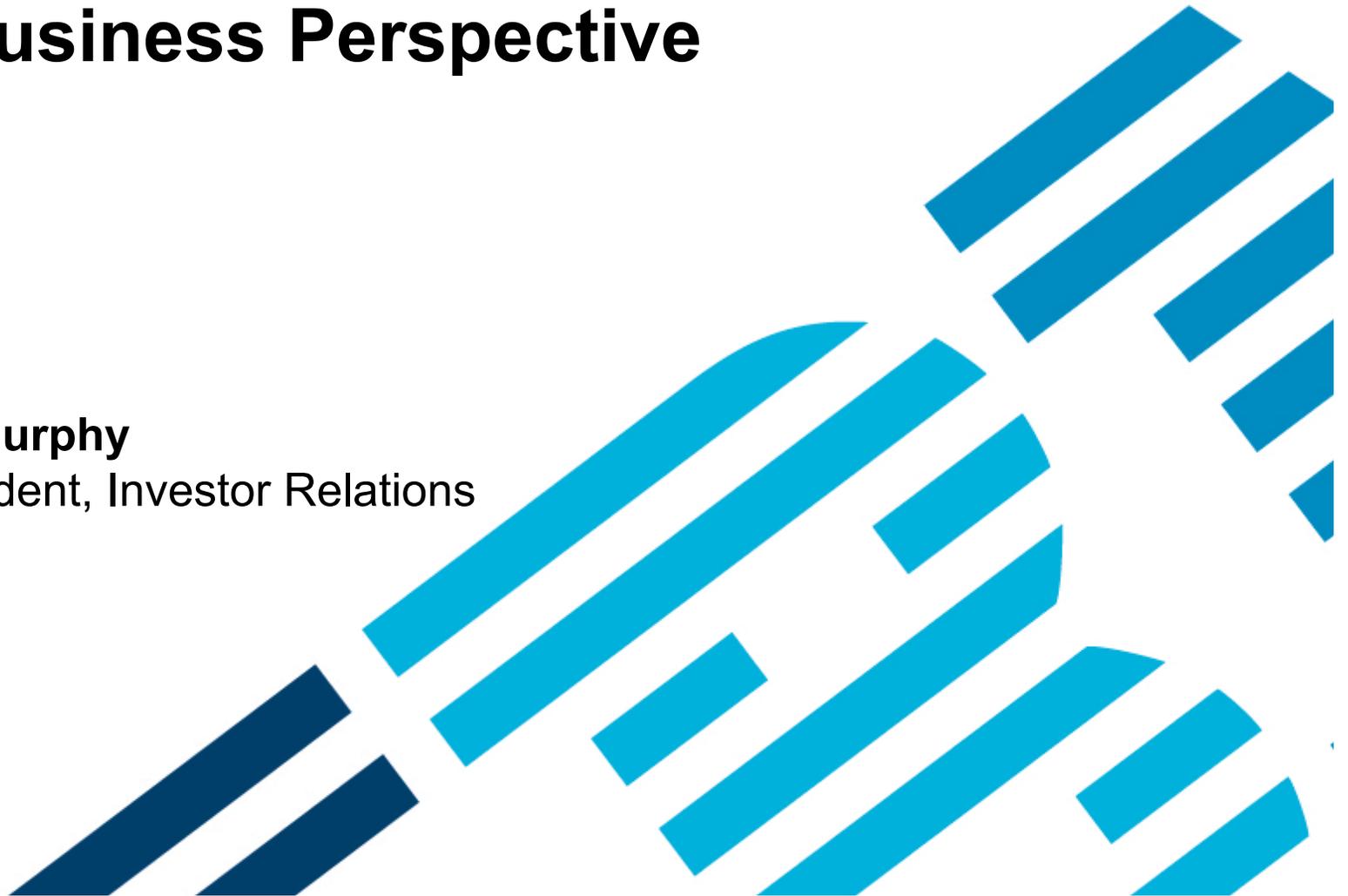


IBM Business Perspective 2014

Patricia Murphy
Vice President, Investor Relations



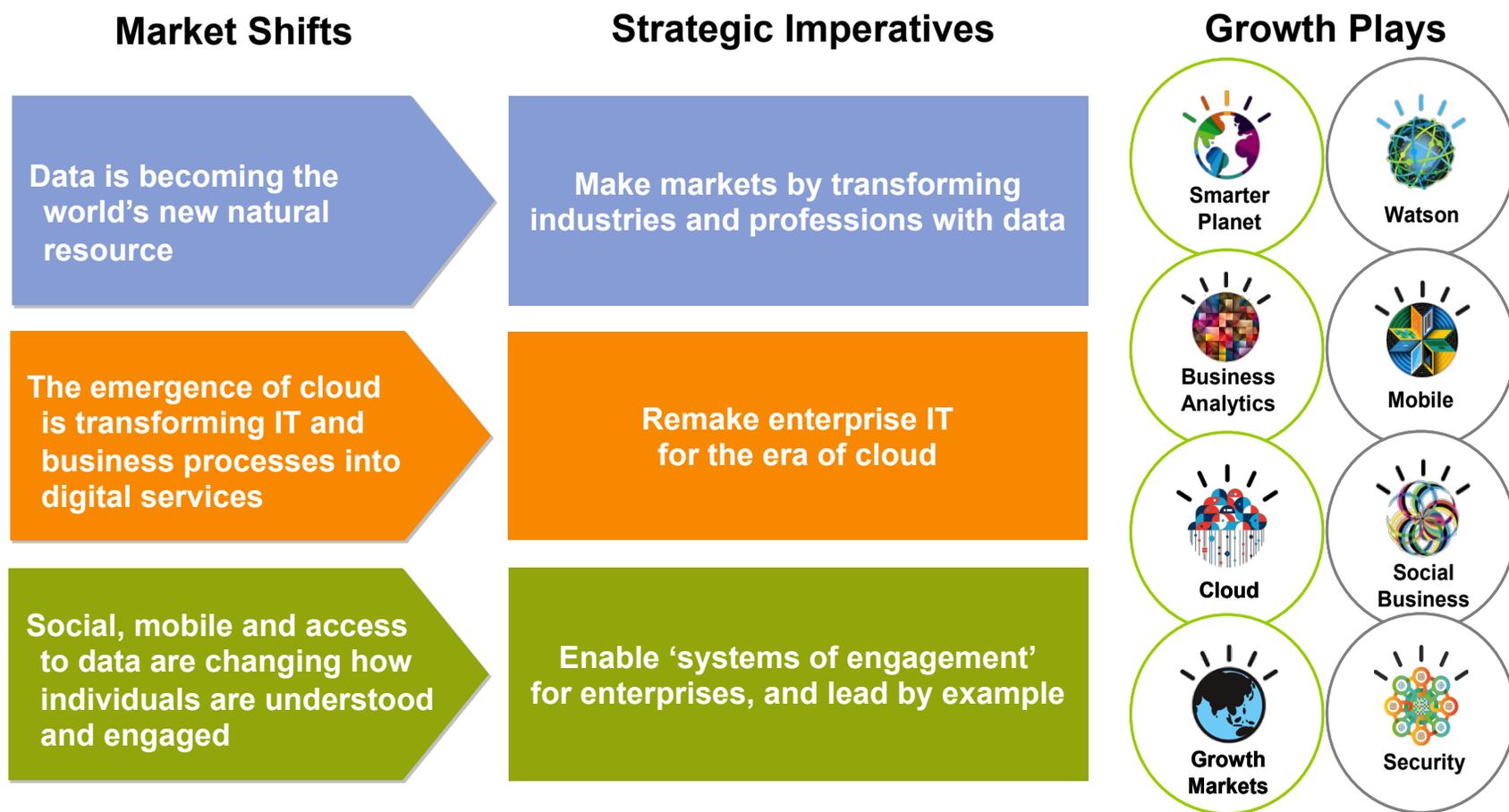
Certain comments made in this presentation may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the Company's current assumptions regarding future business and financial performance. These statements by their nature 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



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.

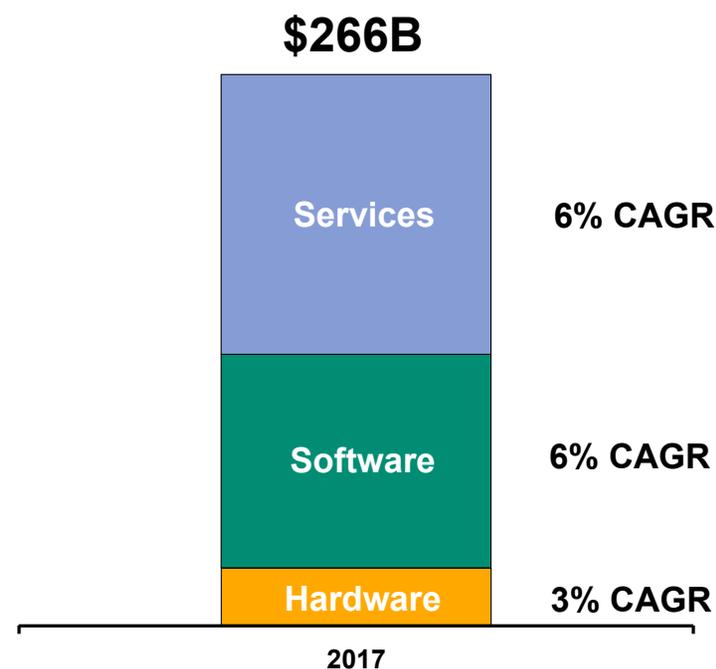
There are **2.5 billion** gigabytes of data generated every day...

... 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

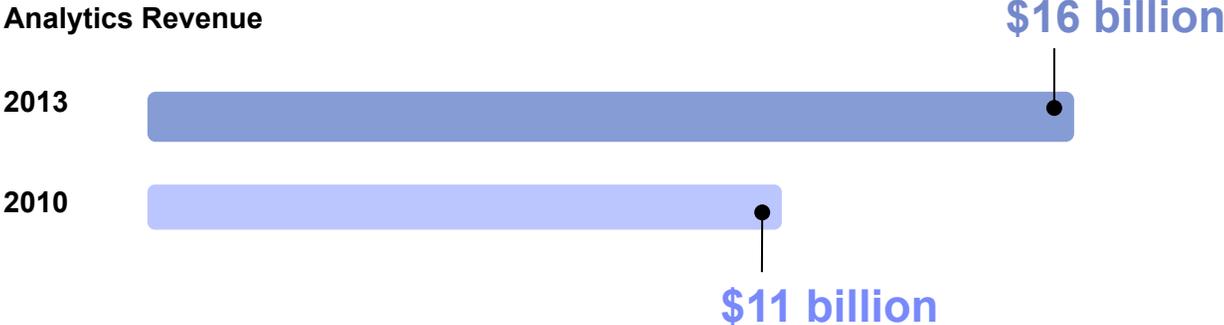
analytics patents generated each year

2/3

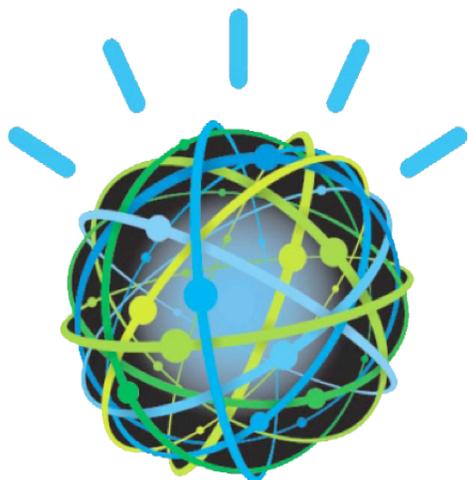
of IBM Research is focused on data, analytics and cognitive computing

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



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

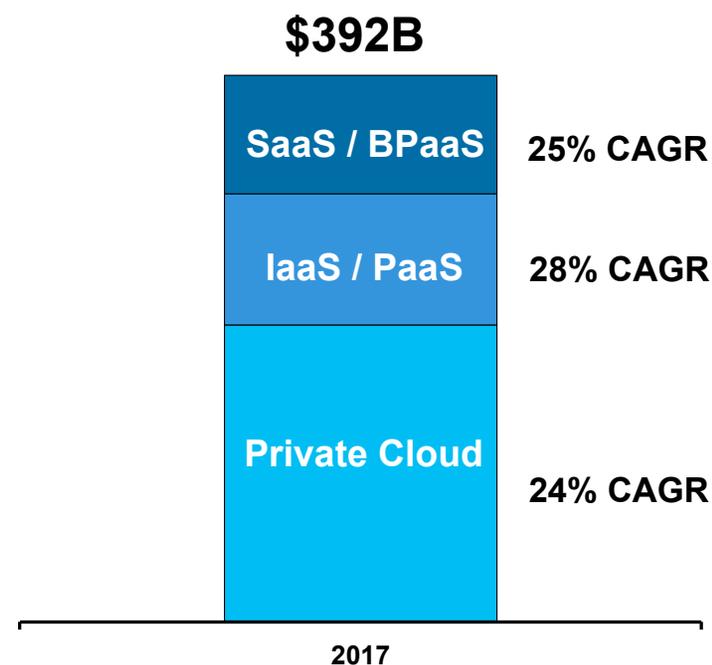
Open standards driving new class of innovation

Expanding role of Service Providers

By 2017, cloud spend will be **\$392B.**

Cloud Market Opportunity*

25% CAGR through 2017



*Source: IBM Market Insights, 1H 2014

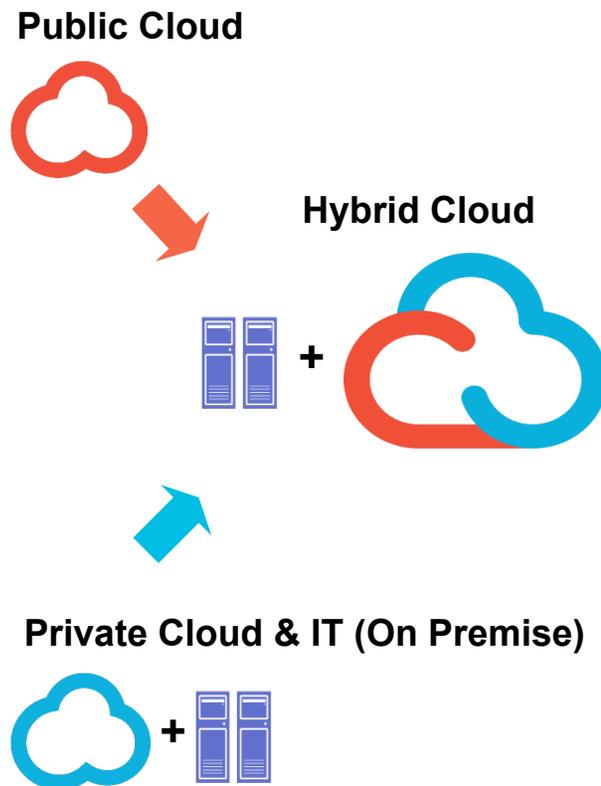
**Source: Gartner, p.6, Private Cloud Matures, Hybrid Cloud is Next, Gartner G00255302, Sept 6, 2013

***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



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

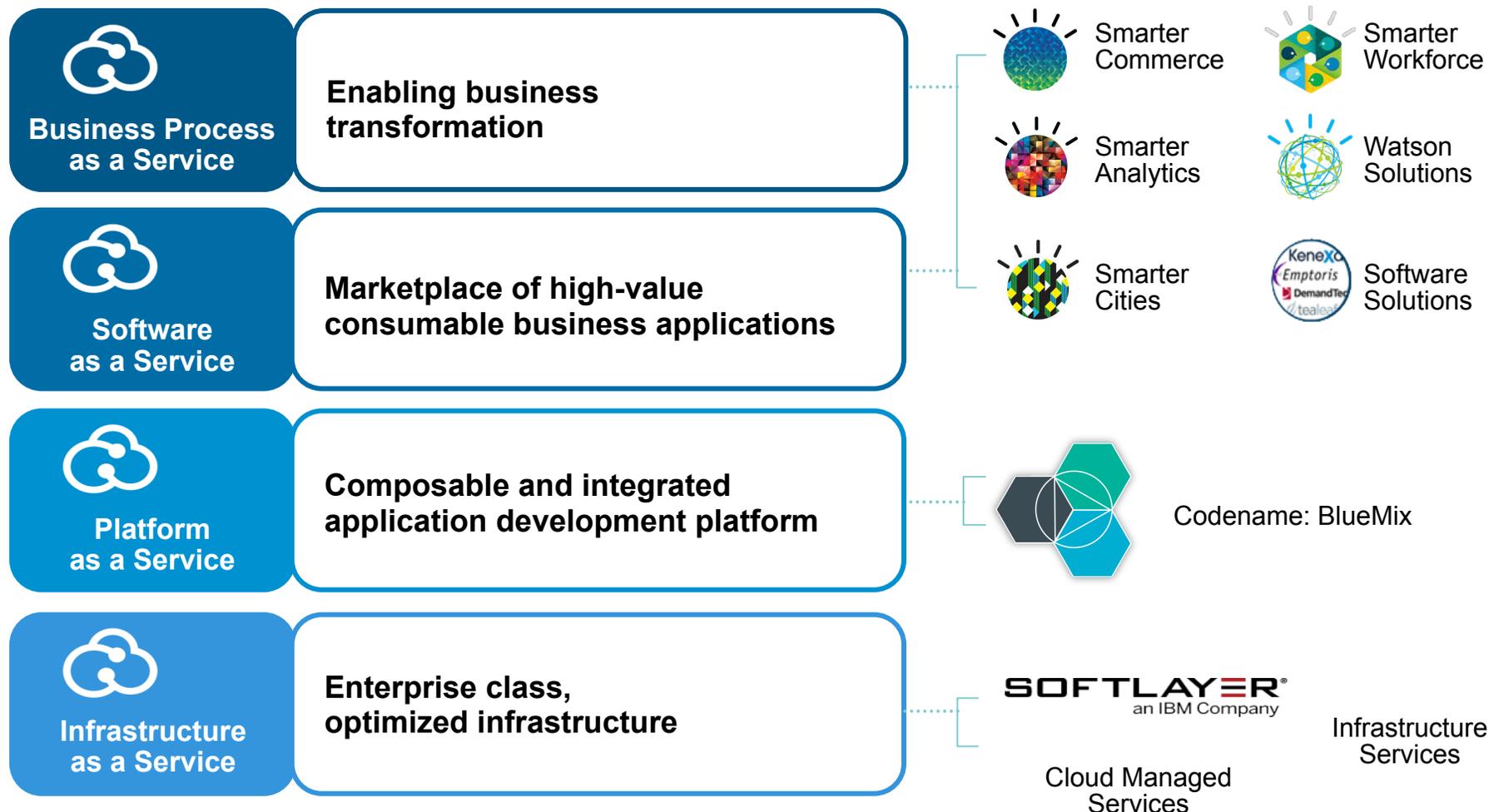
Enterprises prefer hybrid

- 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.



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

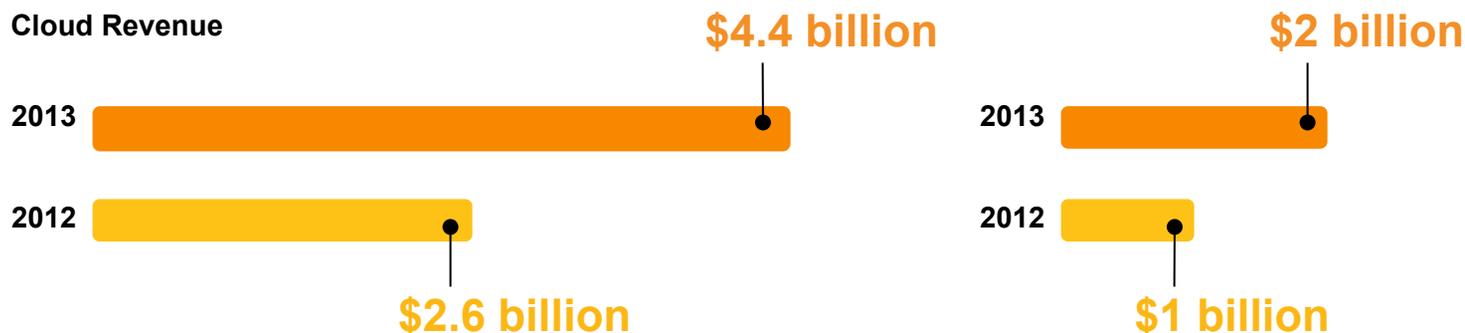
100 +

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.



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*

Mobile

\$103B
In 2017 **18%**
CAGR



Social Business

\$89B
In 2017 **9%**
CAGR



Security

\$74B
In 2017 **7%**
CAGR



*Source: IBM Market Insights, 1H 2014

IBM's portfolio enables enterprises and communities to engage customers, employees and citizens securely

6,000

security experts,
3,000 mobile experts,
2,800 social business experts

4,300

patents in mobile, social
and security technologies

#1 and #1

market leader for
enterprise social software;
market leader in security and
vulnerability management*

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

8

companies acquired for
mobile capabilities like
mobile messaging for
marketers and secure
mobile app delivery

12

companies acquired for
security technologies like
web fraud detection,
sophisticated malware,
and device management

25

security labs globally,
10 security operations
centers globally

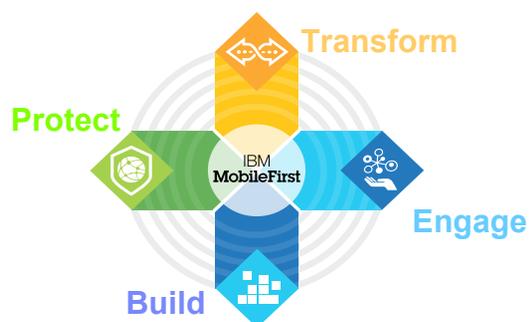
15 billion

security events monitored
in 130 countries

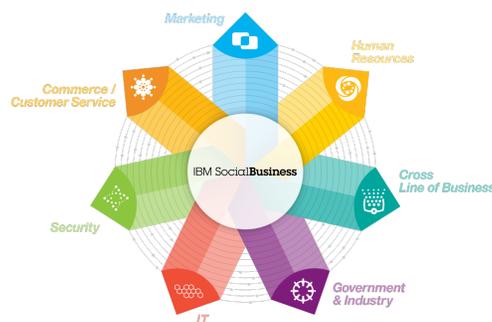
*IDC, Worldwide Enterprise Social Software 2013-2017 Forecast and 2012 Vendor Shares, Doc #241323, June 2013
IDC, Worldwide Security and Vulnerability Management 2013-2017 Forecast and 2012 Vendor Shares, Doc #242465, August 2013

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

69% growth in Mobile



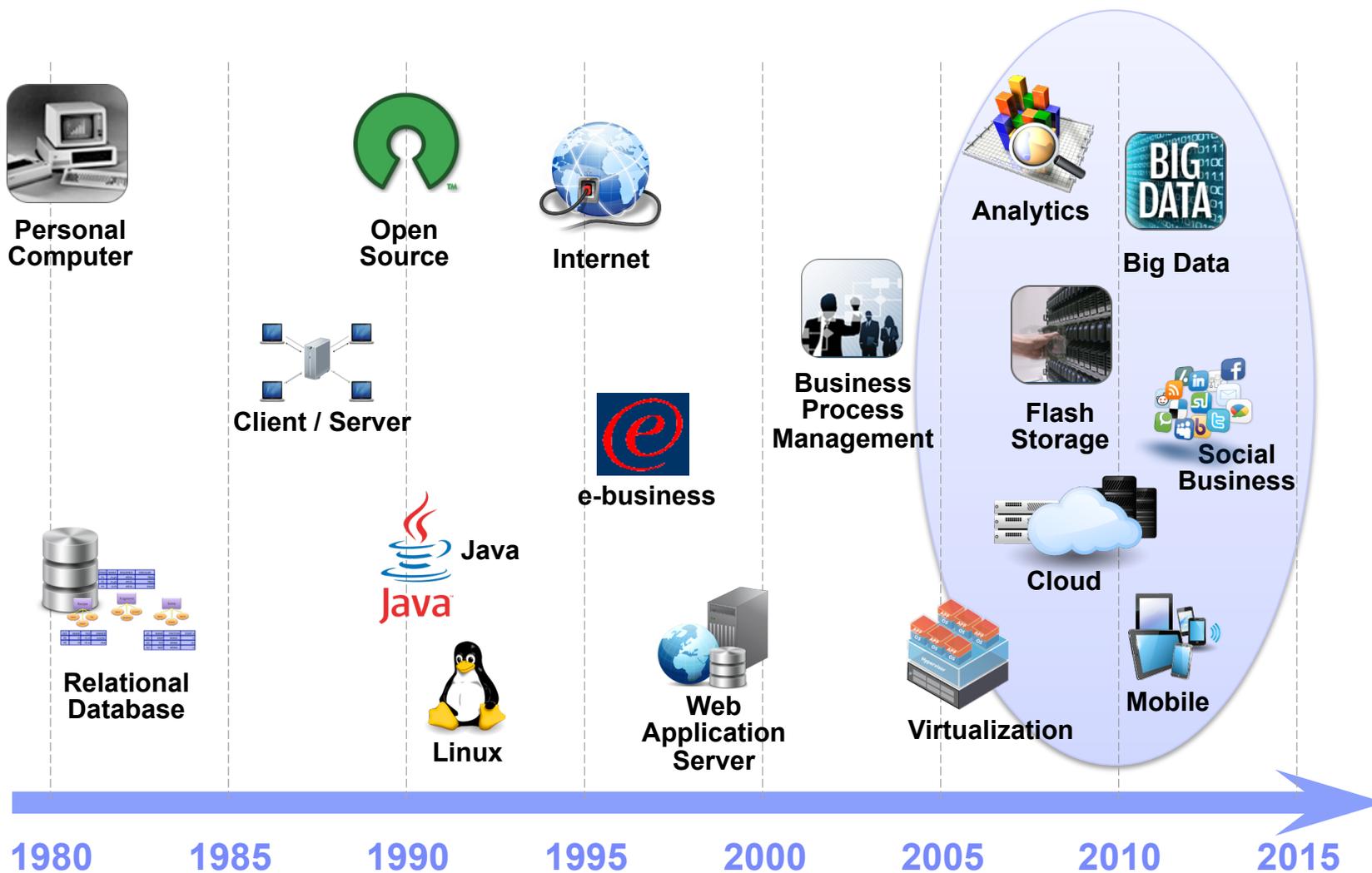
45% growth in Social Business



19% growth in Security



The IT sector continues to evolve



IBM has built a culture of continuous transformation to create and capture value in an ever changing market

- | | |
|---|-----------------------------------------------------------------------------------|
| 1 | We remix our portfolio to higher value |
| 2 | We make new markets and engage new buyers |
| 3 | We reinvent core franchises for a new era of computing |
| 4 | We reinvent the enterprise itself for greater value and productivity |
| 5 | We enable expert, engaged employees to deliver a differentiated client experience |



IBM remixes its portfolio to higher value

1

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 reinvents core franchises

3

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

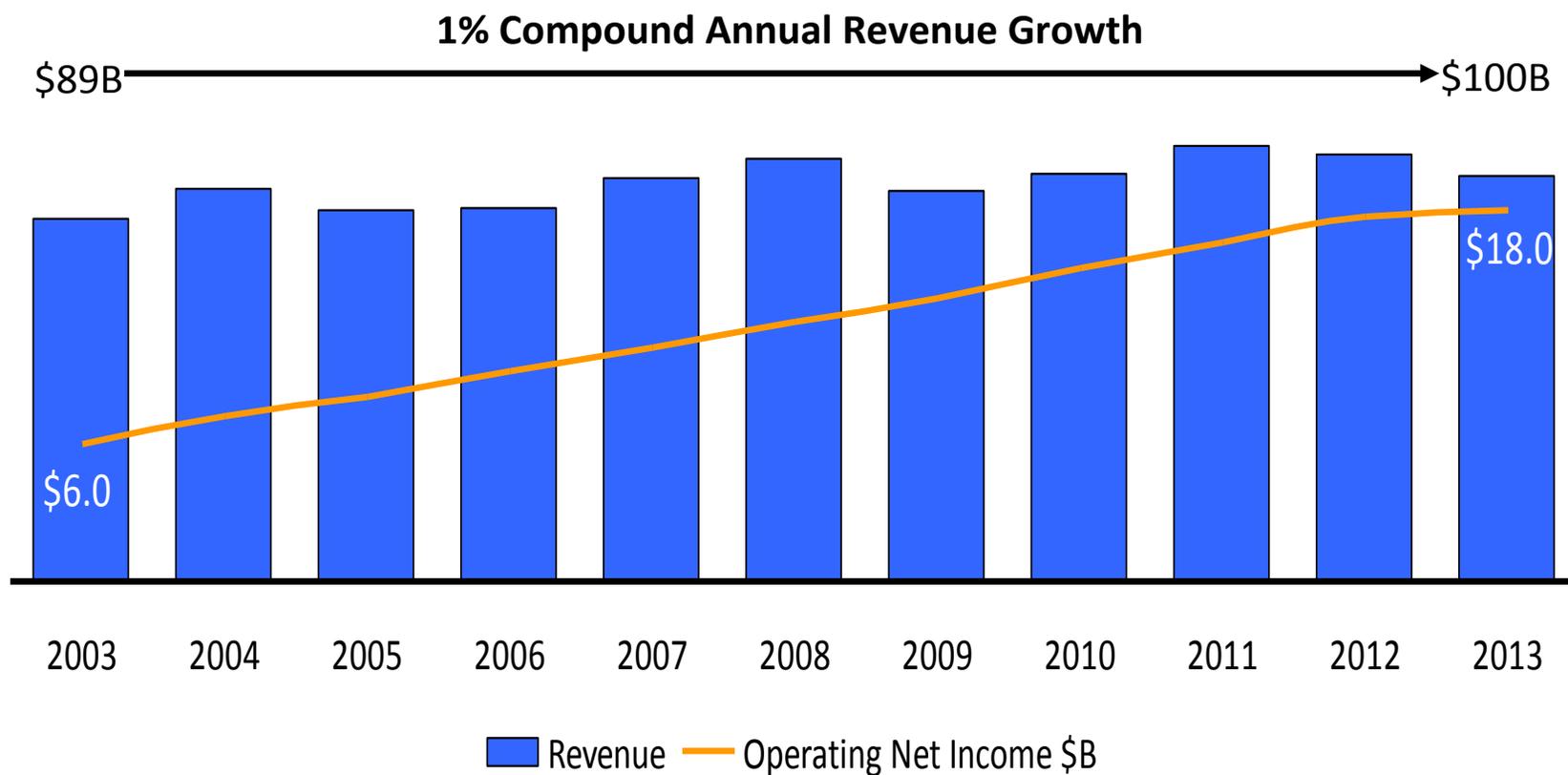
- **60%** of revenue, **75%** of pre-tax income
- Stable revenue with improving margin

Agenda

- Strategic Overview

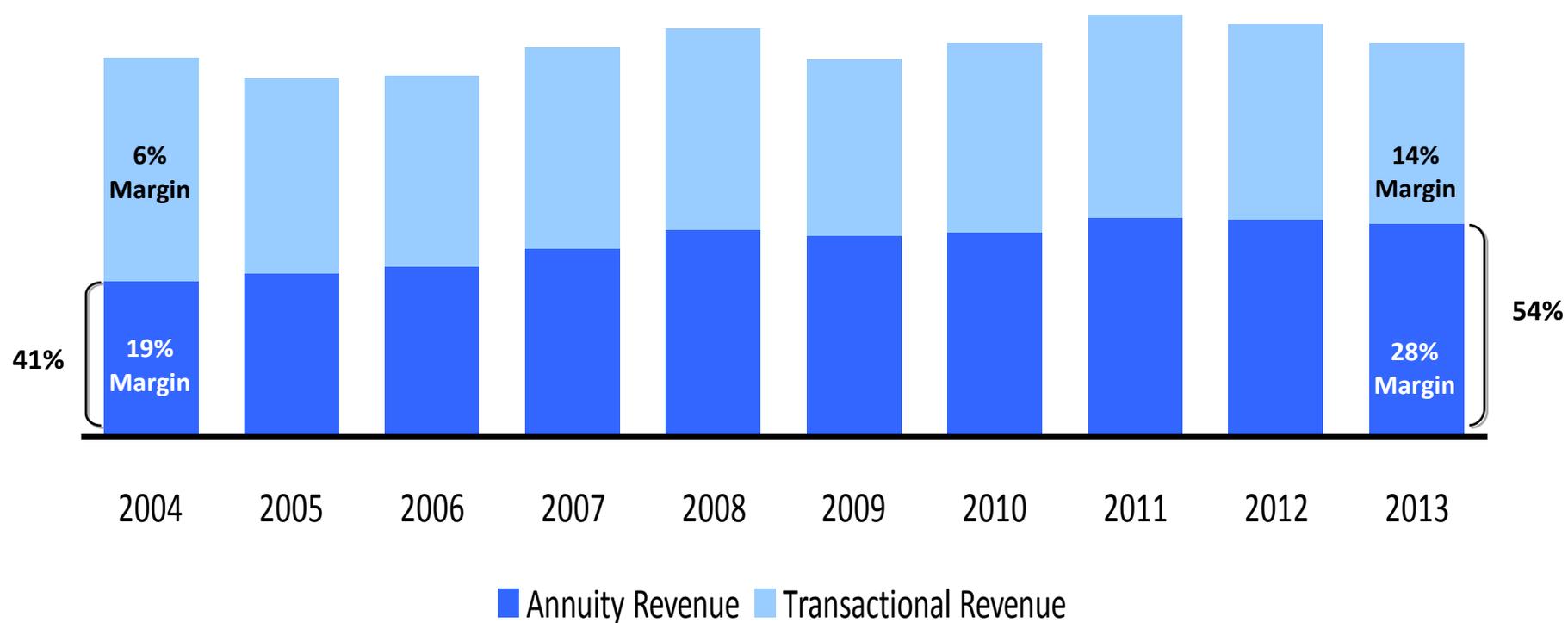
- Financial Overview

12% compound growth in Operating Net Income driven by shift to higher value



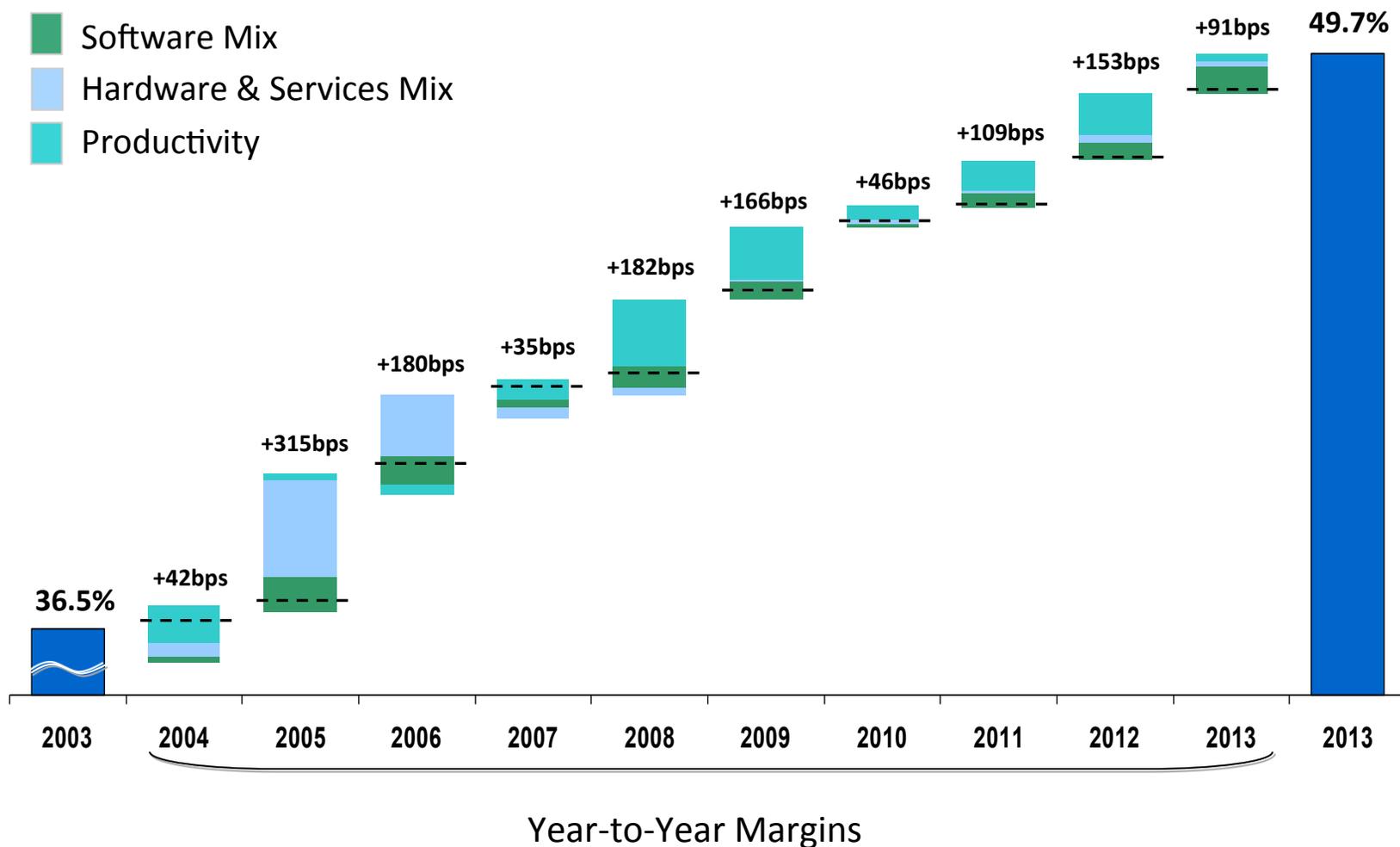
~3% CAGR excluding Divested Revenue: PC, Printers, PLM, Retail Store Solutions

Growth in annuity content at higher margins



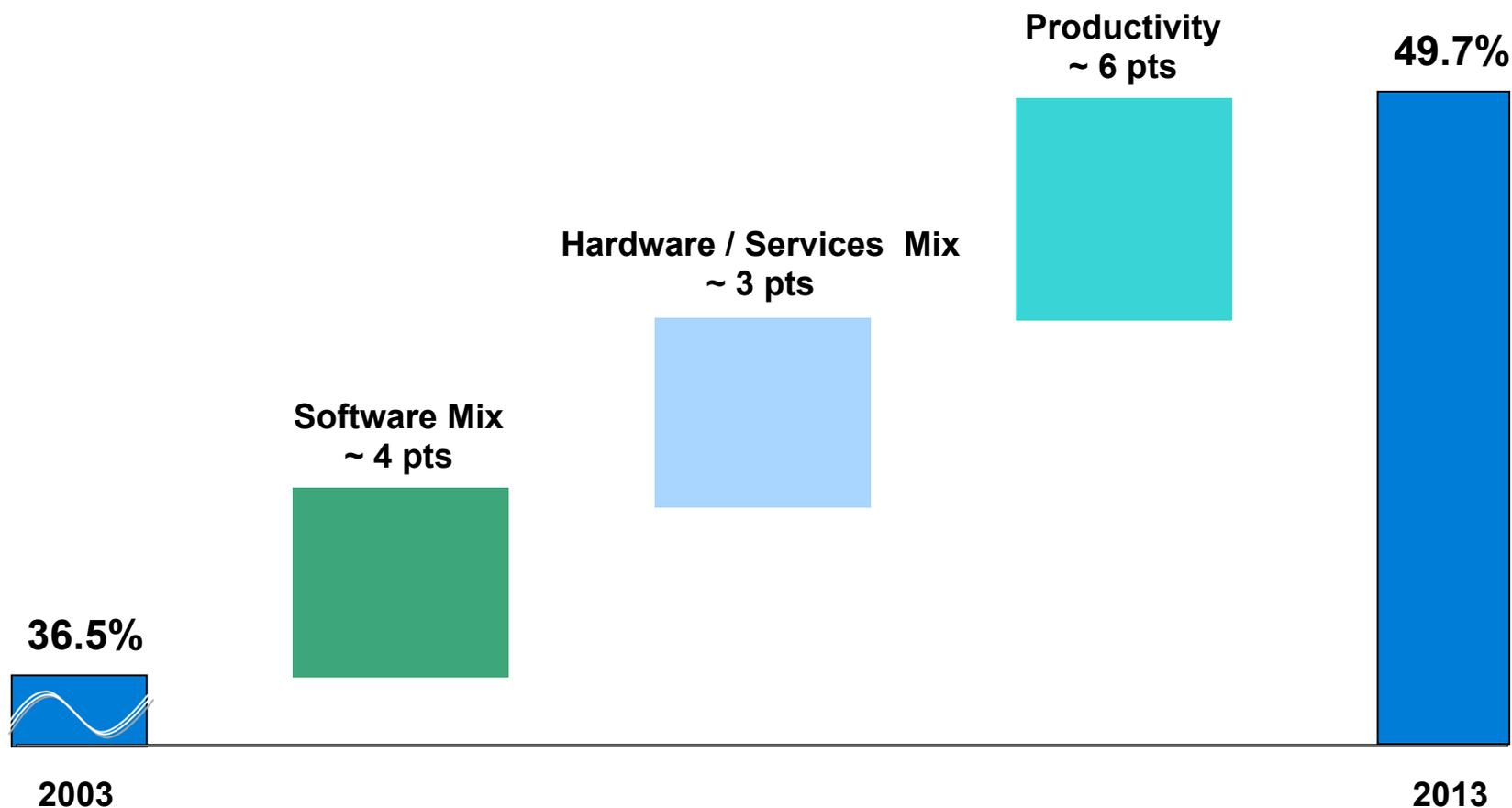
PTI margins modeled based on a combination of revenue and GP margin contribution

Gross profit margin expansion in each year over the last decade...



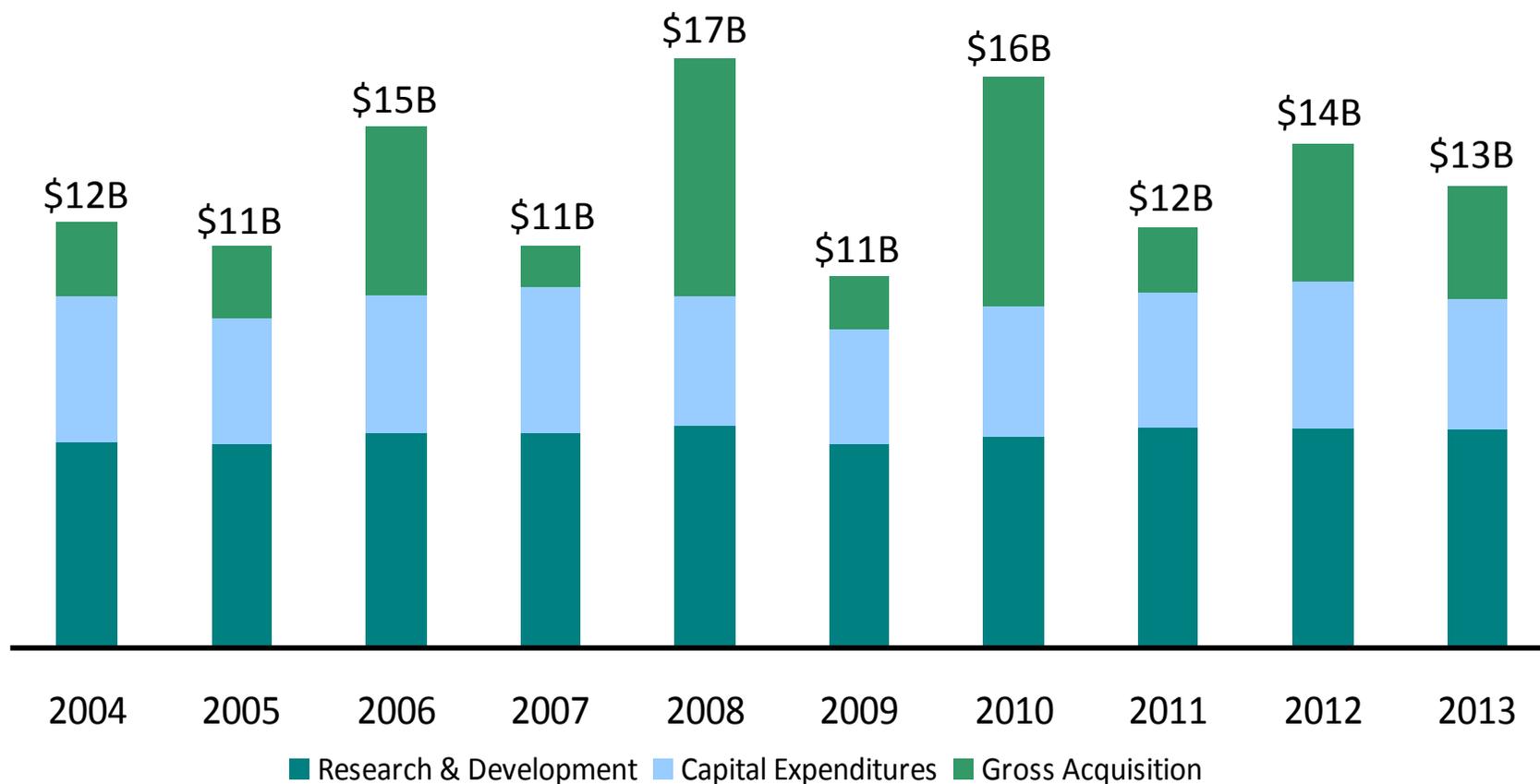
... driven by mix and productivity

- 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



Capital Expenditures excludes rentals and dispositions

Acquisitions aligned with Strategic Imperatives

Strategic Imperative acquisitions

(2005 - 2013)

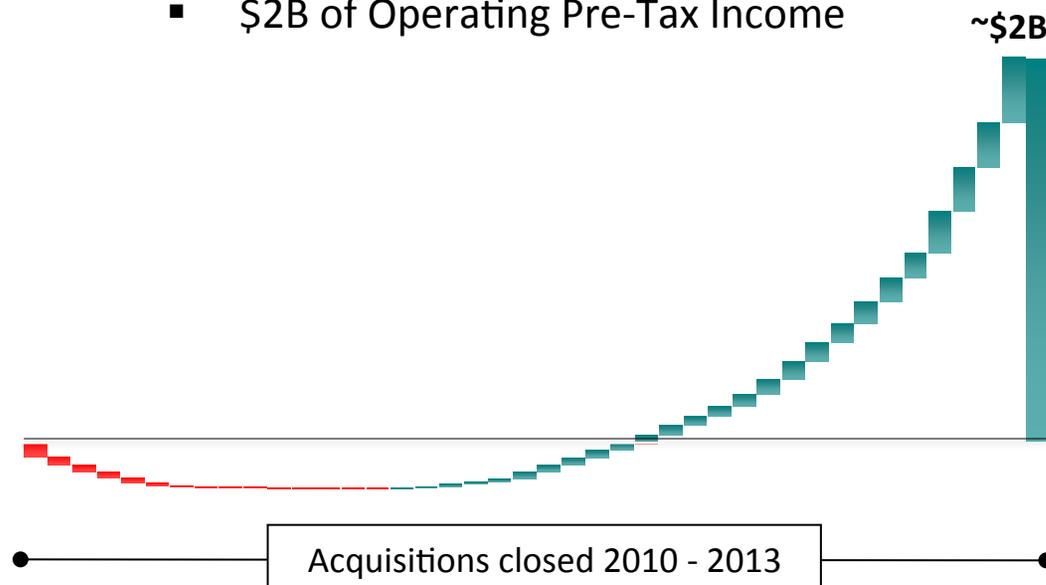
- **30** Data
- **15** Cloud
- **8** Mobile
- **12** Security



- Scalable intellectual property
- Key to solutions offerings
- Leverage synergies through global distribution

Acquisition Operating PTI

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

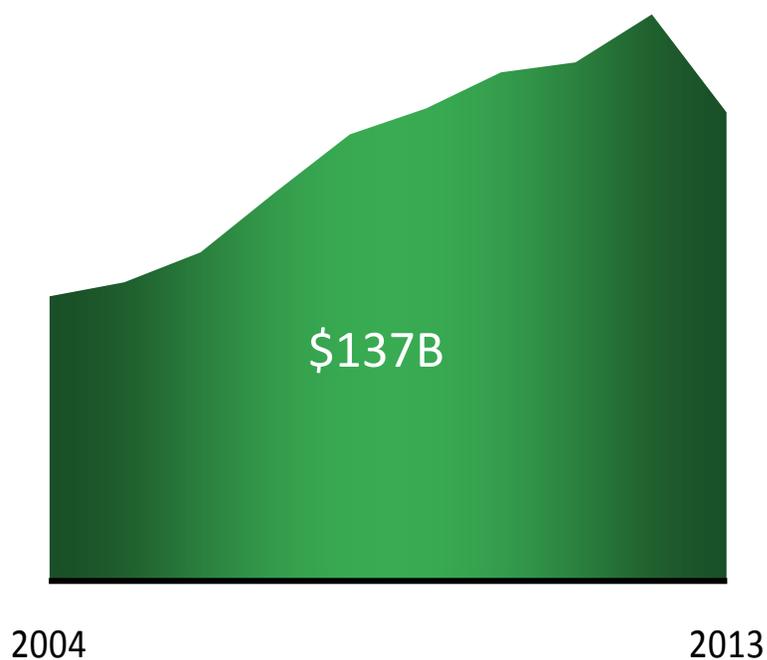


Operating (non-GAAP) Pre-Tax Income

Free Cash Flow and cash utilization balanced over the long term

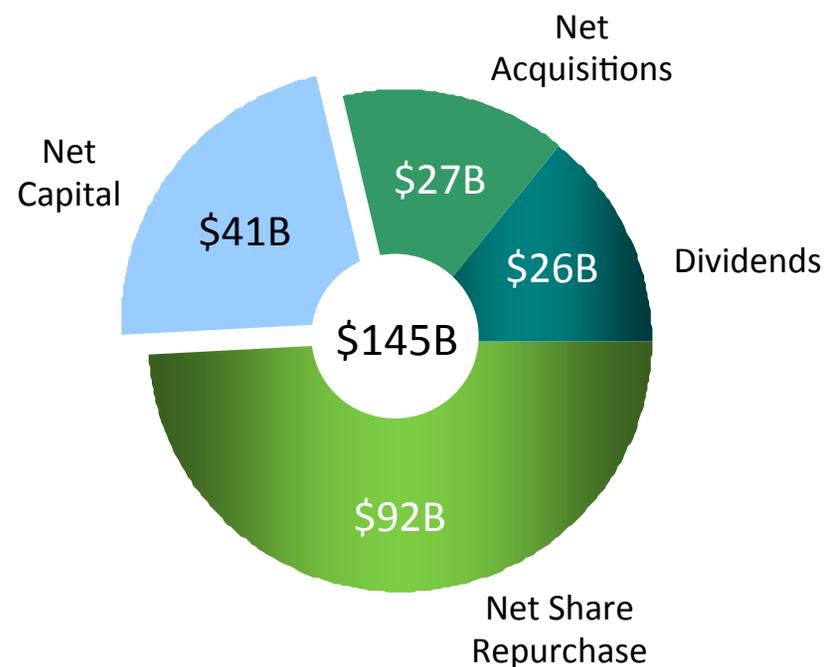
Free Cash Flow

\$125B driven by Net Income



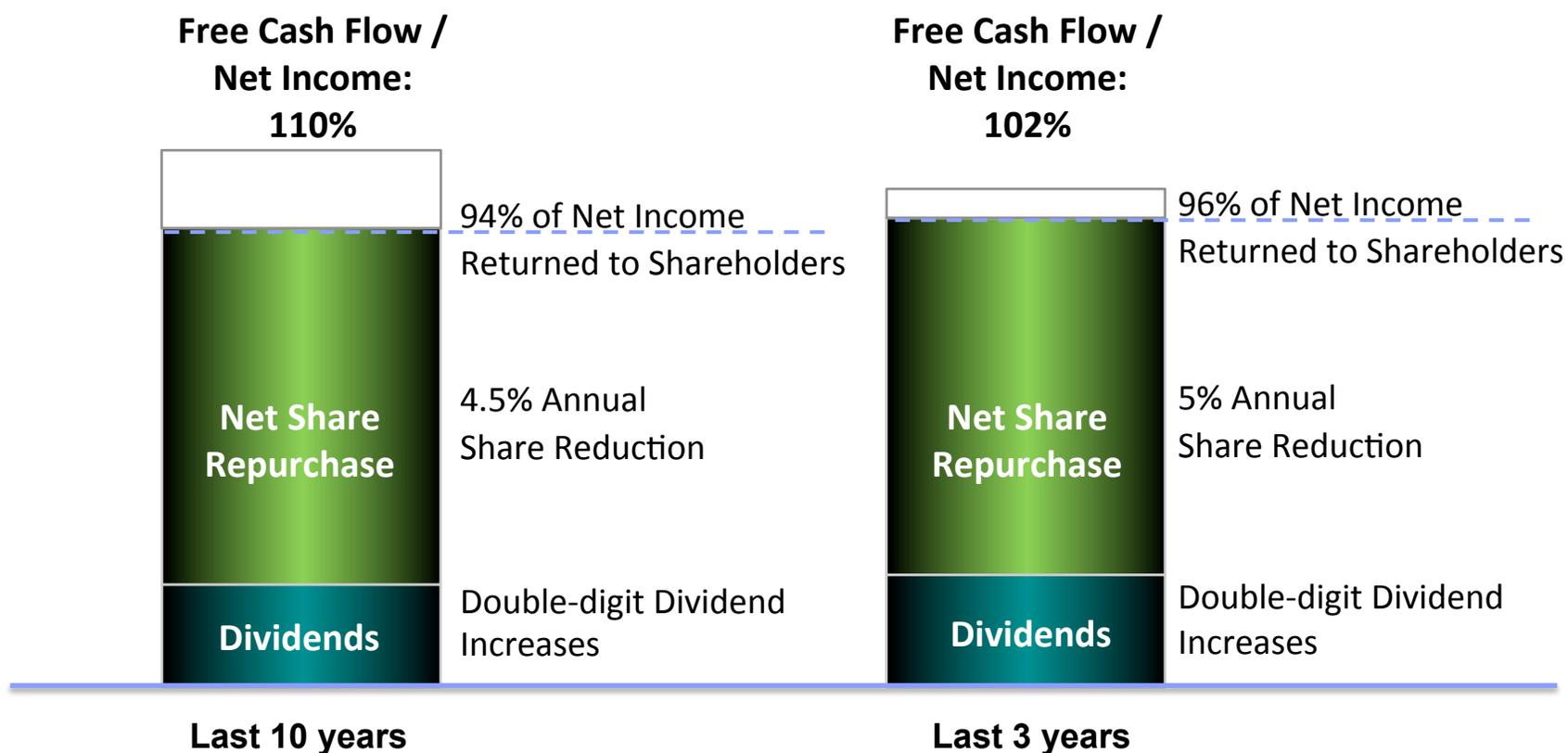
Primary Cash Uses

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



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

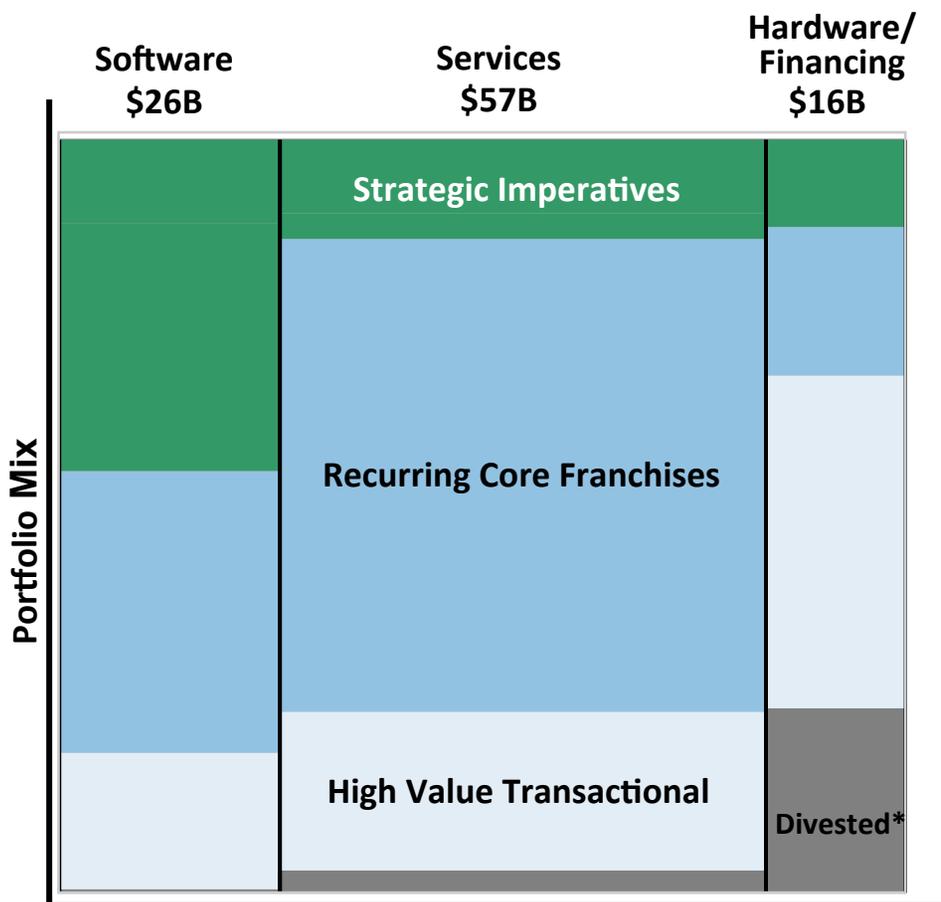
- High Value Transactional Businesses

- Divested Content

These areas of the portfolio cut across all business segments

IBM Portfolio

2013 Revenue



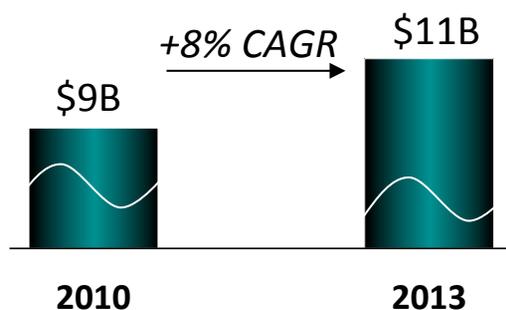
Priorities	Signposts
<ul style="list-style-type: none"> Continued Investment for growth 	<ul style="list-style-type: none"> Double-digit Revenue Growth Maintain high mix of Software
<ul style="list-style-type: none"> Profit and Cash Flow for Investments 	<ul style="list-style-type: none"> Stable Revenue Margin Expansion
<ul style="list-style-type: none"> Maintain High Value Strategy 	<ul style="list-style-type: none"> Maintain Margins Optimize Business Model

* Divested content represents Customer Care BPO and Industry Standard Servers

Software and Services contributed to Pre-tax Income growth

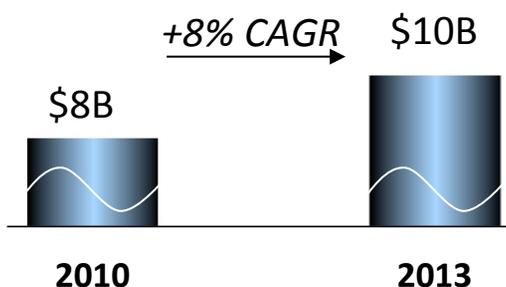
Software Segment

- High margin Software growth



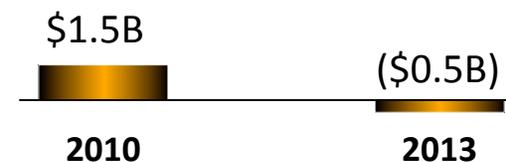
Services Segments

- 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

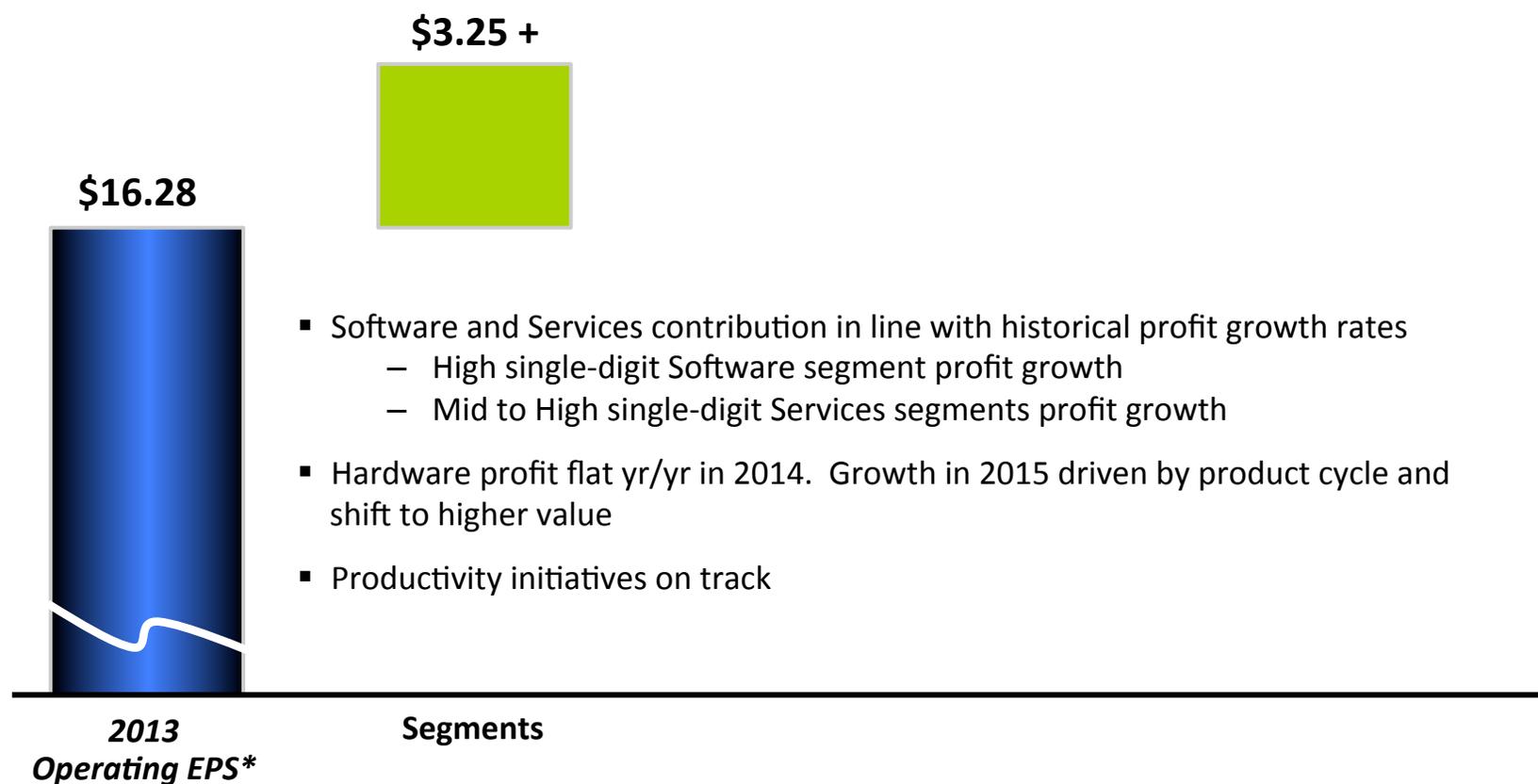
Cash Flow

Free Cash Flow Realization in the "90%'s"

- Supports Strategic investments
- Significant return to shareholders
 - Share Repurchase
 - Dividends

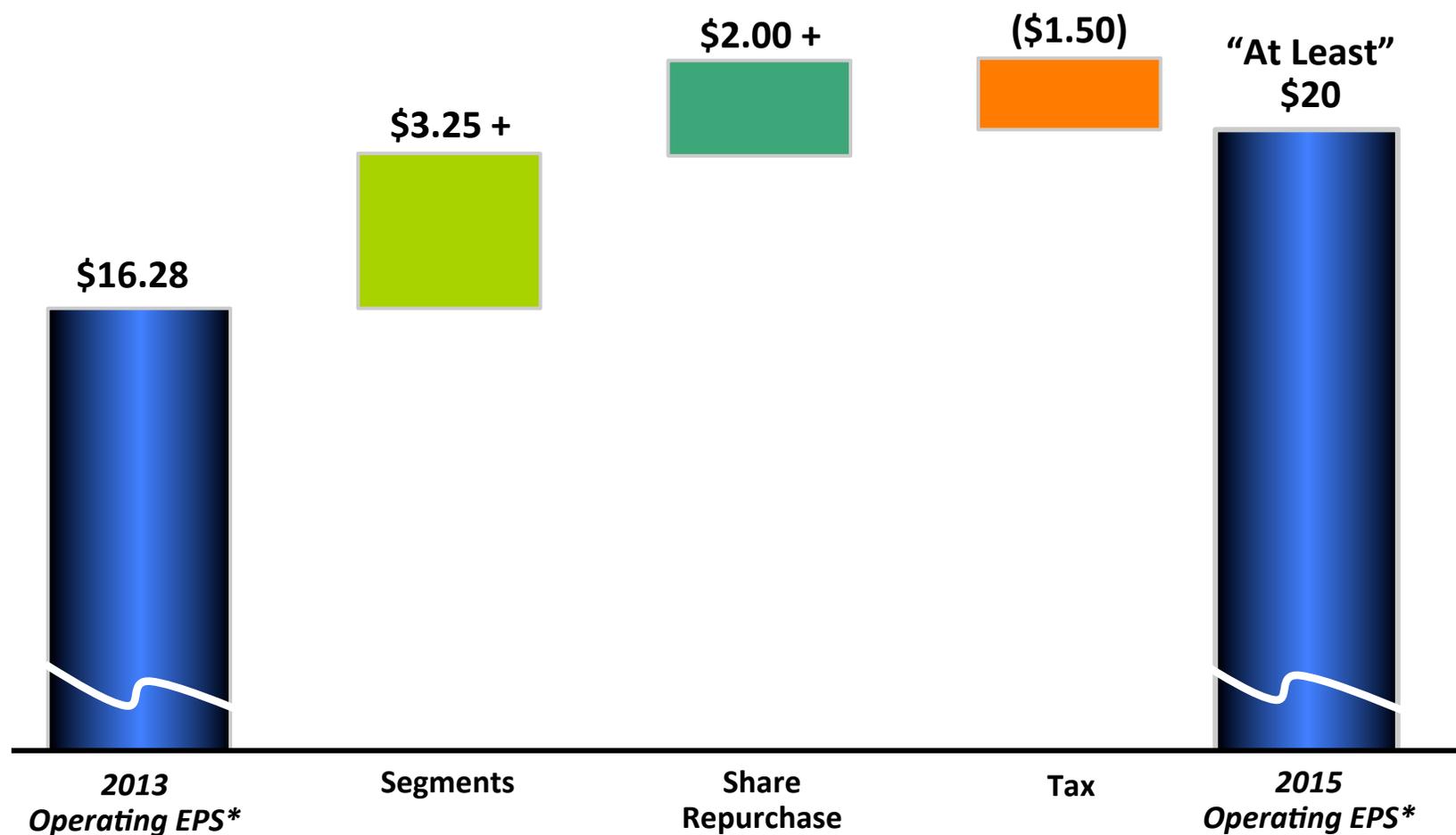
"At Least" \$20 Operating EPS in 2015
as a point along the way to delivering long term value to clients and shareholders

A Scenario to “at least” \$20 Operating EPS in 2015



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

A Scenario to “at least” \$20 Operating EPS in 2015



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

