

FINANCIAL OVERVIEW

MARTIN SCHROETER

SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

Agenda

1

Portfolio

Well positioned to deliver value in enterprise IT

2

Strategic Imperatives

- Data, Cloud and Engagement
- Scaling businesses

Differentiation driven growth and value

3

Core Portfolio

- Deep client relationships, solutions based
- Innovation drives value

High value, essential client IT

4

Longer-term financial model

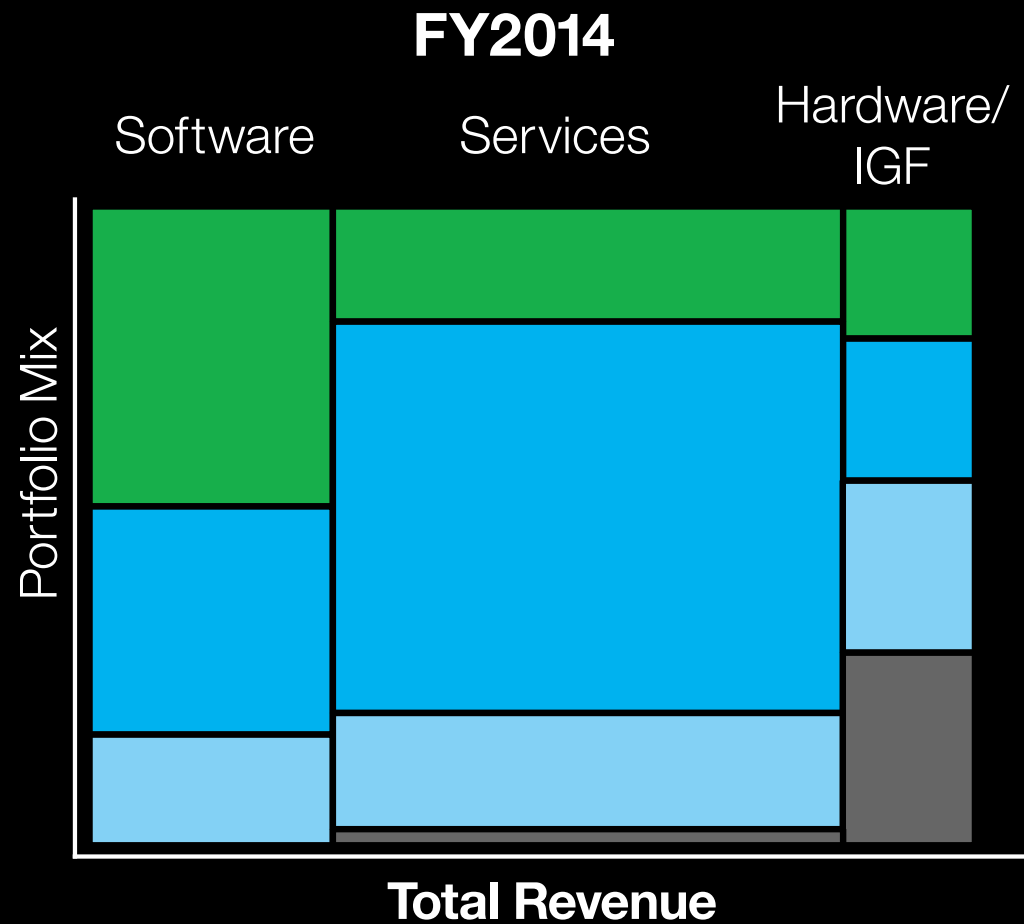
- Segment models
- Capital deployment and Free Cash Flow

PORTFOLIO –

Well positioned to deliver value in enterprise IT



IBM Portfolio includes:



■ **Strategic Imperatives**

- Data, Cloud and Engagement

■ **Recurring Core Franchises**

- Annuity businesses in Services, Software and Financing
- Highly recurring portions of our Hardware, Software and Services transactional businesses

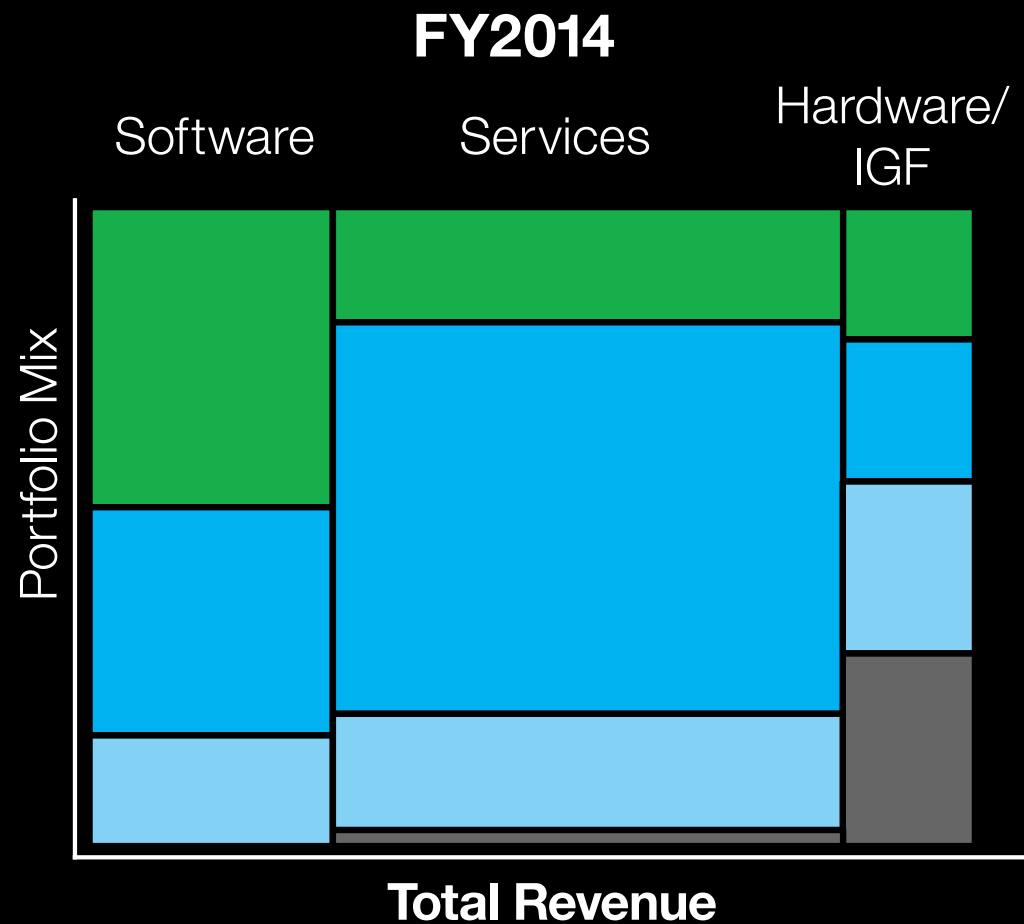
■ **High Value Transactional Businesses**

■ **Divested Content**

- Customer Care BPO, System x and Discontinued Microelectronics

These areas of the portfolio cut across all business segments

Portfolio Performance



Strategic Imperatives

Recurring Core Franchises

High Value Transactional

Signposts	2014 Performance
<ul style="list-style-type: none"> • Double-digit Revenue growth • Maintain high mix of Software 	<ul style="list-style-type: none"> • Revenue up 16% yr/yr <ul style="list-style-type: none"> - Cloud +60% - Analytics +7% - Mobile > 200% - Security +19% • Software mix > overall IBM
<ul style="list-style-type: none"> • Stable Revenue • Margin Expansion 	<ul style="list-style-type: none"> • Revenue down ~3% yr/yr • PTI Margin down modestly • Impacted by currency and mainframe cycle
<ul style="list-style-type: none"> • Maintain Margins • Optimize Business Model 	<ul style="list-style-type: none"> • GP Margin remains attractive at > 40% • Reposition Systems to higher value, including Power 8/OpenPOWER

Divested

Divested content represents Customer Care BPO, System x and Discontinued Microelectronics

PORTFOLIO — Well positioned to deliver value in enterprise IT

Strategic Imperatives

- Continued momentum with strong double-digit growth
- Shifting \$4 billion of spending, investments continue to be focused on Imperatives
- Solution units focused on specific markets and industries
- Partnerships and ecosystems

Recurring Core Franchises

- Next generation mainframe
- Strategic Outsourcing backlog positioned to deliver stable performance

High Value Transactional Businesses

- High End Power 8 launched

Divested Content

- Announced divestiture of Microelectronics in 4Q'14
- Completed sale of the x86 business in 4Q'14
- Completed sale of the Customer Care BPO business in 1Q'14

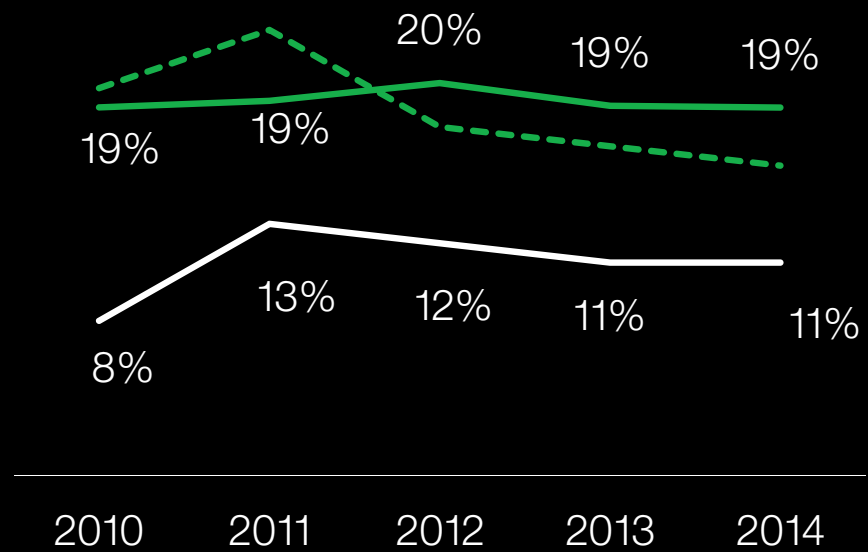
STRATEGIC IMPERATIVES —

Differentiation driven growth
and value

Strategic Imperatives performance

Revenue growth above market

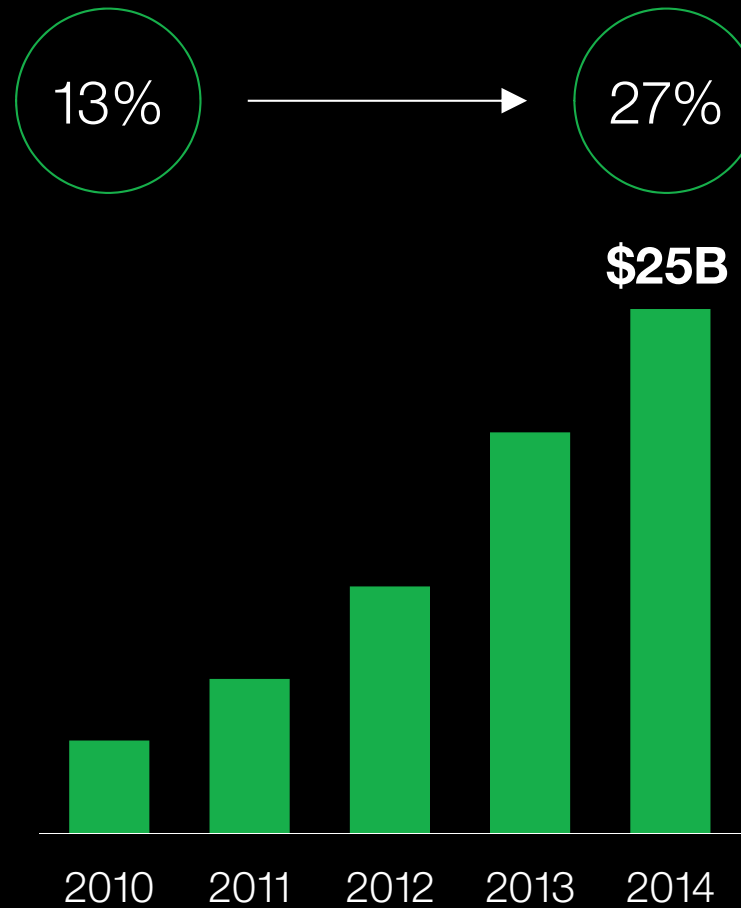
IBM / Market Strategic Imperative Revenue growth



— IBM Strategic Imperatives @ CC
- - - IBM Strategic Imperatives @ Actual
— Served Market Strategic Imperatives @ CC

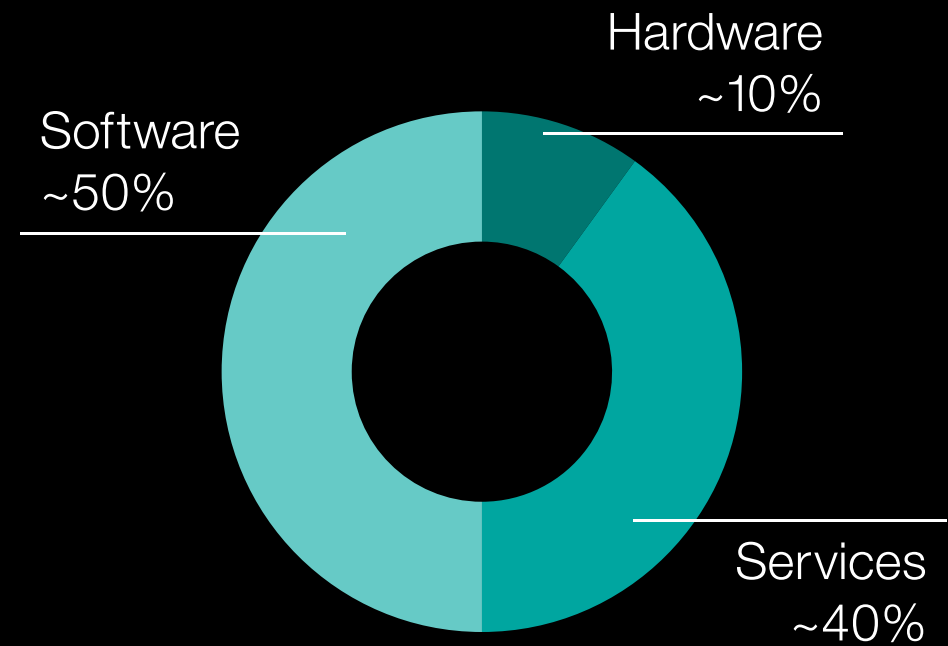
2014 Revenue of \$25 billion with mix more than doubling since 2010

Strategic Imperative Revenue mix



High software content drives value

2014 Segment mix



Strategic Imperatives capabilities and investments

**Differentiators:
Hybrid, Security,
Designed for Data**

**Differentiators:
Domain Expertise, Real-Time,
Structured and Unstructured**

**Differentiators:
Understanding Workflow, Hybrid, Security Intelligence**



Engagement

Cloud



18

Acquired companies including SoftLayer

80%

Of Fortune 500 companies use IBM's Cloud capabilities

\$8B

Invested to date to build Cloud capabilities

46

Cloud data centers planned by the end of 2015

Data



15,000

Consultants and 400 mathematicians

>\$26B

Invested in Big Data & Analytics capabilities

500+

Analytics patents generated each year

Watson

\$1B investment

Mobile & Social

Partnerships

Transforming enterprise mobility with Apple

6,000

Mobile specialists

2,800

Social business specialists

30+

Mobile solutions in the cloud marketplace

Security

Scale

15B Security events monitored daily across 130 countries

6,000

Security specialists

9/10

Top banks use IBM Security solutions

27

Security Labs globally

IBM Cloud



2014 Cloud Revenue

\$7B, +60% Yr/Yr

Growth ahead of market

Annual “as-a-Service” run rate
~\$3.5B /Yr



IBM is ranked as the #1 hybrid and private cloud provider for the enterprise
February 2015

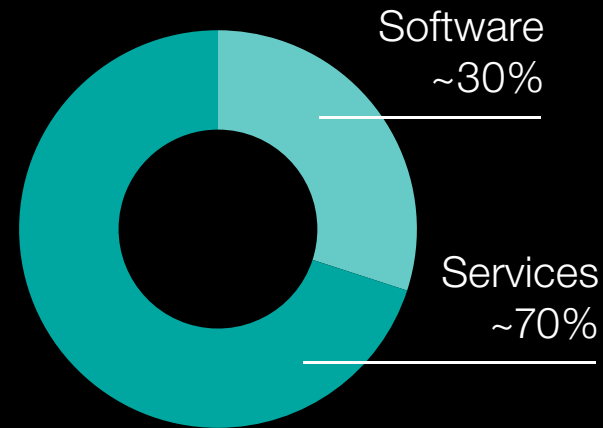


IBM is ranked #1 for current hybrid cloud implementations
June 2014

2018 Market Opportunity

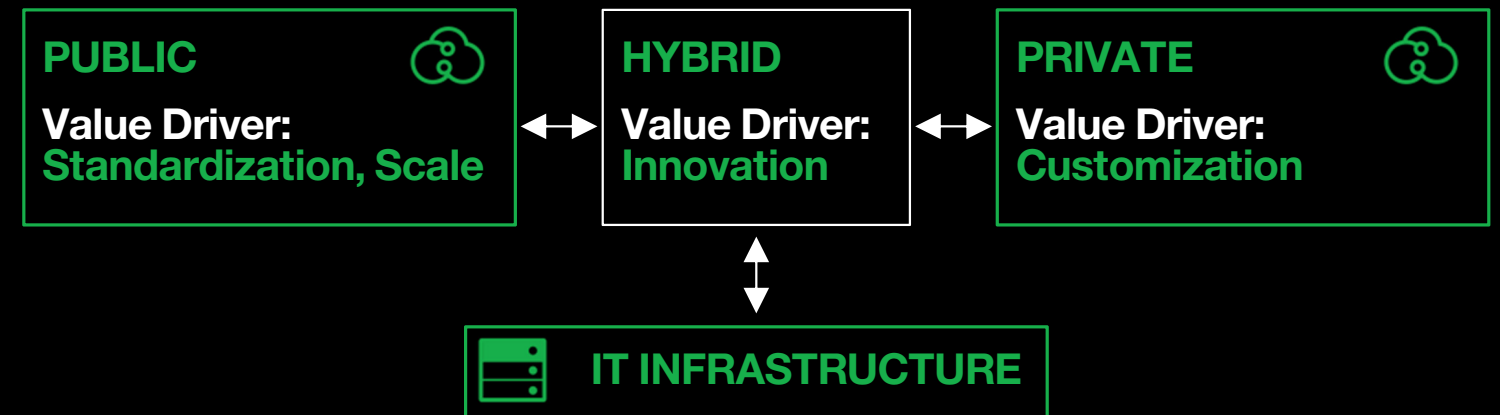
~\$400B,
23% CAGR

2014 “as-a-Service” Segment Revenue Mix



Cloud Offerings — Public, Private and Hybrid

Hybrid, Security, Designed for Data



IBM Analytics



2014 Analytics Revenue

\$17B, +7% Yr/Yr
Growth ahead of market

Gartner

IBM ranked a **leader** in Gartner Magic Quadrant for **Advanced Analytics Platforms & Data Integration** tools
July 2014

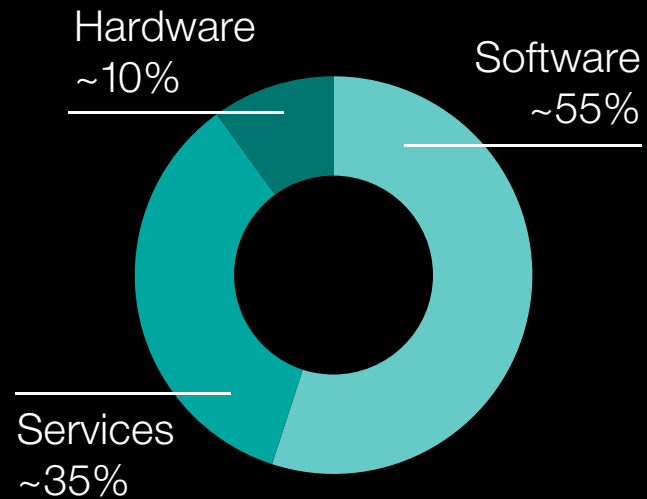


IBM is a **leader** in the Forrester wave for **business intelligence professional services** market
November 2014

2018 Market Opportunity

~\$315B,
7% CAGR

2014 Segment Revenue Mix



Analytics Offerings

Domain Expertise, Real-Time, Structured and Unstructured



Industry Solutions



Analytics Platform



Cloud Data Services



Internet of Things



Insight as a Service



Analytics Consulting Services

Engagement



2014 Engagement Revenue

Mobile ~\$1B, Social ~\$1B
Security >\$1.5B

Revenue Growth >35% Yr/Yr
Growth ahead of market



For the fifth consecutive year, IDC ranked IBM number one in worldwide market share for enterprise social software
April 2014

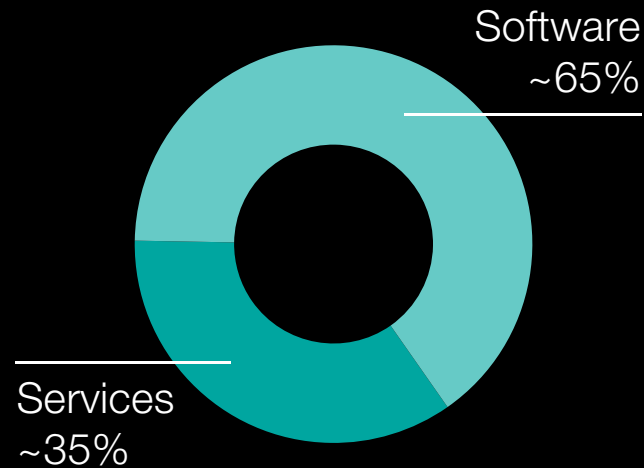


IBM is #1 in market share for Security Intelligence & is the only leader in the magic quadrant for managed mobility services
July 2014

2018 Market Opportunity

~\$290B,
10% CAGR

2014 Segment Revenue Mix



Engagement Offerings

Understanding Workflow, Hybrid, Security Intelligence



IBM Mobile

- IBM MobileFirst — Cross IBM mobile initiative
- Platform
 - Protect
 - Solutions



IBM Social

- IBM Verse
- IBM Smarter Workforce
- IBM Connections



IBM Security

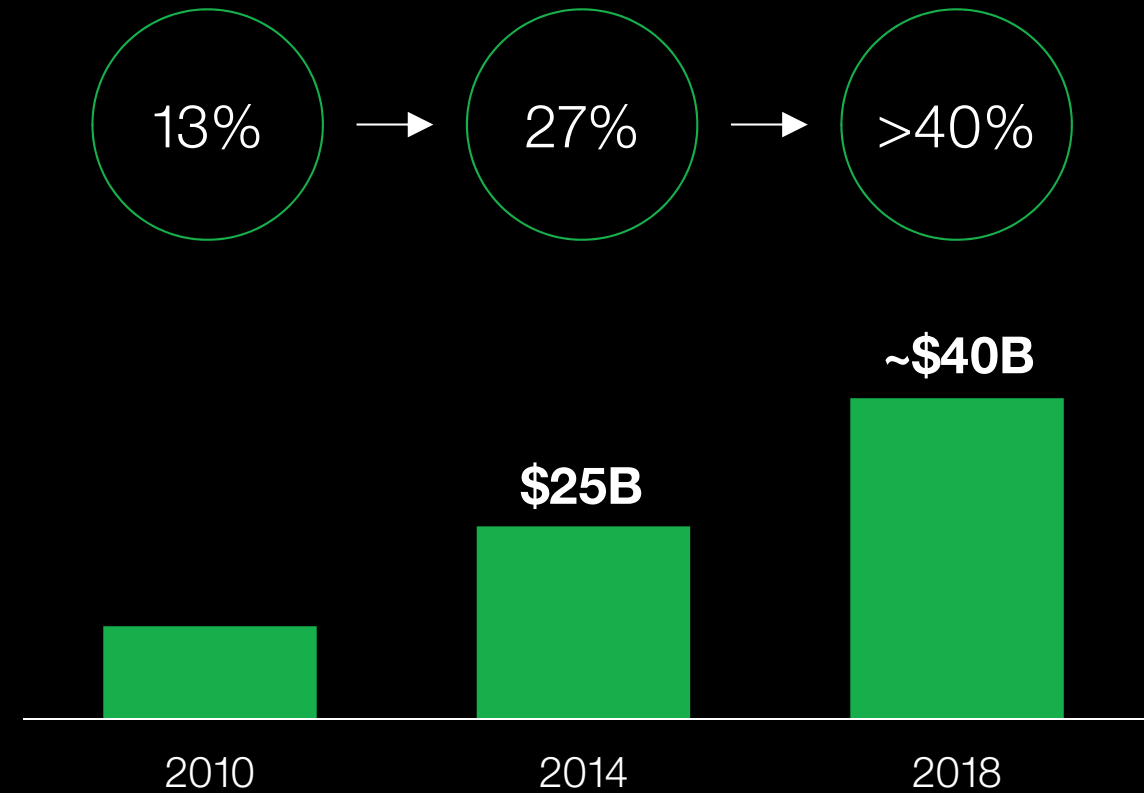
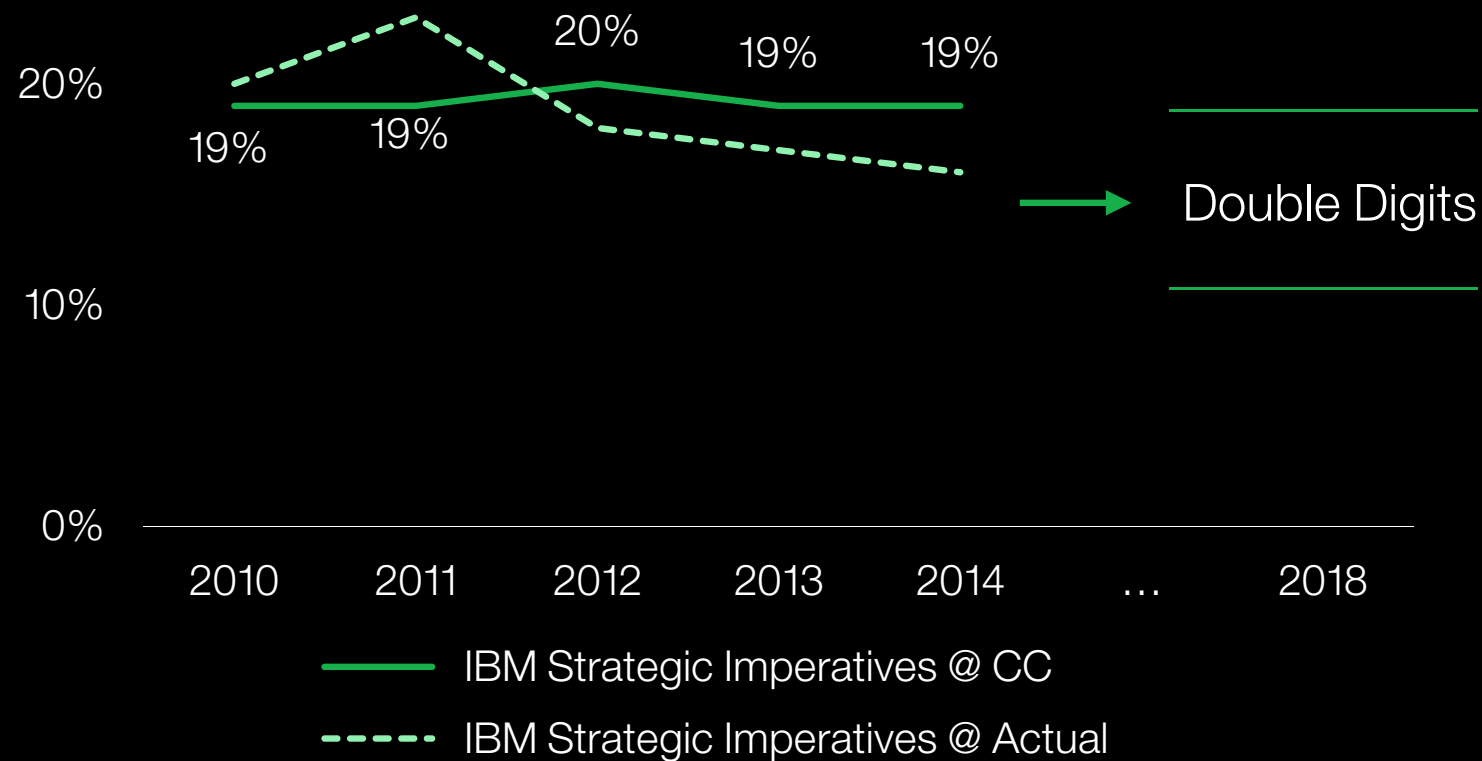
- Incident Forensics and Analytics
- Data Security
- Advanced Fraud Protection

Strategic Imperatives grow to ~\$40 billion by 2018

Continued double-digit revenue growth longer-term

Mix increases to more than 40% of IBM

\$4B spending shift in 2015 drives growth



Strategic Imperatives — Differentiation driven growth and value

Core portfolio provides a broad platform for scaling businesses

~80% of IBM revenue is from clients who have deployed cross-IBM solutions of Services, Software *and* Hardware

Strategic Imperatives have scaled rapidly



Cloud

2014 annual 'as-a-Service' revenue run-rate of \$3.5B

~100% CAGR over last four years



Mobile

2014 Revenue: >200% Yr/Yr

~\$50M to \$1B of revenue over last four years



Security

2014 Revenue: >\$1.5B, +19% Yr/Yr

~\$700M of growth over last four years

Innovation and recent partnerships drive growth



Watson

2H'14 Partnerships

Apple

SAP

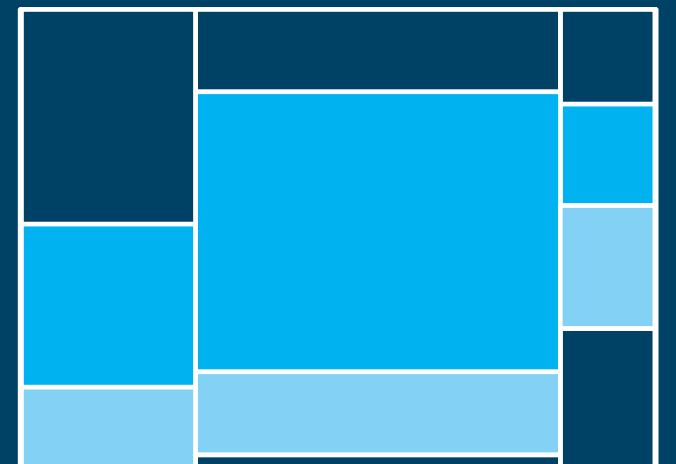
Twitter

Tencent

Long-term model reflects double-digit growth in Strategic Imperatives with high software content

CORE PORTFOLIO —

High value, essential
client IT



The scope of what we manage for clients spans many industries...



More than 90 of the top 100 banks worldwide use IBM solutions to run their business



9 of the top 10 oil and gas companies in the world are IBM clients



IBM serves 9 of the top 10 electronics companies in the world



80% of the global top 50 retailers run their business on IBM IT systems



92 of the world's top 100 healthcare organizations work with IBM



22 of the top 25 consumer product companies use IBM products to run their IT system



IBM serves 9 of the top 10 telecom companies in the world



More than 225 state and local governments worldwide rely on an IBM Mainframe to support police and fire departments, utilities, sanitation, parks and hospitals

...and geographies



49 of the top 50
healthcare organizations
in the US work with IBM



In the UK, 1/3 of the FTSE 100
use IBM mainframes, as do the
top 8 retail banks and the top 5
supermarkets



5 of the top banks in China
use IBM to run their daily
banking operations



IBM serves the
top 3 telecommunications
companies in India



17 out of the 22 banks in Nigeria
run all their core banking
applications on IBM Power
platforms



4 of the top 5 retailers
in Brazil use IBM
technology

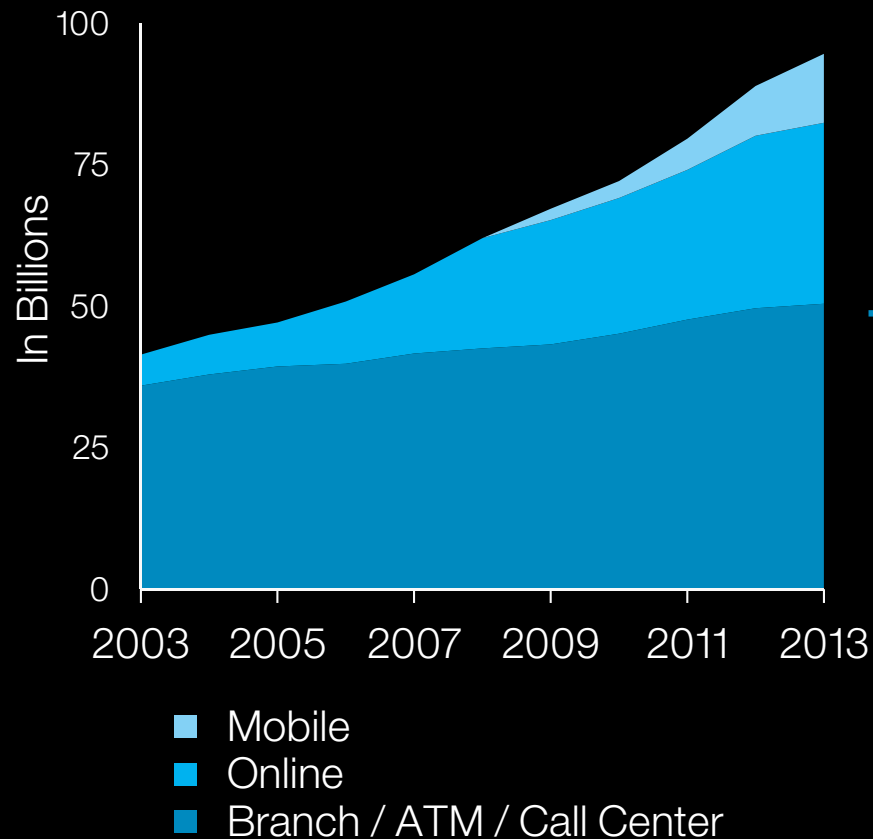
Re-inventing the Core: Banking example

Banking transactions growth of ~10% CAGR over ten years

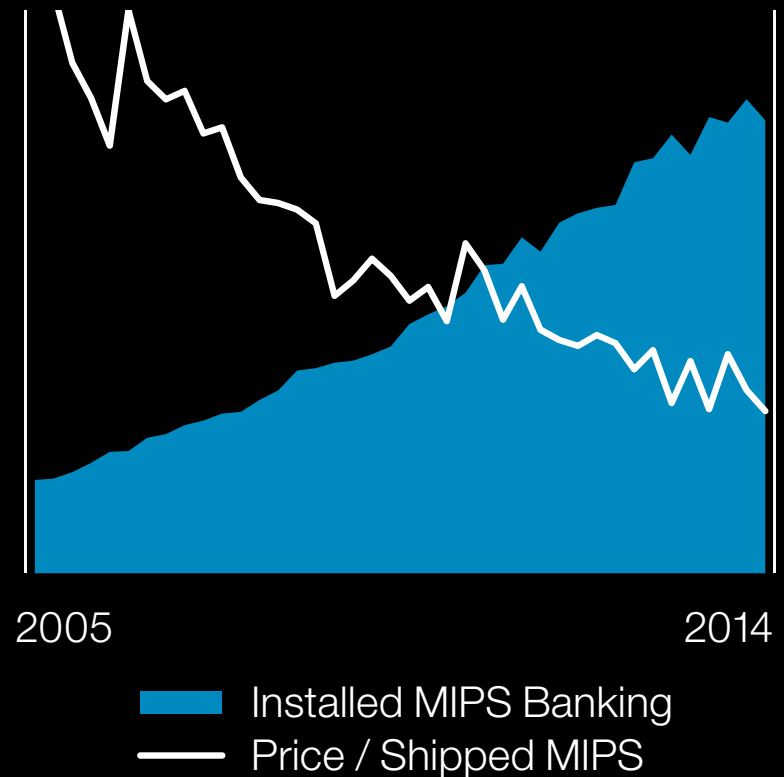
Mainframe capacity deployment continues to grow

Re-invention of Mainframe drives consistent performance

Banking Transactions



IBM Mainframe



Historical Performance
Eight quarters following announcement

	Revenue	Gross Profit
z10 (‘08-‘09) Baseline	100%	100%
z196 (‘10-‘12)	102%	103%
z12 (‘12-‘14)	99%	101%

Notes 3 and 4

Re-inventing the Core: Mainframe and Application Middleware

Mainframe

~2000

- Linux on Mainframe
- Data Encryption Standards

~2010

- Multi-site business continuity solutions
- Capacity on Demand

Current

- Advanced Analytics Accelerator
- Enterprise Cloud Server; Accelerated Encryption
- Built for mobile

WebSphere / App-Server

~2000

- Distributed App server environment for web applications — fully scalable

~2010

- Deployment in any virtualized environment for optimized usage of physical resources

Current

- Cloud and mobile ready for flexible deployment anywhere with enterprise strength security

Client Example

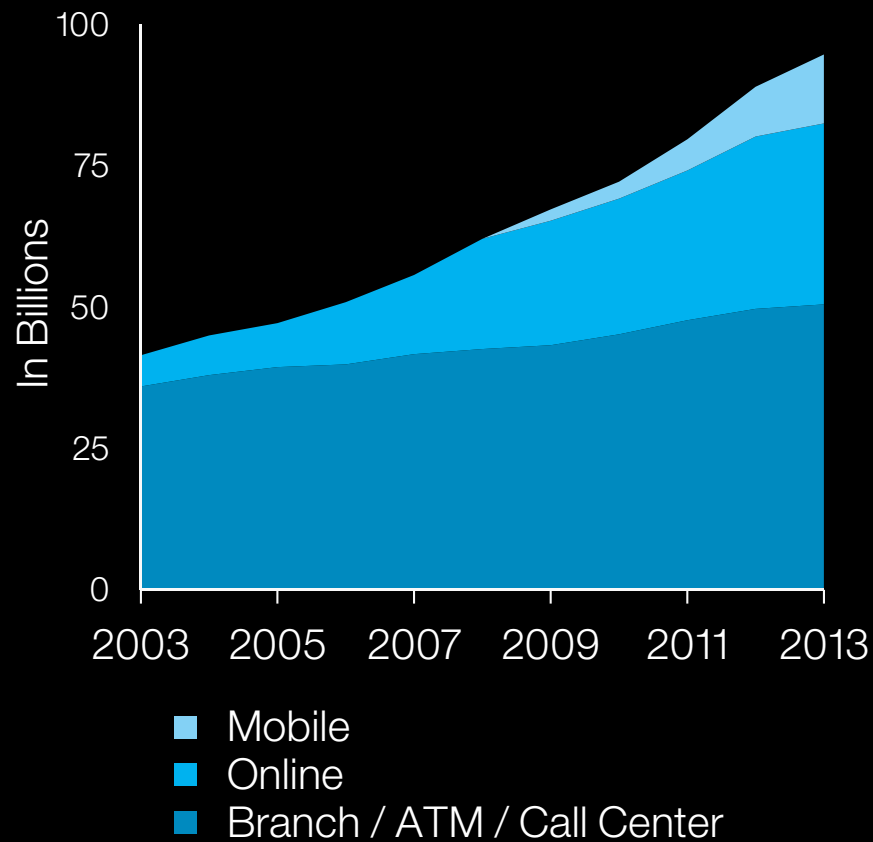


- Mainframe and Power hardware technology for nearly all of its enterprise systems — Branch, Payments, Mobile
- Software technologies include commerce, security and analytics applications
- Services provided include Managed services, Application innovation and management, Fraud protection, Mobile application consulting and Collaborative development
- One of the first Apple Foundation clients

Client environment evolution across industries

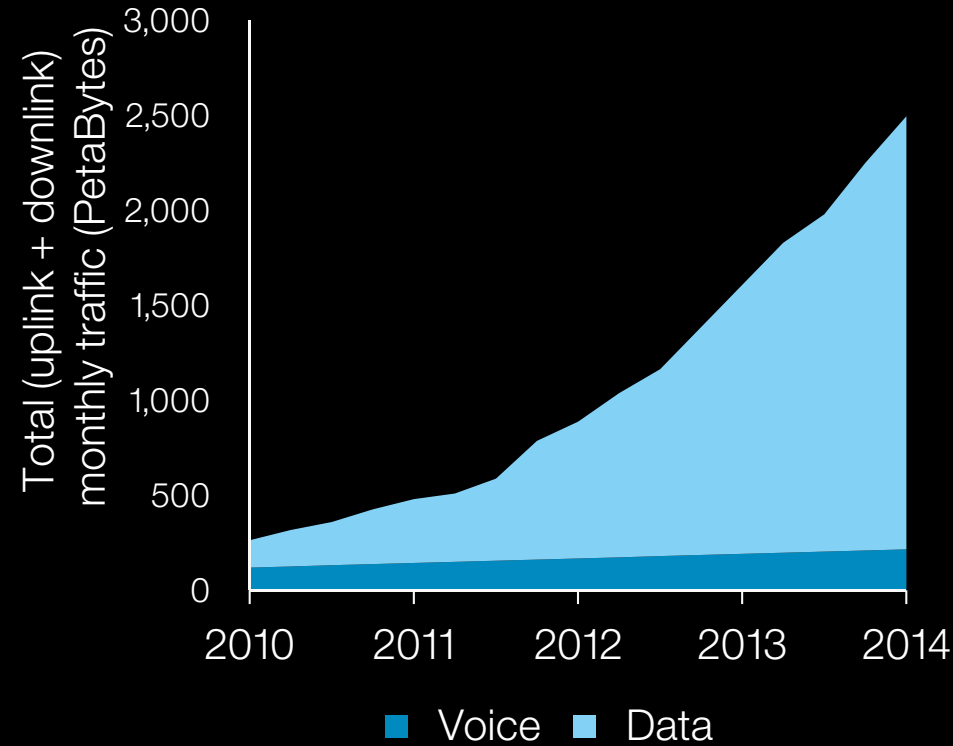
Banking

Banking transactions



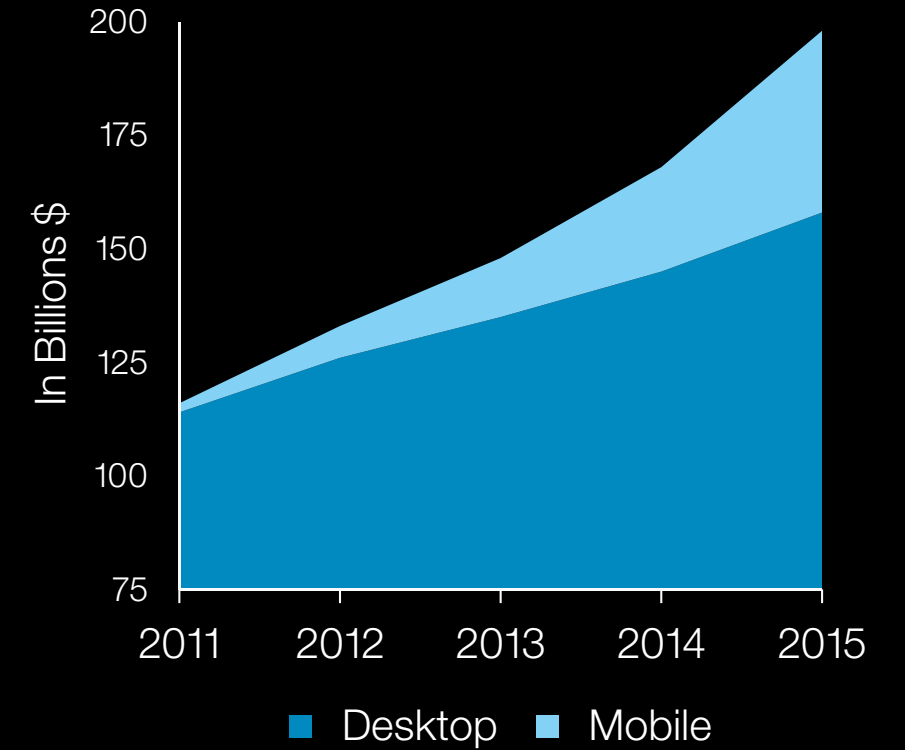
Telecommunications

Mobile data traffic



Travel

US Mobile and Desktop travel bookings



Notes 3, 5 and 6

Re-inventing the Core: Strategic Outsourcing and Power

Strategic Outsourcing

~2000

- Global delivery centers established in multiple countries serving clients in different regions

~2010

- Process standardization
- Integrated service management

Current

- Cloud — Public / Hybrid / Private
- Automation and integration of systems

Power

~2000

- Virtualized, scalable UNIX Server
- Double the performance at half the price of SUN SPARC/Solaris

~2010

- Large scale UNIX system — server consolidation benefits

Current

- Designed for Big Data
- OpenPOWER — Platform & Ecosystem for cloud
- Linux optimization on Power

Client Example



- Outsourcing agreements with Bharti Airtel in 2004. Similar agreements signed with Vodafone India and Idea Cellular (2007)
 - Covers ~550 million subscribers, over half of the mobile telecom population in India

- Complete Infrastructure services, Application Development and Management for clients during period of rapid growth
 - Compute capacity is primarily Power

- Expanded Airtel relationship to provide infrastructure outsourcing services across Africa since 2010

Core Portfolio — High value, essential client IT

- The scope of what we manage for clients across industries and geographies is essential
- Portfolio constantly re-invented to address evolving client needs around core IT processes and systems
- High value to clients and IBM
- Ongoing investment shifts to the Strategic Imperatives
 - Continued innovation in the core portfolio
 - Long-term model reflects continued high value and moderating revenue declines
 - Market not expected to grow

Segment Models and Capital Deployment

Services Segments

Longer-term financial model

- Low single-digit Revenue growth
- Mid single-digit Pre-tax income growth

Revenue Growth

GTS

- Leverage cloud investments, continue to expand security and mobility offerings
- Core offerings simplified and redesigned as end-to-end solutions for hybrid environments

GBS

- Lead new client agenda, applying big data/analytics for individual engagement, including partnerships
- Modernize core business, differentiating with 'Agile' and 'DevOps' approaches

Margin Expansion

- Advanced automation through analytics and intellectual property deployment
 - Expected efficiency in managing servers
- Rebalancing delivery capabilities to global centers
- Alternate labor models to provide flexibility
- Continued scale in “as-a-service” offerings

Software Segment

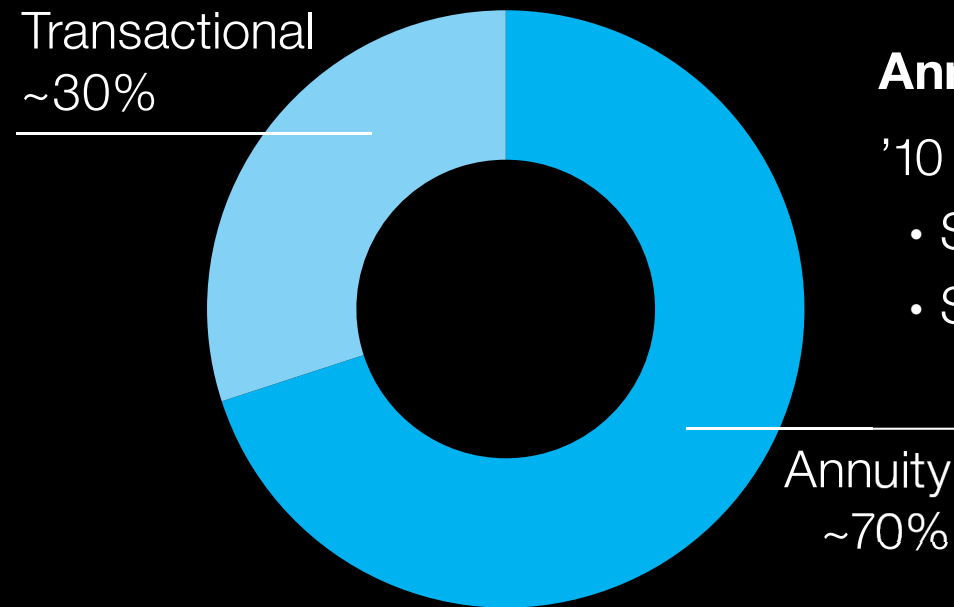
Longer-term financial model

- Low single-digit Revenue growth
- Mid single-digit Pre-tax income growth

Revenue Growth

- Software Annuity content at ~70% growing low single-digits
- Overall Software revenue impacted by the flexibility offered to our largest clients
 - Absorbs available capacity
 - Maintains client commitment to the IBM platform
- Solutions units bring together IBM skills and capabilities and improve speed to market

2014 Revenue Mix



Annuity Revenue

- '10 –'14 CAGR: ~3% @ CC
- S&S / MLC: 2% CAGR
- SaaS: >70% CAGR

Hardware Segment

Longer-term financial model

- Stable, profitable and contributes to IBM Model

Revenue Growth

- New products across the portfolio drive growth in 2015
 - Next generation Mainframe (z13)
 - Power 8 High-End
- Power for Linux, OpenPOWER, Software defined Storage

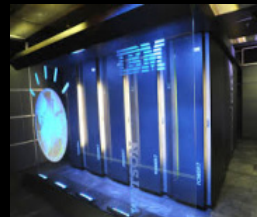
Profitability

- 2014 actions stabilized profit performance
- Profit performance tied to product cycle dynamics
- New profit streams from intellectual property opportunities like OpenPOWER



IBM Mainframe

*Mission Critical Workloads
Built for Mobile*



IBM Power

*Open Integration
Built for Data*



IBM Storage

*Software Defined Systems
and Flash Technology*

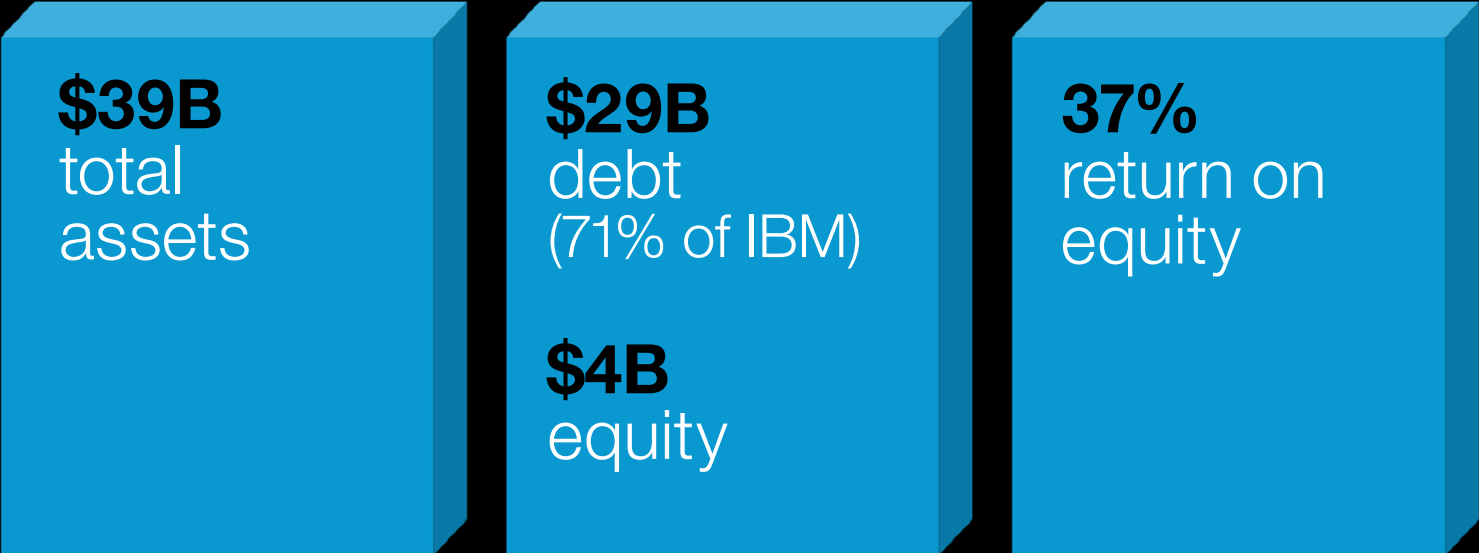
Global Financing Segment

Longer-term financial model

- Grow asset base
- Maintain high Return on Equity

- Client Financing —
Leases and loans to IBM clients
- Commercial Financing —
Working capital for IBM Business Partners
- Global Asset Recovery Services —
Used equipment sales and asset disposition services

2014 Performance



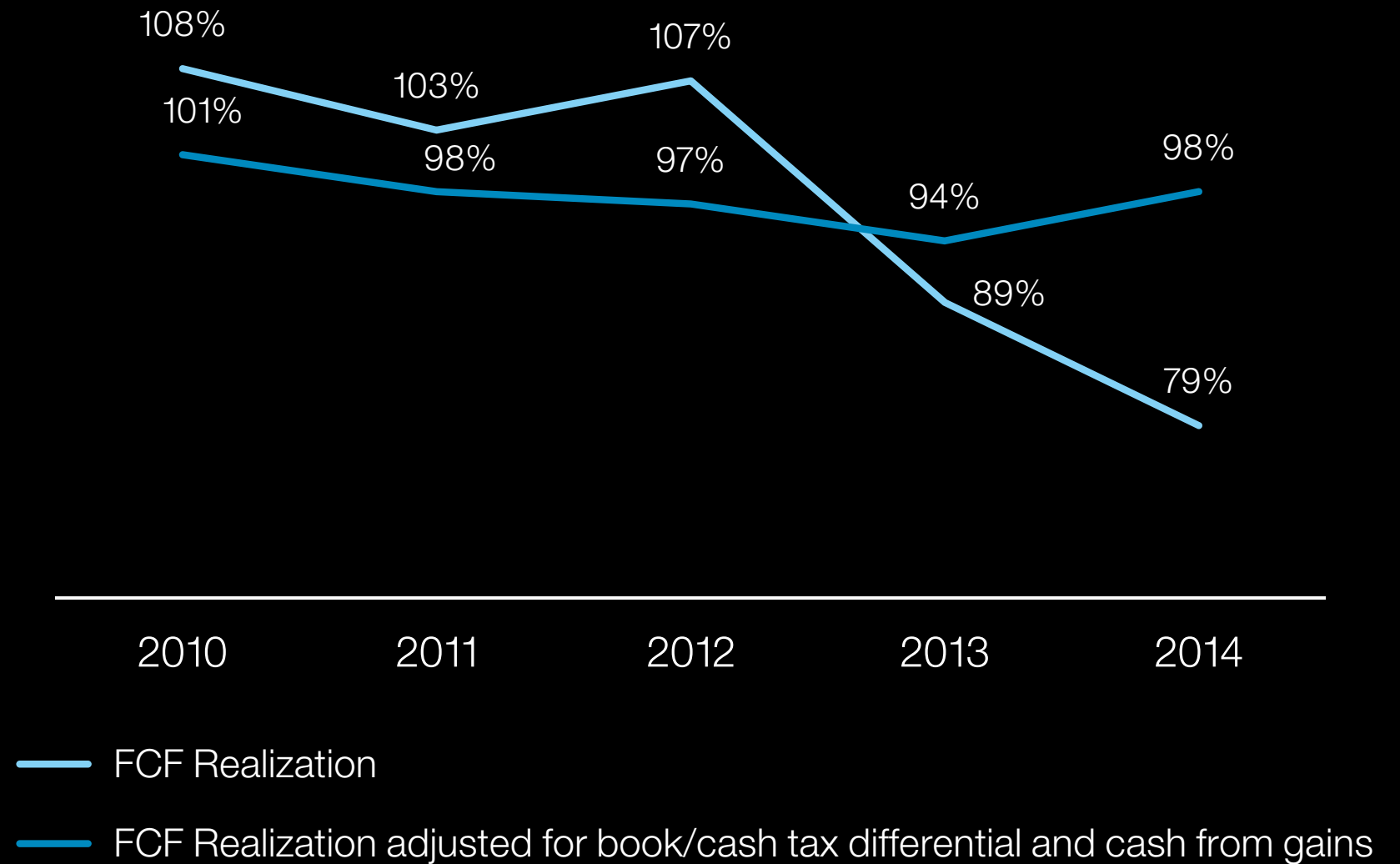
Capital Deployment

MODEL	'10 –'14 INVESTMENTS	RETURNS	EXAMPLES
Organic Research and Development, Capital Expenditures	\$48B	High	<ul style="list-style-type: none"> • Build on existing competencies • Create new markets
Acquisitions	\$15B	Well above Cost of Capital	<ul style="list-style-type: none"> • Address shorter-term portfolio gaps • Leverage IBM scale for growth
Partnerships and Ecosystems	Shift in run rate spending Limited capital required	High	<ul style="list-style-type: none"> • Leverage mutual strengths to address client needs • Expand industry and client base

Historical Free Cash Flow performance

Free Cash Flow Realization in the 90%'s longer-term

- Historical Free Cash Flow realization in the 90%'s adjusting for book/cash tax differential and cash from gains
- Free Cash Flow realization below 100% driven by the impact of
 - Pensions
 - Investments



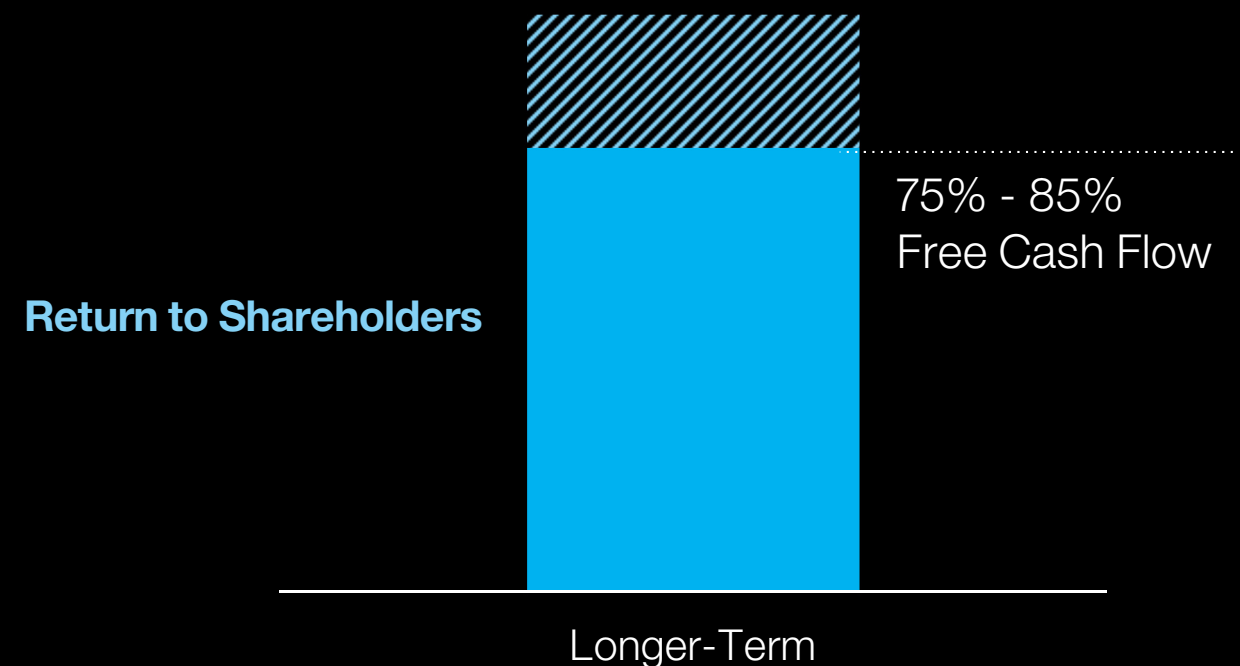
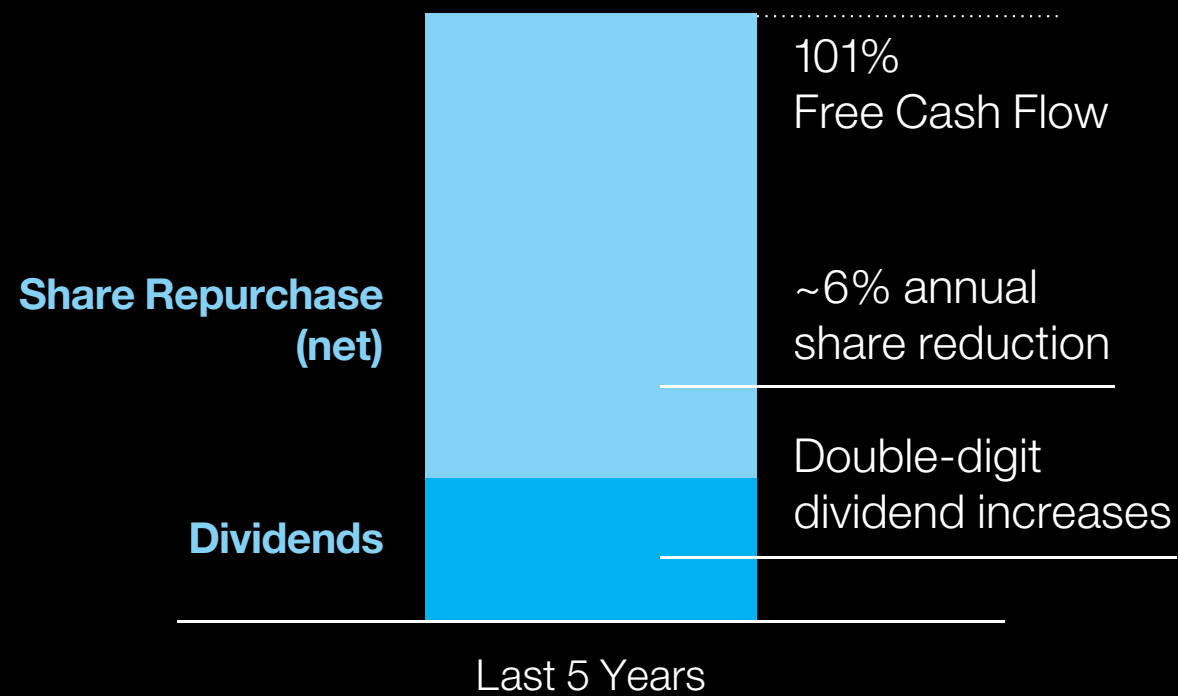
Free Cash Flow realization supports model

Last 5 Years
Over 100% of Free Cash Flow returned to shareholders

Longer-Term
75% - 85% of Free Cash Flow returned to shareholders

Free Cash Flow / Net Income: 97%

Free Cash Flow / Net Income: 90%'s



Longer-term financial model: Continued dividend increases, 2%-3% annual share reduction

IBM Financial Model

LONGER TERM

Revenue

- Double-digit Strategic Imperative growth — Opportunity, Investments, Partnerships
- Continuous re-invention drives Core Portfolio performance moderation

Low single-digit growth

Pre-Tax Income

- Services margin expansion — Automation, Global delivery, Flexible labor model
- Software content drives margin expansion
- Spending growth supports investments

Mid single-digit growth

Earnings Per Share

- 2% – 3% annual share count reduction

High single-digit growth

Free Cash Flow

- 75% – 85% of Free Cash Flow returned to shareholders
 - Includes annual dividend increases

Realization in the 90%'s



Summary

Portfolio

Well positioned to deliver value in enterprise IT

Strategic Imperatives

Differentiation driven growth and value

Core Portfolio

High value, essential client IT

IBM **Investor** Briefing

Notes

Note 1

Consistent with basis presented at May 2014 Investor Briefing, 2014 performance modeled on “Gross View” (inclusive of overlap with Strategic Imperatives), Recurring Core Franchises revenue growth modeled net of Strategic Imperatives

Note 2

Served market growth source: IBM Market Insights

Historical Strategic Imperative Revenue measured on consistent basis

Growth rates reflect constant/modeled currency excluding System x

Note 3

Adapted from Oppenheimer report “The Brick & Mortar Bank Branch”, 12/5/2013

Source: Bofl Holding, Tower Group, McKinsey & Co., Novantas

Note 4

Performance estimate — adjusted for currency

Note 5

Adapted from Ericsson Mobility Report June 2014

Note 6

Adapted from ‘Skift’ 2014 State of Travel Report

Source: Business Intelligence / WYSE Travel Confederation 2014

Note 7

Free Cash Flow realization = Free Cash Flow / GAAP Net Income from continuing operations

Note 8

Annual Share reduction reflects weighted average shares outstanding

These charts and the associated remarks and comments are integrally related, and they are intended to be presented and understood together.

In an effort to provide additional and useful information regarding the company's financial results and other financial information as determined by generally accepted accounting principles (GAAP), certain materials presented during this event include non-GAAP information. The rationale for management's use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information is included in supplemental materials entitled "Non-GAAP Supplemental Materials" that are linked to the company's investor relations web site at <http://www.ibm.com/investor/events/investor0215.html>. The Non-GAAP Supplemental Materials are also included as Attachment II to the company's Forms 8-K dated January 20, 2015 and February 26, 2015.

IBM **Investor** Briefing