of Old Notes will not be required to pay any fee or commission to us. If, however, a tendering holder handles the transaction through its broker, dealer, commercial bank, trust company, or other institution, that holder may be required to pay brokerage fees or commissions.

### Purchases of Old Notes by Us

We reserve the right, in our absolute discretion, to purchase or make offers to purchase any Old Notes that remain outstanding after the Expiration Date and, to the extent permitted by applicable law, to purchase Old Notes in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers could differ from the terms of an Exchange Offer. Any purchase or offer to purchase will be made only in accordance with applicable law.

### RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated:

	Three months ended		Year ended				
	March 31,		December 31,				
	2012	2011	2011	2010	2009	2008	2007
Ratio of earnings to fixed charges	10.80	11.49	14.3	14.1	11.8	9.2	8.4

### DESCRIPTION OF THE NEW NOTES

The terms of the New Notes are described below. For purposes of this description only, the words “we,” “us,” “our” and “IBM” refer only to International Business Machines Corporation and not to any of its subsidiaries.

#### General

The New Notes will be issued under an Indenture, dated as of October 1, 1993 (the “Base Indenture”), between IBM and The Bank of New York Mellon, as trustee, filed as an exhibit to IBM’s Registration Statement on Form S-3 (Registration No. 33-50537) filed with the SEC on October 7, 1993, as supplemented by the First Supplemental Indenture, dated as of December 15, 1995 (together with the Base Indenture, the “Indenture”), between IBM and The Bank of New York Mellon, as trustee, filed as an exhibit to IBM’s Registration Statement on Form S-3 (Registration No. 33-65119) filed with the SEC on December 18, 1995. The New Notes will be unsecured and will have the same rank as all of IBM’s other unsecured and unsubordinated debt. The New Notes will bear interest from June 20, 2012 at the rate of 4.000% per annum. Interest on the New Notes will be payable semiannually on June 20 and December 20 of each year, commencing December 20, 2012, to the persons in whose names the notes are registered at the close of business on the 15th calendar day preceding each June 20 or December 20, payable in equal semiannual installments. Interest on the New Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months. The New Notes will mature on June 20, 2042.

The New Notes will be subject to defeasance and covenant defeasance as provided in “— Satisfaction and Discharge; Defeasance” below. The New Notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

IBM may, without the consent of the holders of New Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the New Notes, *provided, however*, that no such additional notes may be issued unless such additional notes are fungible with the New Notes for U.S. Federal income tax purposes. Any additional notes having such similar terms, together with the New Notes, will constitute a single series of notes under the Indenture. No additional notes may be issued if an event of default has occurred with respect to the New Notes.

## Optional Redemption

The New Notes will be redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders of the New Notes given in accordance with "— Notices to Holders" below, at a redemption price equal to the greater of:

- 100% of the principal amount of the New Notes to be redeemed, plus accrued interest, if any, to the redemption date; or
- the sum of the present values of the Remaining Scheduled Payments, as defined below, discounted, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as defined below, plus 20 basis points, plus accrued interest to the date of redemption which has not been paid.

"Treasury Rate" means, with respect to any redemption date for the New Notes:

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue; *provided* that if no maturity is within three months before or after the maturity date for the New Notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from those yields on a straight line basis rounding to the nearest month; or
- if that release, or any successor release, is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

The Treasury Rate will be calculated on the third business day preceding the redemption date.

"Comparable Treasury Issue" with respect to the New Notes means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the New Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such New Notes.

"Independent Investment Banker" means one of the Reference Treasury Dealers, to be appointed by IBM.

"Comparable Treasury Price" means, with respect to any redemption date for the New Notes:

- the average of the Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or
- if the trustee obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the trustee.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time on the third business day preceding such redemption date.

“Reference Treasury Dealer” means each of Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Goldman, Sachs & Co., and their respective successors; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer, which we refer to as a “Primary Treasury Dealer,” IBM will substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

“Remaining Scheduled Payments” means, with respect to each New Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; *provided, however*, that, if such redemption date is not an interest payment date with respect to such note, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

On and after the redemption date of New Notes, interest will cease to accrue on the New Notes or any portion thereof called for redemption, unless IBM defaults in the payment of the redemption price and accrued interest. On or before the redemption date, IBM will deposit with a paying agent, or the trustee, money sufficient to pay the redemption price of and accrued interest on the New Notes to be redeemed on such date. If less than all of the New Notes are to be redeemed, the New Notes to be redeemed shall be selected by the trustee by such method as the trustee shall deem fair and appropriate.

### **Book-Entry, Delivery and Form**

The New Notes will be issued in the form of one or more fully registered global notes (the “Global Notes”) which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the “Depository” or “DTC”) and registered in the name of Cede & Co., the Depository’s nominee. Beneficial interests in the Global Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository.

Investors may elect to hold interests in the Global Notes through the Depository, Clearstream Banking Luxembourg S.A. (“Clearstream”) or Euroclear Bank S.A., as operator of the Euroclear System (“Euroclear”) if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers’ securities accounts in Clearstream’s and Euroclear’s names on the books of their respective depositaries, which in turn will hold such interests in customers’ securities accounts in the depositaries’ names on the books of the Depository. Citibank, N.A. will act as depositary for Clearstream and JPMorgan Chase Bank will act as depositary for Euroclear (in such capacities, the “U.S. Depositaries”). Except as described below, the Global Notes may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

The Depository has advised IBM as follows: the Depository is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository’s participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the Depository. Access to the Depository book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Clearstream advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its customers (“Clearstream Customers”) and facilitates the clearance and settlement of securities transactions between Clearstream Customers through electronic book-entry transfers between their accounts. Clearstream provides to Clearstream Customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of

the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Clearstream's U.S. customers are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Customer.

Distributions with respect to the New Notes held through Clearstream will be credited to cash accounts of Clearstream Customers in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream.

Euroclear advises that it was created in 1968 to hold securities for its participants ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. (the "Euroclear Operator"), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the New Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Euroclear further advises that investors that acquire, hold and transfer interests in the New Notes by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the Global Notes.

The Euroclear Operator advises as follows: Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on the Euroclear Operator's records, all Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Individual certificates in respect of the New Notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If DTC notifies IBM that it is unwilling or unable to continue as a clearing system in connection with the Global Notes, or ceases to be a clearing agency registered under the Exchange Act, and a successor clearing system is not appointed by IBM within 90 days after receiving such notice from DTC or upon becoming aware that DTC is no longer so registered, IBM will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the New Notes represented by such Global Notes upon delivery of such Global Notes for cancellation. In the event that individual certificates are issued, holders of the New Notes will be able to receive payments (including principal and interest) on the New Notes and effect transfer of the New Notes at the offices of IBM's paying agent and transfer agent in Luxembourg, J.P. Morgan Bank Luxembourg S.A.

Title to book-entry interests in the New Notes will pass by book-entry registration of the transfer within the records of Clearstream, Euroclear or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the New Notes may be transferred within Clearstream and within Euroclear and between Clearstream and Euroclear in accordance with procedures established for these purposes by Clearstream and Euroclear. Book-entry interests in the New Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the New Notes among Clearstream and Euroclear and DTC may be effected in accordance with procedures established for this purpose by Clearstream, Euroclear and DTC.

#### **Global Clearance and Settlement Procedures**

Initial settlement for the New Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using the Depository's Same-Day Funds Settlement System. Secondary market trading between Clearstream Customers and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depository on the one hand, and directly or indirectly through Clearstream Customers or Euroclear Participants, on the other, will be effected in the Depository in accordance with the Depository's rules on behalf of the relevant European international clearing system by its U.S. Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European, international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering interests in the New Notes to or receiving interests in the New Notes from the Depository, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depository. Clearstream Customers and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositories.

Because of time-zone differences, credits of interests in the New Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the Depository settlement date. Such credits or any transactions involving interests in such New Notes settled during such processing will be reported to the relevant Clearstream Customers or Euroclear Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the New Notes by or through a Clearstream Customer or a Euroclear Participant to a DTC participant will be received with value on the Depository settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in the Depository.

Although the Depository, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the New Notes among participants of the Depository, Clearstream and Euroclear,



they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

### **Exchange, Registration and Transfer**

The New Notes may be transferred or exchanged at the corporate trust office of the security registrar or at any other office or agency which is maintained for these purposes. No service charge will be payable upon the transfer or exchange, except for any applicable tax or governmental charge.

The designated security registrar in the United States for the New Notes is The Bank of New York Mellon, located at 101 Barclay Street, Floor 8 West, New York, New York 10286.

In the event of any redemption in part of the New Notes, we will not be required to:

- issue, register the transfer of, or exchange, New Notes between the opening of business 15 business days before any selection of New Notes to be redeemed and the close of business on the day of mailing of the relevant notice of redemption, or
- register the transfer of, or exchange, any New Notes selected for redemption, in whole or in part, except for the unredeemed portion of the New Notes being redeemed in part.

### **Payment and Paying Agent**

We will pay principal, interest and any premium on the New Notes in U.S. dollars at the office of the paying agent. Payment of interest on the New Notes may be made by check mailed to the persons in whose names the New Notes are registered on days specified in the Indenture and this exchange circular.

If any amount payable on any New Notes or coupon remains unclaimed at the end of two years after the amount became due and payable, the paying agent will release any unclaimed amounts to us.

Our paying agent in the United States for the New Notes is The Bank of New York Mellon, located at 101 Barclay Street, Floor 8 West, New York, New York 10286.

### **Covenants**

*Limitation on merger, consolidation and certain sales of assets.* We may, without the consent of the holders of the New Notes, merge into or consolidate with any other corporation, or convey or transfer all or substantially all of our properties and assets to another person provided that:

- the successor is a U.S. corporation;
- the successor assumes on the same terms and conditions all the obligations under the New Notes and the Indenture; and
- immediately after giving effect to the transaction, there is no default under the Indenture.

The remaining or acquiring corporation will take over all of our rights and obligations under the Indenture.

*Limitation on Secured Indebtedness.* Neither we nor any Restricted Subsidiary will create, assume, incur or guarantee any Secured Indebtedness without securing the New Notes equally and ratably with, or prior to, that Secured Indebtedness, unless the sum of the following amounts would not exceed 10% of Consolidated Net Tangible Assets:

- the total amount of all Secured Indebtedness that the New Notes are not secured equally and ratably with, and

- the discounted present value of all net rentals payable under leases entered into in connection with sale and leaseback transactions entered into after July 15, 1985.

You should note that we don't include in this calculation any leases entered into by a Restricted Subsidiary before the time it became a Restricted Subsidiary.

*Limitation on sale and leaseback transactions.* Neither we nor any Restricted Subsidiary will enter into any lease longer than three years covering any of our Principal Property or any Restricted Subsidiary that is sold to any other person in connection with that lease unless either:

- the sum of the following amounts does not exceed 10% of Consolidated Net Tangible Assets:
  - the discounted present value of all net rentals payable under all these leases entered into after July 15, 1985; and
  - the total amount of all Secured Indebtedness that the New Notes are not secured equally and ratably with.

We don't include in this calculation any leases entered into by a Restricted Subsidiary before the time it became a Restricted Subsidiary.

or

- an amount equal to the greater of the following amounts is applied within 180 days to the retirement of our long-term debt or the debt of a Restricted Subsidiary:
  - the net proceeds to us or a Restricted Subsidiary from the sale; and
  - the discounted present value of all net rentals payable under the lease.

Amounts applied to debt which is subordinated to the New Notes or which is owing to us or a Restricted Subsidiary will not be included in this calculation.

We think it's important for you to be aware that this limitation on sale and leaseback transactions won't apply to any leases that we may enter into relating to newly acquired, improved or constructed property.

We think it's also important for you to note that the holders of a majority in principal amount of New Notes may waive compliance with each of the above covenants.

For purposes of the covenants above:

"Secured Indebtedness" means our indebtedness or indebtedness of a Restricted Subsidiary for borrowed money secured by any lien on, or any conditional sale or other title retention agreement covering, any Principal Property or any stock or indebtedness of a Restricted Subsidiary. Excluded from this definition is all indebtedness:

- outstanding on July 15, 1985, secured by liens, or arising from conditional sale or other title retention agreements, existing on that date;
- incurred after July 15, 1985 to finance the acquisition, improvement or construction of property, and either secured by purchase money mortgages or liens placed on the property within 180 days of acquisition, improvement or construction or arising from conditional sale or other title retention agreements;
- secured by liens on Principal Property or on the stock or indebtedness of Restricted Subsidiaries, and, in either case, existing at the time of its acquisition;

- owing to us or any Restricted Subsidiary;
- secured by liens, or conditional sale or other title retention devices, existing at the time a corporation became or becomes a Restricted Subsidiary after July 15, 1985;
- constituting our guarantees of Secured Indebtedness and Attributable Debt of any Restricted Subsidiaries and guarantees by a Restricted Subsidiary of Secured Indebtedness and Attributable Debt of ours and any other Restricted Subsidiaries.
- arising from any sale and leaseback transaction;
- incurred to finance the acquisition or construction of property secured by liens in favor of any country or any political subdivision; and
- constituting any replacement, extension or renewal of any indebtedness to the extent the amount of indebtedness is not increased.

“Principal Property” means land, land improvements, buildings and associated factory, laboratory and office equipment constituting a manufacturing, development, warehouse, service or office facility owned by or leased to us or a Restricted Subsidiary which is located within the United States and which has an acquisition cost plus capitalized improvements in excess of 0.15% of Consolidated Net Tangible Assets as of the date of such determination. Principal Property does not include:

- products marketed by us or our subsidiaries;
- any property financed through the issuance of tax-exempt governmental obligations;
- any property which our Board of Directors determines is not of material importance to us and our Restricted Subsidiaries taken as a whole; or
- any property in which the interest of us and all of our subsidiaries does not exceed 50%.

“Consolidated Net Tangible Assets” means the total assets of us and our subsidiaries, less current liabilities and intangible assets. We include in intangible assets the balance sheet value of:

- all trade names, trademarks, licenses, patents, copyrights and goodwill;
- organizational and development costs;
- deferred charges other than prepaid items such as insurance, taxes, interest, commissions, rents and similar items and tangible items we are amortizing; and
- unamortized debt discount and expense minus unamortized premium.

We don’t include in intangible assets any program products.

“Attributable Debt” means the discounted present value of a lessee’s obligation for rental payments under a sale and leaseback transaction of Principal Property, reduced by amounts owed by any sublessee for rental obligations during the remaining term of that transaction. The discount rate we use for the Attributable Debt is called the “Attributable Interest Rate.” We compute the Attributable Interest Rate as the weighted average of the interest rates of all securities then issued and outstanding under the Indenture.

“Restricted Subsidiary” means:

1. any of our subsidiaries:
  - a. which has substantially all its property in the United States;
  - b. which owns or is a lessee of any Principal Property; and,
  - c. in which our investment and the investment of our subsidiaries exceeds 0.15% of Consolidated Net Tangible Assets as of the date of such determination; and
2. any other subsidiary the Board of Directors may designate as a Restricted Subsidiary.

“Restricted Subsidiary” doesn’t include financing subsidiaries and subsidiaries formed or acquired after July 15, 1985 for the purpose of acquiring the stock, business or assets of another person and that have not and do not acquire all or any substantial part of our business or assets or the business or assets of any Restricted Subsidiary.

### **Satisfaction and Discharge; Defeasance**

We may be discharged from our obligations on the New Notes that have matured or will mature or be redeemed within one year if we deposit with the trustee enough cash to pay all the principal, interest and any premium due to the stated maturity date or redemption date of the New Notes.

The Indenture contains a provision that permits us to elect:

1. to be discharged after 90 days from all of our obligations (subject to limited exceptions) with respect to the New Notes then outstanding; and/or
2. to be released from our obligations under the following covenants and from the consequences of an event of default or cross-default resulting from a breach of these covenants:
  - a. the limitations on mergers, consolidations and sale of assets,
  - b. the limitations on sale and leaseback transactions under the Indenture, and
  - c. the limitations on secured indebtedness under the Indenture.

To make either of the above elections, we must deposit in trust with the trustee enough money to pay in full the principal, interest and premium on the New Notes. This amount may be made in cash and/or U.S. government obligations. As a condition to either of the above elections, we must deliver to the trustee an opinion of counsel that the holders of New Notes will not recognize income, gain or loss for U.S. Federal income tax purposes as a result of the action.

If either of the above events occur, the holders of New Notes will not be entitled to the benefits of the Indenture, except for registration of transfer and exchange of New Notes and replacement of lost, stolen or mutilated New Notes.

### **Events of Default, Notice and Waiver**

If an event of default for the New Notes occurs and continues, the trustee or the holders of at least 25% in principal amount of New Notes may declare the entire principal amount of all New Notes to be due and payable immediately.

The declaration may be annulled and past defaults may be waived by the holders of a majority of the principal amount of the New Notes. However, payment defaults that are not cured may only be waived by all holders of New Notes.

The Indenture defines an event of default in connection with the New Notes as one or more of the following events:

- we fail to pay interest on New Notes for 30 days when due;
- we fail to pay the principal or any premium on New Notes when due;
- we fail to make any sinking fund payment for 30 days when due;
- we fail to perform any other covenant in the New Notes or in the Indenture for 90 days after being given notice; and
- we enter into bankruptcy or become insolvent.

The Indenture requires the trustee to give the holders of New Notes notice of a default within 90 days unless the default is cured or waived. However, the trustee may withhold this notice if it determines in good faith that it is in the interest of the holders. The trustee may not, however, withhold this notice in the case of a payment default.

Other than the duty to act with the required standard of care during an event of default, a trustee is not obligated to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of New Notes, unless the holders have offered to the trustee reasonable indemnification.

Generally, the holders of a majority in principal amount of outstanding New Notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or other power conferred on the trustee.

The Indenture includes a covenant that we will file annually with the trustee a certificate of no default, or specifying any default that exists.

Street name and other indirect holders should consult their banks and brokers for information on their requirements for giving notice or taking other actions upon a default.

### **Modification of the Indenture**

Together with the trustee, we may modify the Indenture without the consent of the holders for limited purposes, including adding to our covenants or events of default, establishing forms or terms of debt securities, curing ambiguities and other purposes which do not adversely affect the holders in any material respect.

Together with the trustee, we may also make modifications and amendments to the Indenture with the consent of the holders of a majority in principal amount of the outstanding New Notes. However, without the consent of each affected holder, no modification may:

- change the stated maturity of the New Notes;
- reduce the principal, premium (if any) or rate of interest on the New Notes;
- change any place of payment or the currency in which the New Notes are payable;
- impair the right to enforce any payment after the stated maturity or redemption date;
- adversely affect the terms of any conversion right;
- reduce the percentage of holders of outstanding New Notes required to consent to any modification, amendment or waiver under the Indenture;

- change any of our obligations for the outstanding New Notes to maintain an office or agency in the places and for the purposes specified in the Indenture; or
- change the provisions in the Indenture that relate to its modification or amendment.

### **Meetings**

The Indenture contains provisions for convening meetings of the holders of New Notes.

A meeting may be called at any time by the trustee, upon request by us or upon request by the holders of at least 10% in principal amount of the outstanding New Notes. In each case, notice will be given to the holders of New Notes.

Persons holding a majority in principal amount of the outstanding New Notes will constitute a quorum at a meeting. A meeting called by us or the trustee that did not have a quorum may be adjourned for not less than 10 days, and if there is not a quorum at the adjourned meeting, the meeting may be further adjourned for not less than 10 days.

Generally, any resolution presented at a meeting at which a quorum is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding New Notes. However, to change the amount or timing of payments under the New Notes, every holder must consent.

In addition, any action that may be taken by the holders of a specified percentage in principal amount of outstanding New Notes may be taken at a meeting at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding New Notes. Any resolution passed or decision taken at any meeting of holders of New Notes duly held in accordance with the Indenture will be binding on all holders of New Notes and the related coupons.

### **Notices to Holders**

Notice to holders of New Notes will be given by mail to the addresses of the holders as they appear in the security register.

### **Title**

We may also treat the registered owner of New Notes as the absolute owner of such notes for all purposes.

### **Governing Law**

The Indenture, the New Notes and the coupons will be governed by, and construed under, the laws of the State of New York.

### **Our Relationship with the Trustee**

We may from time to time maintain lines of credit, and have other customary banking relationships, with the trustee under the Indenture.

## **MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

### **CIRCULAR 230 DISCLOSURE**

**ANY DISCUSSIONS OF U.S. FEDERAL TAX MATTERS SET FORTH HEREIN WERE WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY IBM OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. SUCH DISCUSSIONS WERE NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WERE NOT INTENDED OR WRITTEN TO**

**BE USED, AND THEY CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH HOLDER AND BENEFICIAL OWNER OF OLD NOTES SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following is a discussion of the material U.S. Federal income tax consequences of the Exchange Offers to beneficial owners of Old Notes and of the ownership and disposition of New Notes acquired pursuant to the Exchange Offers. This discussion does not address the U.S. Federal income tax consequences of the acquisition, ownership or disposition of New Notes to subsequent purchasers of New Notes. Further, this discussion deals only with Old Notes and New Notes held as “capital assets” within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). Except as otherwise explicitly noted, this discussion does not describe the special considerations that may apply to certain taxpayers, such as financial institutions, banks, broker-dealers, insurance companies, tax-exempt organizations, regulated investment companies, foreign taxpayers, persons holding Old Notes or New Notes as part of a “straddle,” “hedge,” “conversion transaction” or other “integrated transaction” for U.S. Federal income tax purposes, former U.S. citizens who have expatriated, and persons whose functional currency is not the U.S. dollar. It also does not address the application, or the potential application, of the alternative minimum tax. The statements of law and legal conclusions contained in this discussion are based upon the Code, its legislative history, existing and proposed Treasury regulations promulgated thereunder (the “Treasury Regulations”), published rulings and court decisions, all as in effect and existing on the date hereof and all of which are subject to change or differing interpretation at any time, possibly on a retroactive basis. This discussion does not consider the tax consequences of the Exchange Offers to owners of Old Notes under state, local or foreign law or under any applicable tax treaty.

**Holders of Old Notes are strongly urged to consult their tax advisors regarding the U.S. Federal, state, local and foreign tax consequences of the Exchange Offers in light of their particular circumstances and regarding the tax consequences of the Exchange Offers under any applicable tax treaty.**

The following discussion does not describe the special considerations that may apply to a holder that is treated as a partnership for U.S. Federal income tax purposes. If a partnership (including an entity treated as a partnership for U.S. Federal income tax purposes) holds Old Notes or New Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding Old Notes or New Notes (and such partnership) should consult their tax advisors with respect to the tax consequences to them of participating in the Exchange Offers.

## **U.S. Holders**

For purposes of this discussion, the term “U.S. holder” means a beneficial owner of Old Notes or New Notes, as applicable, that is for U.S. Federal income tax purposes (1) an individual citizen or resident of the United States, (2) a corporation (including an entity treated as a corporation for U.S. Federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (3) an estate, the income of which is subject to U.S. Federal income taxation regardless of its source, or (4) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (b) such trust has in effect a valid election to be treated as a domestic trust for U.S. Federal income tax purposes.

### **Tax Consequences to U.S. Holders Who Participate in the Exchange Offers**

Under general principles of U.S. Federal income tax law, the modification of a debt instrument is not a taxable disposition unless the modified debt instrument differs materially either in kind or in extent from the original debt instrument. In this regard, applicable Treasury Regulations (the “Modification Regulations”) provide that, as a general rule, a taxable disposition occurs when, based on all the facts and circumstances, the legal rights or obligations that are altered and the degree to which they are altered are economically significant (a “significant modification”). The Modification Regulations state that they can apply to any modification of a debt instrument, regardless of the form of the modification, including an exchange of an existing debt instrument for a new debt instrument. Therefore, the Modification Regulations apply to an exchange of Old Notes for New Notes.

Under the Modification Regulations, a change in yield of a debt instrument (including the receipt of additional consideration) is a significant modification, and thus is treated as a disposition of the debt instrument, if the yield of the modified debt instrument varies from the yield on the unmodified instrument (determined as of the date of the modification) by more than the greater of (i) 25 basis points or (ii) five percent of the annual yield on the unmodified instrument. For this purpose, the yield of the modified debt instrument is generally the annual yield of a hypothetical debt instrument with (i) an issue price equal to the adjusted issue price of the unmodified debt instrument on the date of the modification, increased by any accrued but unpaid interest, and decreased to reflect payments made to the U.S. holders as consideration for the modification, and (ii) payments equal to the payments to be made on the modified debt instrument from the date of the modification.

Except as described in the immediately succeeding paragraph, we anticipate, and, except as otherwise stated, the rest of this discussion assumes, that the exchange of the Old Notes for New Notes will result in a change in yield that is a significant modification under the Modification Regulations. Accordingly, based upon the foregoing, we will treat the exchange of the Old Notes for New Notes as a significant modification of the Old Notes so exchanged and, therefore, as a disposition of such Old Notes for New Notes for U.S. Federal income tax purposes.

Notwithstanding the discussion in the immediately preceding paragraph, based on current market conditions, we anticipate that the exchange of 5.600% Notes for New Notes by those holders who tender after the Early Exchange Date and therefore do not receive the Early Exchange Premium, will not result in a change in yield that is a significant modification under the Modification Regulations. While we currently anticipate that the exchange of 5.600% Notes for New Notes by those holders who tender after the Early Exchange Date and therefore do not receive the Early Exchange Premium will not result in a change in yield that is a significant modification under the Modification Regulations, such determination requires a highly factual analysis and will depend on market conditions at the time of the actual exchange. Assuming that the exchange of 5.600% Notes for New Notes by those U.S. holders who tender after the Early Exchange Date and therefore do not receive the Early Exchange Premium does not result in a change in yield that is a significant modification under the Modification Regulations, such U.S. holders generally should not recognize any gain or loss for U.S. Federal income tax purposes with respect to the exchange of 5.600% Notes for New Notes. Such U.S. holders should continue to have the same tax basis in the New Notes as such U.S. holders had in the 5.600% Notes and such U.S. holders' holding period in the New Notes received should include the U.S. holders' holding period in the 5.600% Notes exchanged. The proper U.S. Federal income tax treatment of any cash received is uncertain. Absent any guidance to the contrary, we currently intend to treat any cash received by such U.S. holders as ordinary income (and any amounts attributable to accrued and unpaid interest on the 5.600% Notes as ordinary interest income). It is possible, however, any such cash received should alternatively reduce such U.S. holders' tax basis in the New Notes. Holders should consult their tax advisors regarding the tax consequences to them if they exchange 5.600% Notes for New Notes by tendering after the Early Exchange Date and therefore do not receive the Early Exchange Premium.

The remainder of this discussion only addresses the tax consequences of an exchange of Old Notes for New Notes which is treated as a significant modification of Old Notes so exchanged, and is treated as a disposition of such Old Notes for New Notes for U.S. Federal income tax purposes.

Notwithstanding that the Exchange Offers should constitute a taxable exchange, the exchange of Old Notes for New Notes will constitute a recapitalization under Section 368(a)(1)(E) of the Code if both the Old Notes and the New Notes are treated as "securities" for U.S. Federal income tax purposes. We believe that the Old Notes and the New Notes should be considered securities for this purpose, and we intend to treat the Old Notes and the New Notes as securities for this purpose. As a result, the exchange of the Old Notes for New Notes and cash should qualify, and we intend to treat such exchange, as a recapitalization for U.S. Federal income tax purposes. Our determination that the Old Notes are securities for these purposes, however, is not binding on the Internal Revenue Service (the "IRS") or the courts. U.S. holders should consult their tax advisors regarding the U.S. Federal income tax consequences to them of the Exchange Offers if the Old Notes were not considered securities for U.S. Federal income tax purposes.

*Recapitalization Treatment.* Assuming hereafter the exchange of an Old Note for New Notes is a recapitalization, a U.S. holder will not recognize loss on such exchange and will recognize gain equal to the lesser of (i) the sum of the amount of the cash received by the U.S. holder (other than with respect to accrued interest on the Old Note), and the fair market value of any excess principal amount ("Excess Principal Amount") of the New Notes received over the principal amount of the Old Note surrendered, if any (collectively, "boot") or (ii) the gain realized



in the exchange. The gain realized in the exchange will equal the excess, if any, of (i) the issue price of the New Notes received, determined as described below, *plus* cash received by the U.S. holder (other than with respect to accrued interest on the Old Note), over (ii) the U.S. holder's adjusted tax basis in the Old Note. A U.S. holder's adjusted tax basis in its Old Note generally will equal the amount paid therefor, increased by any market discount previously taken into account as income by the U.S. holder and reduced by any amortizable bond premium previously amortized by the U.S. holder. Except as provided below with respect to accrued market discount, any such gain recognized by the U.S. holder will be long-term capital gain if the U.S. holder held the Old Note for more than one year at the time of the exchange. Non-corporate taxpayers generally are subject to reduced rates of U.S. Federal income taxation on long-term capital gains.

A U.S. holder's initial tax basis in New Notes received in exchange for an Old Note (other than any New Notes representing Excess Principal Amount, as discussed below) will be equal to its tax basis immediately before the exchange in such Old Note, increased by the amount of gain recognized by the U.S. holder on the exchange and decreased by boot received in the exchange. The U.S. holder's holding period for such New Notes will include the period during which such holder held the Old Note surrendered in the exchange. A U.S. holder's initial tax basis in the New Notes representing Excess Principal Amount, if any, will be the fair market value thereof at the time of the exchange, and the holding period of the New Notes representing Excess Principal Amount will begin on the day after the exchange.

In addition to the foregoing, a U.S. holder who immediately before the exchange of Old Notes for New Notes held Old Notes with a tax basis of \$1,000,000 or more may be subject to special reporting requirements with respect to such exchange pursuant to the rules contained in the Treasury Regulations relating to recapitalizations. U.S. holders should contact their tax advisors to determine whether these requirements apply to them.

*Cash in Lieu of Fractional Securities.* If a U.S. holder receives cash in lieu of fractional portions of New Notes, the holder should be treated as if it received the fractional New Notes in the exchange (as described above) and immediately sold such New Notes for cash as described below under the heading "Tax Consequences to U.S. Holders of Holding and Disposing of the New Notes — Sale, Exchange, Redemption or Other Disposition of the New Notes".

*Issue Price of the New Notes.* If the New Notes are considered "traded on an established market" (as defined in the applicable Treasury Regulations), the issue price of each New Note will be the fair market value of the New Note, determined as of the date of the exchange. We expect that the New Notes will qualify as "traded on an established market" under the applicable Treasury Regulations. Accordingly, we intend to treat the fair market value of the New Notes as of the first date of issuance of the New Notes (i.e., the Early Settlement Date) as the issue price of such New Notes. Further, the excess, if any, of the principal amount of the New Notes over their issue price is not expected to be greater than or equal to a *de minimis* amount, and consequently the New Notes are not expected to be issued with original issue discount for U.S. Federal income tax purposes.

*Market Discount.* If a U.S. holder has accrued unrecognized market discount on his or her Old Note (that is, a tax basis that is less than the stated principal amount of such Old Note by more than a *de minimis* amount), a portion of the gain, if any, recognized on the exchange of the Old Note up to the amount of such accrued market discount will be treated as ordinary interest income and will not receive capital gain treatment. Unless the U.S. holder has elected to determine accrued market discount on the basis of a constant interest rate, accrued market discount generally equals a ratable portion of the Old Note's market discount, based on the number of days the U.S. holder has held the Old Note at the time of such disposition, as a percentage of the number of days from the date the U.S. holder acquired such Old Note to its date of maturity. In addition, to the extent that the U.S. holder had accrued unrecognized market discount on his or her Old Note that was not taken into account as ordinary interest income on the exchange of the Old Note for New Notes, it is likely that a holder of the Old Note would be required to carry over such accrued unrecognized market discount to the New Notes received in such exchange. Holders who acquired their Old Notes other than at original issuance should consult their tax advisors regarding the possible application of the market discount rules of the Code to a tender of the Old Notes pursuant to the Exchange Offers.

*Accrued Interest.* To the extent that amounts received by a U.S. holder of Old Notes exchanging such Old Notes for New Notes are attributable to accrued interest on the Old Notes, such amounts will be includable in gross

income by the U.S. holder as interest income if such accrued interest has not been included previously in the U.S. holder's gross income for U.S. Federal income tax purposes.

*Early Exchange Payments.* The tax treatment of the receipt of any amounts in excess of the Exchange Consideration ("Early Exchange Payments") is subject to uncertainty, because there are no authorities that directly address the treatment of such payments. We believe and intend to take the position that Early Exchange Payments should be treated as additional consideration received in exchange for the Old Notes and, therefore, should be treated as part of the amount realized, as provided in the discussion above. It is possible that the IRS could take the position that Early Exchange Payments instead should be treated as separate fees that are subject to tax as ordinary income.

### **Tax Consequences to U.S. Holders of Holding and Disposing of the New Notes**

*Interest on the New Notes.* Stated interest on a New Note will be includible in gross income as ordinary interest income in accordance with a U.S. holder's usual method of accounting for U.S. Federal income tax purposes. Thus, accrual method U.S. holders will report stated interest on the New Notes as it accrues, and cash method U.S. holders will report interest when it is received or unconditionally made available for receipt.

*Sale, Exchange, Redemption or Other Disposition of the New Notes.* Except as described below with respect to accrued market discount, upon the disposition of a New Note by sale, exchange, redemption or otherwise, a U.S. holder generally will recognize capital gain or loss equal to the difference between (i) the amount realized on the disposition (other than amounts attributable to accrued and unpaid interest, which will be treated as ordinary interest income) and (ii) the U.S. holder's adjusted tax basis in the New Note. A U.S. holder's adjusted tax basis in a New Note is described above under "Tax Consequences to U.S. Holders Who Participate in the Exchange Offers". Any capital gain or loss will be long-term capital gain or loss if the U.S. holder has held the note for more than one year.

*Market Discount.* If a U.S. holder's initial tax basis in a New Note is less than its stated principal amount, subject to a *de minimis* exception, the U.S. holder will be treated as having purchased the New Note at a "market discount". In such case, a U.S. holder will be required to treat any principal payment on, or any gain realized on the sale, exchange or other disposition of, the New Note as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount accrued on the New Note and not previously included in income. A U.S. holder also may be required to defer the deduction of all or a portion of any interest paid or accrued on indebtedness incurred or maintained to purchase or carry the New Note. Alternatively, a U.S. holder may elect (with respect to the New Note and all other market discount obligations acquired by the U.S. holder after the first day of the first taxable year to which such election applies) to include market discount in income currently as it accrues. This election, once made, may only be revoked with the consent of the IRS. Market discount is considered to accrue ratably during the period from the date of acquisition to the maturity date of the New Note, unless a U.S. holder elects to accrue market discount on the basis of a constant interest rate. Amounts includible in income as market discount generally are treated as ordinary interest income. In addition, for purposes of the foregoing rules, the amount of market discount accrued on the New Note would likely be increased by the amount of any accrued unrecognized market discount that a U.S. Holder carried over to the New Note, as discussed above under "Tax Consequences to U.S. Holders Who Participate in The Exchange Offer – Market Discount".

*Bond Premium.* If a U.S. holder's initial tax basis in a New Note is greater than its stated principal amount, such holder will be treated as having acquired the New Note with "amortizable bond premium" equal in amount to such excess. A U.S. holder may elect (with respect to the New Note and all of the U.S. holder's other obligations with amortizable bond premium held on or acquired by such holder after the first day of the first taxable year to which such election applies) to amortize such premium using a constant yield method over the remaining term of the New Note and may offset interest income otherwise required to be included in respect of the New Note during any taxable year by the amortized amount of such excess for the taxable year. This election, once made, may only be revoked with the consent of the IRS.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply with respect to payments to U.S. holders, including interest, on the New Notes during each calendar year. Under certain circumstances, a U.S. holder may be subject to

backup withholding at a current rate of 28% on payments of interest on, and the proceeds of a sale, exchange or redemption of the New Notes, as the case may be. Backup withholding generally will not apply with respect to payments made to certain “exempt recipients” such as corporations (within the meaning of section 7701(a) of the Code) or certain tax-exempt entities. In the case of a U.S. holder who is a non-exempt recipient, backup withholding generally applies only if such recipient (i) fails to furnish his or her social security or other taxpayer identification number (“TIN”), (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that he or she has failed to report payment of interest and dividends properly and the IRS has notified the withholding agent that the recipient is subject to backup withholding or (iv) fails, under certain circumstances, to provide a certified statement, signed under penalty of perjury, that the TIN provided is his or her correct number and that he or she is not subject to backup withholding for failure to report interest or dividend payments. Backup withholding is not an additional tax. Rather, any amount withheld from a payment to a U.S. holder under the backup withholding rules is allowable as a credit against such holder’s U.S. Federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

### **Tax Consequences to U.S. Holders Who Do Not Participate in the Exchange Offers**

The Exchange Offers will not be a taxable event with respect to the U.S. holders who do not participate in the Exchange Offers and such U.S. holders will be subject to U.S. Federal income tax on the Old Notes in the same manner, at the same time and in the same amount as before the Exchange Offers.

### **Non-U.S. Holders**

As used herein, the term “Non-U.S. holder” means a beneficial owner (other than a partnership or other entity treated as a partnership for U.S. Federal income tax purposes) of Old Notes or New Notes, as applicable, that is not a U.S. holder.

### **Tax Consequences to Non-U.S. Holders Who Participate in the Exchange Offers**

As discussed above under “Tax Consequences to U.S. Holders Who Participate in the Exchange Offers,” the exchange by a Non-U.S. holder of Old Notes for New Notes pursuant to the Exchange Offers will generally not give rise to gain, except to the extent of boot received or cash received in lieu of fractional New Notes, or loss since the exchange should constitute a recapitalization under Section 368(a)(1)(E) of the Code. To the extent that an exchange of Old Notes for New Notes gives rise to gain or loss for U.S. Federal income tax purposes, a Non-U.S. holder will be subject to U.S. Federal income tax on any gain recognized only to the extent described below under “Tax Consequences to Non-U.S. Holders of Holding and Disposing of the New Notes — Disposition of New Notes,” treating the reference therein to the New Notes as a reference to the Old Notes.

Notwithstanding the foregoing, as previously discussed, we anticipate that the exchange of 5.600% Notes for New Notes by those holders who tender after the Early Exchange Date and therefore do not receive the Early Exchange Premium, will not result in a significant modification under the Modification Regulations. Since we currently intend to treat any cash received by such holders as ordinary income (and any amounts attributable to accrued and unpaid interest on the 5.600% Notes as ordinary interest income), we intend to take the position that the 30% U.S. federal withholding tax will apply to such cash payments and we will withhold accordingly, unless a Non-U.S. holder claims an exemption or reduction of such U.S. federal withholding tax under an applicable U.S. income tax treaty or such cash received by a Non-U.S. holder is effectively connected with the conduct by the Non-U.S. holder of a trade or business within the United States or, in the case of amounts attributable to accrued and unpaid interest on the 5.600% Notes, the Non-U.S. holder satisfies the requirements under “Tax Consequences to Non-U.S. Holders of Holding and Disposing of the New Notes—Interest on the New Notes” treating the references therein to interest on the New Notes as references to accrued and unpaid interest on the 5.600% Notes. In such case, the Non-U.S. holder will be required to provide a properly executed IRS Form W-8BEN or IRS Form W-8ECI in order to claim a treaty-based reduced rate or an exemption from withholding or, in the case of amounts attributable to accrued and unpaid interest on the 5.600% Notes, the Non-U.S. holder provides the certification described under “Tax Consequences to Non-U.S. Holders of Holding and Disposing of the New Notes—Interest on the New Notes” treating the references therein to interest on the New Notes as references to accrued and unpaid interest on the 5.600% Notes.

The tax treatment of the receipt of Early Exchange Payments by a Non-U.S. holder is subject to uncertainty (as it is for U.S. holders, generally, as discussed above under “Tax Consequences to U.S. Holders Who Participate in the Exchange Offers — Early Exchange Payments”). We believe that the payments constitute additional consideration received in exchange for the Old Notes and should be taken into account in determining gain recognized on the exchange and, therefore, the consequences should be as discussed in the previous paragraph. If the Early Exchange Payments instead are treated as a separate fee, the payments may be taxable as U.S. source ordinary income subject to U.S. withholding tax even if interest payments are exempt from withholding. Because we believe that the Early Exchange Payments should not be treated as a separate fee, we do not intend to withhold tax on such payments.

Amounts attributable to accrued and unpaid interest paid on Old Notes to a Non-U.S. holder will not be subject to U.S. Federal income tax or withholding tax to the extent described below under “Tax Consequences to Non-U.S. Holders of Holding and Disposing of the New Notes — Interest on the New Notes,” treating the references therein to interest on the New Notes as references to accrued and unpaid interest on the Old Notes.

### **Tax Consequences to Non-U.S. Holders of Holding and Disposing of the New Notes**

*Interest on the New Notes.* Payments of interest on the New Notes by us or any paying agent to a Non-U.S. holder will not be subject to U.S. Federal withholding tax, provided that (i) such Non-U.S. holder does not own, actually or constructively, ten percent or more of the total combined voting power of all classes of our stock entitled to vote; (ii) such Non-U.S. holder is not, for U.S. Federal income tax purposes, a controlled foreign corporation related, directly or indirectly, to us through stock ownership; (iii) such Non-U.S. holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code; and (iv) certain certification requirements (summarized below) are met (the “Portfolio Interest Exemption”). If a Non-U.S. holder of a New Note is engaged in a trade or business in the United States, and if interest on such New Note is effectively connected with the conduct of such trade or business (and, if certain tax treaties apply, is attributable to a U.S. permanent establishment maintained by the Non-U.S. holder) in the United States, the Non-U.S. holder, although exempt from U.S. withholding tax, generally will be subject to regular U.S. income tax on such interest in the manner described above with respect to U.S. holders (provided certain certification requirements (summarized below) are met). In addition, if such Non-U.S. holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable tax treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a New Note will be included in the earnings and profits of such Non-U.S. holder if such interest is effectively connected with the conduct by the Non-U.S. holder of a trade or business in the United States.

A payment of interest on a New Note made to a Non-U.S. holder generally will qualify for the Portfolio Interest Exemption or, as the case may be, the exception from withholding for income effectively connected with the conduct of a trade or business in the United States if, at the time such payment is made, the withholding agent holds a valid Form W-8BEN or Form W-8ECI and, if necessary, a Form W-8IMY, respectively (or an acceptable substitute form), from the Non-U.S. holder and can reliably associate such payment with such Form W-8BEN or W-8ECI. In addition, under certain circumstances, a withholding agent is allowed to rely on Form W-8BEN (or an acceptable substitute form) furnished by a financial institution or other intermediary on behalf of one or more Non-U.S. holders (or other intermediaries) without having to obtain copies of the Non-U.S. holder’s Form W-8BEN (or substitute thereof), provided that the financial institution or intermediary has entered into a withholding agreement with the Internal Revenue Service and thus is a “qualified intermediary,” and may not be required to withhold on payments made to certain other intermediaries if certain conditions are met.

*Disposition of New Notes.* Under current law, a Non-U.S. holder of New Notes generally will not be subject to U.S. Federal income or withholding tax on any gain recognized on the sale, exchange or other disposition of such New Notes unless (i) the gain is effectively connected with the conduct of a trade or business by the Non-U.S. holder (and, if certain tax treaties apply, is attributable to a U.S. permanent establishment maintained by the Non-U.S. holder) in the United States or (ii) the Non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met. In the case of a Non-U.S. holder that is described under clause (i) above, its gain will be subject to the U.S. Federal income tax on net income and, in addition, if such Non-U.S. holder is a foreign corporation, it may be subject to the branch profits tax as described above. An individual Non-U.S. holder that is described under clause (ii) above will be subject to a flat

30% tax on gain derived from the sale, which may be offset by U.S. capital losses (notwithstanding the fact that he or she may not be considered a U.S. resident) and such Non-U.S. holders are urged to consult their tax advisors as to the tax consequences of such sale.

*Backup Withholding and Information Reporting.* Information reporting on Form 1099 and backup withholding will not apply to payments of principal and interest made by us or a paying agent to a Non-U.S. holder on New Notes if the certification described above under “— Interest on the New Notes” is received, provided that the payor does not have actual knowledge that the Non-U.S. holder is a U.S. person. However, interest may be required to be reported annually on Form 1042-S. Payments of the proceeds from the sale by a Non-U.S. holder of a New Note made to or through a foreign office of a broker will not be subject to information reporting or backup withholding, except that if the broker is a U.S. person, a controlled foreign corporation for U.S. tax purposes, the U.S. branch of a foreign bank or a foreign insurance company, a foreign partnership controlled by U.S. persons or engaged in a U.S. trade or business, or a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period, information reporting may apply to such payments. Payments to a Non-U.S. holder of the proceeds from the sale of a New Note through the U.S. office of a broker are subject to information reporting and backup withholding unless the Non-U.S. holder certifies as to its non-U.S. status or otherwise establishes an exemption from information reporting and backup withholding.

### **Tax Consequences to Non-U.S. Holders Who Do Not Participate in the Exchange Offers**

As discussed above under “Tax Consequences to U.S. Holders Who Do Not Participate in the Exchange Offers,” the Exchange Offers will not be a taxable event with respect to the Non-U.S. holders who do not participate in the Exchange Offers and such Non-U.S. holders will be subject to U.S. Federal income tax on the Old Notes in the same manner, at the same time and in the same amount as before the Exchange Offers.

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on their public reference room. Our SEC filings are also available to the public at the SEC’s web site at <http://www.sec.gov>.

The SEC allows us to “incorporate by reference” into this exchange circular the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this exchange circular, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until the Exchange Offers are completed:

- i. Annual Report on Form 10-K for the year ended December 31, 2011;
- ii. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012; and
- iii. Current Reports on Form 8-K filed (but not portions of those reports which were furnished) January 3, 2012, January 19, 2012, January 20, 2012, February 3, 2012 (two reports), February 9, 2012, April 17, 2012, April 18, 2012 (two reports), April 26, 2012, May 9, 2012 and May 10, 2012.

We encourage you to read our periodic and current reports. Not only do we think these items are interesting reading, we think these reports provide additional information about our company which prudent investors find important. You may request a copy of these filings at no cost, by writing to or telephoning our transfer agent at the following address:

Computershare Trust Company, N.A.  
P.O. Box 43072

Providence, Rhode Island 02940  
(781)575-2727

You should rely only on the information incorporated by reference or provided in this exchange circular. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this exchange circular is accurate as of any date other than the date on the front of the document.

#### **LEGAL MATTERS**

The validity of the New Notes offered by this exchange circular and specified U.S. federal income tax consequences of the Exchange Offers will be passed upon for us by Mr. Stuart Moskowitz, Senior Counsel of IBM. Mr. Moskowitz owns, has options to purchase and has other interests in shares of IBM's capital stock.

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The financial statements, the financial statement schedule, and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this exchange circular by reference to the Annual Report on Form 10-K of International Business Machines Corporation for the year ended December 31, 2011 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

*The exchange and information agent for the Exchange Offers is:*

***GLOBAL BONDHOLDER SERVICES CORPORATION***

*By Facsimile (for Eligible Institutions only):*

(212) 430-3775

Confirmation: (212) 430-3774

*By Mail, Hand Delivery and Overnight Courier:*

Global Bondholder Services Corporation

65 Broadway – Suite 404

New York, NY 10006

Questions, requests for assistance and requests for additional copies of this exchange circular and related letter of transmittal may be directed to the exchange and information agent or to IBM at their respective addresses or telephone numbers set forth below.

***GLOBAL BONDHOLDER SERVICES CORPORATION***

65 Broadway – Suite 404

New York, New York 10006

Attn: Corporate Actions

Banks and Brokers call: (212) 430-3774

Toll free (866) 389-1500

***INTERNATIONAL BUSINESS MACHINES CORPORATION***

One New Orchard Road

Armonk, New York 10504

Attention: Easwaran K. Venkatasubramanian, Treasury Director

Telephone: (914) 499-6108