Certain comments made in this presentation may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the Company’s current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees and involve a number of factors that could cause actual results to differ materially. Additional information concerning these factors is contained in the Company’s filings with the SEC. Copies are available from the SEC, from the IBM web site, or from IBM Investor Relations. Any forward-looking statement made in these presentation materials speaks only as of the date on which it is made. The Company assumes no obligation to update or revise any forward-looking statement. 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), these materials contain certain non-GAAP information including "operating earnings" and other "operating" financial measures. The rationale for management’s use of this non-GAAP information, the reconciliation of that information to GAAP, and other related information are included as Attachment II (“Non-GAAP Supplemental Materials”) to the Company’s Forms 8-Ks dated May 14, 2014 and January 18, 2011.
Agenda

- Strategic Overview
- Financial Overview
IBM’s strategy addresses key market shifts

**Market Shifts**

1. Data is becoming the world’s new natural resource
2. The emergence of cloud is transforming IT and business processes into digital services
3. Social, mobile and access to data are changing how individuals are understood and engaged

**Strategic Imperatives**

1. Make markets by transforming industries and professions with data
2. Remake enterprise IT for the era of cloud
3. Enable ‘systems of engagement’ for enterprises, and lead by example

**Growth Plays**

- Smarter Planet
- Watson
- Business Analytics
- Mobile
- Cloud
- Social Business
- Growth Markets
- Security
These shifts are converging, with Big Data at the center.
Data is the new basis of competitive advantage

Market trends...

By 2017 there will be more than 1 trillion connected objects and devices on the planet generating data.

There are 2.5 billion gigabytes of data generated every day…

… of which 80% is unstructured.

By 2017, WW data spend will be $266B.

Big Data & Analytics Market Opportunity*

6% CAGR through 2017

*Source: IBM Market Insights 1H2014
IBM has built the world’s broadest and deepest portfolio in data and analytics

$24 billion
invested to date to build IBM’s capabilities in Big Data and analytics, with $7 billion in organic investment

$17 billion
of gross spend for Big Data and analytics, including more than 30 acquired companies

15,000
analytics consultants and 400 mathematicians

40,000
client engagements to date

$1 billion
investment in Flash technology, providing industry-leading speed and efficiency to enable data to be real-time for analytics

1,000
university partnerships and 2,215 IBM Business Partners

500
analytics patents generated each year

2/3
of IBM Research is focused on data, analytics and cognitive computing

We have significantly increased analytics revenue through strategic investments, and new skills and capabilities... analytics is on track to be a $20 billion business in 2015

Analytics Revenue

2013

$16 billion

2010

$11 billion
IBM Watson is cognitive computing

Natural language:
Watson can read and understand natural language, important in analyzing unstructured data that make up as much as 80% of data today.

Hypothesis generation:
When asked a question, Watson relies on hypothesis generation and evaluation to rapidly parse relevant evidence and evaluate responses from disparate data.

Dynamic learning:
Through repeated use, Watson literally gets smarter by tracking feedback from its users and learning from both successes and failures.

Bringing Watson to market

Transforming industries and professions with services-led engagements.

Advancing cognitive computing across the enterprise with repeatable solutions.

Bringing the cognitive experience to market through an ecosystem of partners.
Cloud is changing the way enterprises work, and transforming the way IT and business processes are delivered.

**Market trends...**

**Nearly 70% of enterprises to pursue hybrid cloud by 2015**

**91% of net new software built for cloud delivery in 2014***

Growing IT complexities accelerating shift to software defined solutions

Open standards driving new class of innovation

Expanding role of Service Providers

By 2017, cloud spend will be $392B.

**Cloud Market Opportunity**
25% CAGR through 2017

- **SaaS / BPaaS**: 25% CAGR
- **IaaS / PaaS**: 28% CAGR
- **Private Cloud**: 24% CAGR

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*Source: IBM Market Insights, 1H 2014
**Source: Gartner, p.6, Private Cloud Matures, Hybrid Cloud is Next, Gartner G00255302, Sept 6, 2013
***Source: IDC Directions, "How SaaS Gets Built" Doc # DR2014_T3_RM March 2014*
Workload requirements determine which deployment option will maximize business success

**Cloud Deployment Options**

- Public Cloud
- Hybrid Cloud
- Private Cloud & IT (On Premise)

**Cloud Economics**

**Cloud economics are driven by workload and I/O**
- Best economics are around variable workloads
- Communications, storage and data movement drives the cost

**Enterprise customers want visibility and control**
- Data protection and auditability are essential

**Enterprises prefer hybrid**
- On premise and off premise are part of the same process
- Ability to move work back on premise is a requirement
IBM is addressing cloud needs across the enterprise

Think it. Build it. Tap into it.

- **Business Process as a Service**
  - Enabling business transformation

- **Software as a Service**
  - Marketplace of high-value consumable business applications

- **Platform as a Service**
  - Composable and integrated application development platform

- **Infrastructure as a Service**
  - Enterprise class, optimized infrastructure

**Public. Private. Hybrid.**
IBM has built the world’s most complete cloud portfolio

- **$7 billion**
  - invested to date to build cloud capabilities

- **1,500 +**
  - cloud patents

- **5.5 million**
  - client transactions processed daily through IBM’s public cloud

- **80%**
  - of Fortune 500 companies use IBM’s cloud capabilities

- **15**
  - acquired companies, including SoftLayer, for cloud infrastructure

- **2,000**
  - SoftLayer APIs to provide a view of the client’s environment

- **100 +**
  - industry-leading Software as a Service (SaaS) offerings

- **5,000 +**
  - Private and hybrid cloud engagements in more than 100 countries included IBM Systems in 2013

In 2013 our cloud revenue was up 69 percent, with growth in foundational offerings and cloud “as a service”... we expect cloud to be a $7B business in 2015.

Cloud Revenue

- **2013**
  - $4.4 billion

- **2012**
  - $2.6 billion

- **2013**
  - $2 billion

- **2012**
  - $1 billion
Technology has changed the way people engage

Market trends…

84% of smartphone users check an app as soon as they wake up

80% of individuals are willing to trade their information for a personalized offering

2/3 of US adults say they would not return to a business that lost their personal, confidential information

Market Opportunity*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>$103B</td>
<td>18%</td>
</tr>
<tr>
<td>Social Business</td>
<td>$89B</td>
<td>9%</td>
</tr>
<tr>
<td>Security</td>
<td>$74B</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Source: IBM Market Insights, 1H 2014
IBM’s portfolio enables enterprises and communities to engage customers, employees and citizens securely

<table>
<thead>
<tr>
<th>6,000 security experts, 3,000 mobile experts, 2,800 social business experts</th>
<th>4,300 patents in mobile, social and security technologies</th>
<th>#1 and #1 market leader for enterprise social software; market leader in security and vulnerability management*</th>
<th>7 of 10 top banks in the US, 9 of the top 10 in the UK and 2 of the top 4 in Australia use IBM Security Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 companies acquired for mobile capabilities like mobile messaging for marketers and secure mobile app delivery</td>
<td>12 companies acquired for security technologies like web fraud detection, sophisticated malware, and device management</td>
<td>25 security labs globally, 10 security operations centers globally</td>
<td>15 billion security events monitored in 130 countries</td>
</tr>
</tbody>
</table>

Our mobile, social and security portfolio generated double-digit revenue growth in 2013

- **69%** growth in Mobile
- **45%** growth in Social Business
- **19%** growth in Security


The IT sector continues to evolve

- Personal Computer
- Open Source
- Internet
- Linux
- Java
- e-business
- Relational Database
- Client / Server
- Web Application Server
- Big Data
- Flash Storage
- Mobile
- Cloud
- Social Business
- Business Process Management
- Virtualization
- Analytics
- Cloud
- 1980
- 1985
- 1990
- 1995
- 2000
- 2005
- 2010
- 2015
IBM has built a culture of continuous transformation to create and capture value in an ever changing market

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>We remix our portfolio to higher value</strong></td>
</tr>
<tr>
<td>2</td>
<td><strong>We make new markets and engage new buyers</strong></td>
</tr>
<tr>
<td>3</td>
<td><strong>We reinvent core franchises for a new era of computing</strong></td>
</tr>
<tr>
<td>4</td>
<td><strong>We reinvent the enterprise itself for greater value and productivity</strong></td>
</tr>
<tr>
<td>5</td>
<td><strong>We enable expert, engaged employees to deliver a differentiated client experience</strong></td>
</tr>
</tbody>
</table>
IBM remixes its portfolio to higher value

**Invest**

Invest in acquisitions and organic capabilities to complement and scale our portfolio

*$34B$ of gross spend on 119 acquisitions in the last decade

- $17B$ on more than 30 Big Data and analytics companies
- $7B$ on 15 companies related to cloud
- Acquired nearly two dozen companies related to mobile, security, and social

Approximately $6B of annual spend in Research & Development

- create innovations like Watson, streaming analytics, advanced security and front office solutions

**Divest**

Exit businesses that commoditize or no longer fit our strategy

- Personal Computers 2005
- Printers 2007
- PLM Sales Operations 2010
- Retail Store Solutions 2012
- Customer Care BPO 2013
- x86 Servers * 2014

And in the previous 5 years:
- DRAM 1999
- Network 1999
- Flat Panel Displays 2001
- Hard Disk Drives 2002

*Announced, but not closed
IBM’s Core Franchises

Software
- Monthly license charge and Subscription and Support (S&S)
- Enterprise License Agreements with top clients

Services
- Strategic Outsourcing
- Maintenance
- Long term consulting/SI contracts
- Business Continuity and Resiliency Services

Hardware and Financing
- Mainframe w/large capacity clients
- Financing business

Mission critical to our clients
- IBM systems run 90% of top 60 banks, 80% of all worldwide airline reservations
- 70% of world’s business data is managed by the mainframe, including: 90% of global credit card transactions and 23 of top 25 retailers
- Nearly half of Fortune 100 are outsourcing clients

Continually reinvented and leveraged to enter new markets
- Linux on Mainframe, and now Power
- Middleware optimized for cloud and mobile
- Integrating hybrid environments and optimizing existing services infrastructures
- IBM Interactive Experience named largest global digital agency

Provide stability to IBM’s business model
- 60% of revenue, 75% of pre-tax income
- Stable revenue with improving margin
Agenda

- Strategic Overview
- Financial Overview
12% compound growth in Operating Net Income driven by shift to higher value

~3% CAGR excluding Divested Revenue: PC, Printers, PLM, Retail Store Solutions
Growth in annuity content at higher margins

PTI margins modeled based on a combination of revenue and GP margin contribution.
Gross profit margin expansion in each year over the last decade...

Year-to-Year Margins

Operating (Non-GAAP) Margins 2010-2013
... driven by mix and productivity

- Software mix contributed to margin expansion in 9 out of 10 years
- Hardware and Services mix in 7 out of 10 years
- Productivity benefit in 9 out of 10 years
Investment directed toward areas of opportunity

- $133B invested over the last decade in R&D, Cap Ex, and Acquisitions
- Approximately 65% of 2013 investments focused on Software and Services
Acquisitions aligned with Strategic Imperatives

Strategic Imperative acquisitions (2005 - 2013)
- 30 Data
- 15 Cloud
- 8 Mobile
- 12 Security

Acquisition Operating PTI
- 43 companies acquired since 2010
- $2B of Operating Pre-Tax Income

- Scalable intellectual property
- Key to solutions offerings
- Leverage synergies through global distribution
Free Cash Flow and cash utilization balanced over the long term

Free Cash Flow

$125B driven by Net Income

Primary Cash Uses

Returned > 85% of Free Cash Flow to Shareholders

Net acquisitions include cash used in acquisitions and from divestitures
Free Cash Flow Realization supports our model

- **Last 10 years**
  - Free Cash Flow / Net Income: 110%
  - 94% of Net Income Returned to Shareholders
  - 4.5% Annual Share Reduction
  - Double-digit Dividend Increases

- **Last 3 years**
  - Free Cash Flow / Net Income: 102%
  - 96% of Net Income Returned to Shareholders
  - 5% Annual Share Reduction
  - Double-digit Dividend Increases

Free Cash Flow Realization supports our model
IBM Portfolio includes:

- Strategic Imperatives for growth
  - Data, Cloud and Systems of 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

These areas of the portfolio cut across all business segments
IBM Portfolio

2013 Revenue

<table>
<thead>
<tr>
<th>Portfolio Mix</th>
<th>Software $26B</th>
<th>Services $57B</th>
<th>Hardware/Financing $16B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic Imperatives</td>
<td>Recurring Core Franchises</td>
<td>High Value Transactional</td>
</tr>
</tbody>
</table>

Priorities

- Continued Investment for growth
- Double-digit Revenue Growth
- Maintain high mix of Software
- Stable Revenue
- Margin Expansion
- Maintain High Value Strategy
- Maintain Margins
- Optimize Business Model

Signposts

* Divested content represents Customer Care BPO and Industry Standard Servers
Software and Services contributed to Pre-tax Income growth

**Software Segment**
- High margin Software growth

**Services Segments**
- Large annuity content in Services

**Hardware Segment**
- Focus on High End Servers and Storage stabilizes Hardware
  - Divested System x improves margins

2010 excludes PLM Gain
Financial Model

Revenue & Profit

Revenue growth supported by
- Double-digit ‘Strategic Imperatives’ growth
- Stability in the recurring core franchises
- Disciplined acquisitions

Pre-Tax Income growth driven by
- Expanding Gross Profit Margin
- Ongoing Enterprise productivity

Cash Flow

Free Cash Flow Realization in the “90%’s”
- Supports Strategic investments
- Significant return to shareholders
  - Share Repurchase
  - Dividends

“At Least” $20 Operating EPS in 2015
as a point along the way to delivering long term value to clients and shareholders
A Scenario to “at least” $20 Operating EPS in 2015

- Software and Services contribution in line with historical profit growth rates
  - High single-digit Software segment profit growth
  - Mid to High single-digit Services segments profit growth
- Hardware profit flat yr/yr in 2014. Growth in 2015 driven by product cycle and shift to higher value
- Productivity initiatives on track

$16.28

$3.25 +

* Non-GAAP: Excludes acquisition-related charges and non-operating retirement-related expense.
A Scenario to “at least” $20 Operating EPS in 2015

- 2013 Operating EPS* $16.28
- Segments $3.25 +
- Share Repurchase $2.00 +
- Tax ($1.50)
- “At Least” $20 2015 Operating EPS*

* Non-GAAP: Excludes acquisition-related charges and non-operating retirement-related expense.