Arvind Krishna
Chairman, President and Chief Executive Officer

Dear IBM Investor:

In 2024, IBM made significant progress in becoming a higher growth, higher margin business. We made this progress by combining technology innovation and consulting expertise to drive growth, improve productivity, and enhance operational efficiency -- for our clients, and our own company.

Our strategy continues to build upon the two technological foundations of AI and hybrid cloud, which clients need to unlock the full value of their data. We have made a series of investments to accelerate the delivery of that value to our clients, from transforming the way we work to reorienting our portfolio around powerful, AI-based solutions.

As this report demonstrates, these investments are paying off, delivering meaningful returns for our shareholders, clients, and partners. Today, IBM is a software-led, fully integrated platform company, built to grow sustainably. This is the ROI of IBM.

2024 Performance

For the year, IBM generated $62.8 billion in revenue, up 3% at constant currency, and $12.7 billion in free cash flow — an increase of $1.5 billion year-over-year. Our generative AI book of business now stands at more than $5 billion since inception. This revenue growth and cash generation enabled us to make significant investments in the business and deliver value to our shareholders. In 2024, we allocated more than $7 billion to research and development, closed 11 acquisitions to enhance our capabilities, and returned more than $6 billion

| Software | Consulting | Infrastructure |
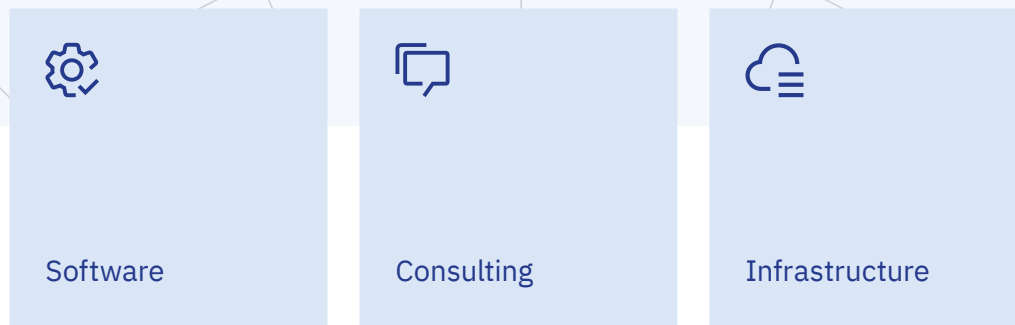
to shareholders through dividends. IBM expanded operating gross profit margin by 130 basis points in 2024, driven by a focus on high-value offerings and productivity initiatives.

Software revenue grew 9% at constant currency, reflecting strong demand for our advanced capabilities in hybrid cloud, data and AI, automation, transaction processing, and security. Red Hat performed well as clients embraced its open hybrid cloud platform.

Consulting revenue increased 1% at constant currency, demonstrating our clients' continued need for expertise in AI deployment, digital transformation, and cloud modernization, despite a dynamic market environment.

Infrastructure revenue declined 3% at constant currency, in line with product cycle expectations. IBM z16 is now the most successful mainframe program in our history, highlighting its enduring value to clients.

Technology innovation and consulting expertise

IBM's mission to help businesses leverage technology to scale and grow profitably is more critical than ever. Technology is now the key to sustainable growth and business transformation.

At the core of these transformations is artificial intelligence. Our clients have moved beyond experimentation and are now looking to scale AI in their businesses and generate return from their investments. To achieve that return, they need access to effective, affordable, and efficient enterprise AI.

IBM has established an early leadership position in this regard, building a portfolio of enterprise AI offerings focused on generating ROI through productivity improvements and automation. IBM watsonx provides a robust portfolio of AI products for developing AI apps, managing data, and governing the entire lifecycle of AI models. AI assistants manage key tasks, including customer service and writing code. We are developing pre-built AI agents that deliver multitask reasoning for specific business domains. And our Granite family of fit-for-purpose AI models, when tuned with proprietary data, can deliver enterprise-grade generative AI with up to 90% improved cost efficiency. Granite allows clients to bring their own data into the models, and can be trained on that data in weeks, not months.

Deploying AI at scale across an enterprise requires seamless access to the data that feeds it. In this way, hybrid cloud is an essential ingredient for maximizing the return of AI investments. That is why 75% of AI deployments are expected to use containers by 2027, and demand for our hybrid cloud solutions remains strong.

Already, more than 90% of Fortune 500 companies are using IBM's hybrid cloud products and solutions. And last year, we launched two new offerings to give clients a consistent, open-source foundation for AI: Red Hat Enterprise Linux AI and OpenShift AI. Together, our AI and hybrid cloud platforms bring together the data, models, governance and monitoring capabilities needed to automate workflows and drive productivity. And they create a flywheel of growth for IBM, with each offering pulling through demand for the others.

A driving force behind this flywheel of growth is IBM Consulting, which fuels approximately 80% of our AI bookings. IBM is the only technology company with a consulting business at scale, which is a unique differentiator, especially when it comes to helping clients deploy AI. Our 160,000 consultants apply their data, AI and hybrid cloud expertise to guide business transformation for our clients. In 2024, we augmented that expertise with a new platform called IBM Consulting Advantage. By equipping our consultants with role and domain-specific AI assistants, agents, and applications, IBM Consulting Advantage enables deeper insights, faster time-to-value, and improved efficiency compared to traditional consultancy approaches.

Supporting this work is a powerful combination of processing and storage infrastructure built to handle data-intensive workloads with security and reliability. In 2024, we announced architecture details for the Telum II processor and the Spyre AI Accelerator, designed for next-generation IBM Z mainframe systems that power generative AI at scale. And our storage business continued to grow as a premier data management platform for hybrid cloud and enterprise AI, while also helping to prevent cyber-attacks.

In addition to these offerings, we continue to remix our portfolio through strategic acquisitions – such as Neural Magic, StreamSets and webMethods – to bolster our software-based AI and hybrid cloud capabilities.

Our go-to-market approach
Over the last five years, we have improved the way IBM goes to market, embracing a broad ecosystem of partners, developing experiential and technical sales methods, and adopting our own technology first, before we deploy it with clients.

We are also pioneering the model of a software-led, integrated enterprise that is driving value for our clients and growth for IBM. At the end of 2024, software represented approximately 45% of IBM's total revenue. These solutions, in turn, generated demand for our full suite of integrated offerings: approximately 80% of IBM's revenue is generated by clients that buy across all three of our business segments (Software, Consulting, and Infrastructure).

Increasingly, clients come to IBM through a thriving partner ecosystem, which has been essential in helping our clients capitalize on the massive growth and transformation opportunities presented by hybrid cloud and AI. We recognize that no single company can provide all the technology and skill needed to drive digital transformation. So, we have strengthened our strategic partnerships with key industry leaders like AWS, Microsoft, Salesforce, SAP, Palo Alto Networks, and Oracle. These partnerships serve our clients better and create a multiplier effect for IBM.

Additionally, IBM has adopted a "client zero" philosophy, meaning we benefit from the same technology solutions we offer to our clients. In particular, we have aggressively adopted AI-powered automation to drive productivity. For example, 94% of IBM's basic HR queries are now answered by an AI assistant. Our contract drafting process is now 80% faster. Overall, we have delivered approximately $3.5 billion in productivity savings since the beginning of 2023. These efforts are not just about efficiency. They are the engine of innovation and growth that allows us to invest in our business and serve our clients better.

A new era of innovation
The mission of IBM Research has always been to invent what's next in computing – creating solutions that meet the needs of our clients, thereby defining the future of information technology. Today, Research is driving powerful innovations across hardware, software, hybrid cloud, AI, and quantum computing, all of which creates value for our clients and growth opportunities for our company.

For example, to better serve clients who told us that the large, unwieldy generative AI models on the market were too unreliable and expensive, IBM Research developed the open and trusted Granite family of models, released under the permissive Apache 2.0 license. The models deliver strong performance across many academic and enterprise benchmarks at a fraction of the cost.

Quantum computing is another example of IBM Research's leadership. We have deployed more than 70 quantum systems, with more than 250 organizations joining our IBM Quantum Network. We have also scaled the industry's best-performing quantum software with Qiskit. In 2024, we introduced the IBM Quantum Heron processor, with reduced error rates, 16 times better performance, and a 25-fold increase in speed over previous systems. We expanded our IBM Quantum Data Center in Poughkeepsie, New York and opened the first IBM Quantum Data Center in Europe

(Ehningen, Germany). We also announced a partnership with the State of Illinois to build the National Quantum Algorithm Center in Chicago and deploy a next-generation IBM Quantum System Two, supporting the future of quantum-centric supercomputing.

Going forward, IBM Research will continue to build and optimize computing architectures that allow enterprises to move and process data seamlessly between GPUs, CPUs, and QPUs, solving previously unsolvable problems for businesses and the world.

The ROI of IBM

At IBM, we expect all investments to yield a return. That is evident in the increasing value we are delivering for our shareholders, clients, and employees.

For shareholders, we have delivered 29 consecutive years of dividend increases. And from 2022 through the end of 2024, we created greater than $100 billion in shareholder value and outperformed the S&P 500 by 58 points.

The returns we generate for clients are based on the value we deliver to them, and the trust they place in IBM. For example, NatWest Bank used a virtual agent built with watsonx to improve satisfaction in key areas of customer service by 150%. With the help of IBM Consulting, Cathay Pacific migrated more than 90 critical applications to the cloud with zero downtime, achieving a 70% faster time-to-market, all while improving scalability and security. And Water Corporation modernized its computing infrastructure with a hybrid cloud model built around Red Hat, reducing operation costs by 40% and saving 1,500 hours of manual labor per year.

For the IBMers around the world who invest their time and talent in serving our clients and partners, the return is evident in our culture. The vast majority of our workforce recommend IBM as a great place to work and say they are proud to be IBMers. That culture is fueled, in part, by IBM's commitment to develop the skills our workforce requires to lead the next eras of technology.

As we look ahead, we will continue to drive returns and deliver on our commitment to be the catalyst that makes the world work better. We extend this simple invitation for you to join us on this journey: Let's Create.

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