Agenda

01
IBM Continuous Transformation

02
Unit Focus
• Software
• Global Business Services

03
Segments & IBM Model
IBM Continuous Transformation

Key Drivers

**Last 10 Years**
- Divestitures: (~$13B) (~1.5pts)
- Acquisitions: ~$8B <1pt
- Currency: (~$5B) (>0.5pts)

**Last 5 Years**
- Divestitures: (~$7B) (~1.5pts)
- Acquisitions: ~$4B <1pt
- Currency: (~$10B) (>2pts)

Notes 1, 2

©2016 IBM Corporation
Performance Dynamics

Strategic Imperatives revenue mix:

<table>
<thead>
<tr>
<th>Year</th>
<th>Strategic Imperatives</th>
<th>Core Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>35%</td>
<td></td>
</tr>
</tbody>
</table>

Revenue growth Yr/Yr

<table>
<thead>
<tr>
<th>Year</th>
<th>Strategic Imperatives</th>
<th>Total IBM</th>
<th>Core Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-7%</td>
<td>-7%</td>
<td>-11%</td>
</tr>
<tr>
<td>2014</td>
<td>-7%</td>
<td>-1%</td>
<td>-1%</td>
</tr>
<tr>
<td>2015</td>
<td>-1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2015 Gross Profit Margin

- Strategic Imperatives: 53%
- IBM: 51%
- Core Content: 50%

Note 3: Revenue Yr/Yr @CC from Continuing Ops; excluding divested businesses
### Strategic Imperatives Capabilities and Investments

**Over the last 3 years**

<table>
<thead>
<tr>
<th>Analytics</th>
<th>New Capabilities</th>
<th>Reinventing the Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$6B Investment</td>
<td>200K Developers &amp; 1,500 Partners</td>
<td><strong>POWER8</strong></td>
</tr>
<tr>
<td>13 Acquisitions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cloud</td>
<td>46 Cloud Datacenters</td>
<td><strong>OpenPOWER</strong></td>
</tr>
<tr>
<td>&gt;$7B Investment</td>
<td>1M Bluemix users</td>
<td><strong>Hybrid Cloud</strong></td>
</tr>
<tr>
<td>15 Acquisitions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement</td>
<td>~10K Mobile, Social, Security specialists</td>
<td><strong>IBM Digital Practice</strong></td>
</tr>
<tr>
<td>$3B Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Acquisitions</td>
<td></td>
<td><strong>IBM z13</strong></td>
</tr>
</tbody>
</table>

**Investment = Development + Capex + Acquisition spend**

Developers include data scientists
Gross Profit Margin Performance

Over the last 10 years

- **2005**: 40%
- **Software**: ~5pts
- **Services**: ~4pts
- **Hardware / Other**: ~2pts

Note 2
Gross Profit Margin Performance

- 2005: 40%
- Software: ~5pts
- Services: ~4pts
- Hardware / Other: ~2pts
- as-a-Service build out: (<1/2pt)
- 2015: 51%

Note 2
Pre-tax Income

Key Drivers

Last 10 Years
- Software & Services: $>5B
- Hardware: (~~$1.5B)
- Currency: <$1B

Last 5 Years
- Hardware: (~~$2.5B)
- Currency: (<$1B)
Cash Flow and Cash Utilization

Over the last 10 years

- Cash from Operations: $186B
  - R&D: $58B, reflected in income statement
- Free Cash Flow: $144B

Reinvestment

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>$42B</td>
</tr>
<tr>
<td>Net Acquisitions</td>
<td>$27B</td>
</tr>
</tbody>
</table>

Return to shareholders

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>$33B</td>
</tr>
<tr>
<td>Share count reduction</td>
<td>37%</td>
</tr>
</tbody>
</table>

Note 5
IBM Capabilities

~80% of IBM revenue is from clients who have deployed cross-IBM solutions
IBM Continuous Transformation Summary

- Significant IBM transformation over the last 10 years
- Stable revenue performance
  - Divested lower margin businesses
  - Invested for higher value
- Cash flow supports both reinvestment and return to shareholders

**Longer-term financial model**

- Low single-digit revenue growth
- Mid single-digit pre-tax income growth
- High single-digit EPS growth with return to shareholders
- Free Cash Flow realization in the 90%'s
Unit Focus
2015 Revenue by Segment

Declined in 2015
- Global Business Services: 21% (4% Yr/Yr)
- Software: 28% (4% Yr/Yr)
- Global Financing: 2% (2% Yr/Yr)

Grew in 2015
- Global Technology Services: 39% (1% Yr/Yr)
- Systems Hardware: 39% (8% Yr/Yr)

Engineered shift to Strategic Imperatives
Impacted by flexibility provided to clients

Revenue Yr/Yr @CC from Continuing Ops; excluding divested businesses
Software Flexibility Dynamics

Software transaction performance impacted by flexibility provided to clients

<table>
<thead>
<tr>
<th>Limited Flexibility</th>
<th>High Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individual product purchases and usage limits</td>
<td>• Purchase provides access to a broad catalog</td>
</tr>
<tr>
<td>• Subscription &amp; Support payment based on full license deployment</td>
<td>• Subscription &amp; Support payment based on actual license deployment</td>
</tr>
<tr>
<td>• Deployment model by country</td>
<td>• Global deployment model</td>
</tr>
</tbody>
</table>

Features of a high flexibility model

- Annuity driven by deployment of licenses after the first year
- Licenses in use can grow without additional transactional revenue
- Broader access to a catalog of products drives flexibility
- Tend to be larger clients with large transaction sizes
2015 Software Performance

**Transactional Revenue**  
*(14%) Yr/Yr*

- Non-Top 250 clients’ revenue growing low single digits
- In aggregate, Top 250 clients’ revenue impacted by flexibility
  - >70% of the most flexible contracts with the Top 250 clients

**Annuity Revenue**  
*+1% Yr/Yr*

Driven by deployment

Growth across the client base — Top 250 & Non-Top 250 Clients
Global Business Services Transformation

**Revenue Mix**

<table>
<thead>
<tr>
<th>Year</th>
<th>Strategic Imperatives</th>
<th>Core Content (25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2015</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

**Engineered Shift:** +15pts of mix

**+30K Resources**
- over the last 2 years
  - Re-skill / up-skill
  - Hiring
  - Attrition

**Consulting**

- Driving engineered shift to Strategic Imperatives
- Supported by aggressive skills shift
- Activity declining in traditional consulting areas

<table>
<thead>
<tr>
<th>Adjusted for currency</th>
<th>2015 Revenue Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>$1.0B</td>
</tr>
<tr>
<td>Core Content</td>
<td>($1.7B)</td>
</tr>
<tr>
<td>Total</td>
<td>(~$0.8B)</td>
</tr>
</tbody>
</table>

**Application Management**

- Longer term nature of engagements drives stable performance
Unit Focus Summary

• 2015 software transactional performance impacted by additional flexibility
  • Stable annuity revenue
  • Enables long term client commitment to the platform

• Global Business Services performance driven by engineered shift to growth opportunities in consulting
Segments & IBM Model
2016 Segment Structure

2015 Structure

Software

- Key Branded Middleware
- Other Middleware
- Operating Systems

Global Business Services

Global Technology Services

Systems Hardware

Global Financing
2016 Segment Structure

2015 Structure

Software
- Key Branded Middleware
- Other Middleware
- Operating Systems

Global Business Services

Global Technology Services

Systems Hardware

Global Financing

Software value shifting to new areas

Software
- Solutions Software
- Transaction Processing Software
- Integration Software
- Operating Systems

Software value shifting to new areas

Software
- Solutions Software
- Transaction Processing Software
- Integration Software
- Operating Systems
2016 Segment Structure

2016 structure reflective of management system and consistent with IBM’s Platform & Solutions focus

2015 Structure

Software
- Key Branded Middleware
- Other Middleware
- Operating Systems

Global Business Services

Global Technology Services

Systems Hardware

Global Financing

Software value shifting to new areas

Software
- Solutions Software
- Transaction Processing Software
- Integration Software
- Operating Systems

2016 Structure

Cognitive Solutions
- Solutions Software
- Transaction Processing Software

Global Business Services

Technology Services & Cloud Platforms
- Global Technology Services
- Integration Software

Systems
- Systems Hardware
- Operating Systems

Global Financing

©2016 IBM Corporation
## 2016 Segment Disclosures

<table>
<thead>
<tr>
<th>Cognitive Solutions &amp; Industry Services</th>
<th>New Segments</th>
<th>Revenue Details</th>
<th>Additional Revenue Disclosures</th>
<th>Gross Profit Details</th>
<th>Pre-tax Income Details</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cognitive Solutions</td>
<td>• Solutions Software</td>
<td>• Strategic Imperatives</td>
<td>• Total</td>
<td>• Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Transaction Processing Software</td>
<td>• Cloud</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Global Business Services</td>
<td>• Consulting</td>
<td>• as-a-Service run rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Application Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Global Process Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology Services &amp; Cloud Platforms</td>
<td>• Infrastructure Services</td>
<td>• Total</td>
<td>• Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Technical Support Services</td>
<td>• Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Integration Software</td>
<td>• Software</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Systems</td>
<td>• Systems Hardware</td>
<td>• Total</td>
<td></td>
<td>• Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operating Systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Global Financing</td>
<td>• Total</td>
<td>• Not applicable</td>
<td></td>
<td>• Total</td>
</tr>
</tbody>
</table>

### IBM – Additional Revenue Disclosures
- Total Software
- Total Strategic Imperatives, Analytics, Cloud, as-a-Service run rate, Security, Mobile, Social

©2016 IBM Corporation
# New Segments: 2015 Results

<table>
<thead>
<tr>
<th>New Segments &amp; Industry Services</th>
<th>New Segments</th>
<th>Revenue</th>
<th>Additional Revenue Disclosures</th>
<th>Pre-tax Income, Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive Solutions</td>
<td>$17.8B</td>
<td>Strategic Imperatives: $11.0B Cloud: $1.4B as-a-Service run rate: $1.2B</td>
<td>$7.2B, 36.1%</td>
<td></td>
</tr>
<tr>
<td>Global Business Services</td>
<td>$17.2B</td>
<td>Strategic Imperatives: $7.7B Cloud: $1.8B as-a-Service run rate: $0.7B</td>
<td>$2.6B, 14.7%</td>
<td></td>
</tr>
<tr>
<td>Technology Services &amp; Cloud Platforms</td>
<td>$35.1B</td>
<td>Strategic Imperatives: $6.3B Cloud: $4.0B as-a-Service run rate: $3.5B</td>
<td>$5.7B, 15.8%</td>
<td></td>
</tr>
<tr>
<td>Systems</td>
<td>$9.5B</td>
<td>Strategic Imperatives: $4.0B Cloud: $3.0B</td>
<td>$1.7B, 16.7%</td>
<td></td>
</tr>
<tr>
<td>Global Financing</td>
<td>$1.8B</td>
<td></td>
<td>$2.4B, 52.8%</td>
<td></td>
</tr>
</tbody>
</table>
IBM Level Disclosures: 2015 Results

**Revenue**

- $81.7B

**Additional Revenue Disclosure**

- Strategic Imperatives: $28.9B
  - Cloud: $10.2B
  - as-a-Service run rate: $5.3B
  - Software: $24.5B

**Pre-tax Income, Margin**

- $17.7B, 21.6%

**Strategic Imperatives**

- Engagement: ~$6B
- Mobile: ~$3B
- Social: ~$1B
- Security: ~$2B
- Cloud: ~$10B
- Analytics: ~$18B

©2016 IBM Corporation
Strategic Imperatives & Core Content Revenue by Segment

Cognitive Solutions
- Cognitive capabilities underpins Solutions software
  - New industry opportunity – Health, Internet of Things, Education

Global Business Services
- Engineered shift to Strategic Imperatives
  - Resource shift aligned with market opportunity

Technology Services & Cloud Platforms
- Strategic Imperatives driven by Infrastructure-as-a-Service – Public, Private and Hybrid Cloud offerings

Systems
- Hardware platforms repositioned for evolving client needs
  - Mainframe for Mobile, Analytics, Cloud, Power for Linux, OpenPOWER, Flash & Object Storage

©2016 IBM Corporation

Revenue Yr/Yr @CC from Continuing Ops; excludes divested businesses
### Strategic Imperatives & Core Content Revenue by Segment

#### 2015

**Strategic Imperatives**
- Revenue: $17.2B
- Percentage: ~45%
- Growth: +15pts

**Core Content**
- Revenue: $9.5B
- Percentage: ~60%
- Growth: +15pts

**Total**
- Revenue: $26.7B
- Percentage: ~75%
- Growth: +15pts

---

**Cognitive Solutions**
- Cognitive capabilities underpins Solutions software
- New industry opportunity – Health, Internet of Things, Education

**Technology Services & Cloud Platforms**
- Strategic Imperatives driven by Infrastructure-as-a-Service – Public, Private and Hybrid Cloud offerings

**Global Business Services**
- Engineered shift to Strategic Imperatives
- Resource shift aligned with market opportunity

**Systems**
- Hardware platforms repositioned for evolving client needs
- Mainframe for Mobile, Analytics, Cloud, Power for Linux, OpenPOWER, Flash & Object Storage

---

Note 6
Strategic Imperatives & Core Content Revenue by Segment

**Cognitive Solutions**
- Cognitive capabilities underpins Solutions software
  - New industry opportunity – Health, Internet of Things, Education
- Significant and stable annuity content

**Global Business Services**
- Engineered shift to Strategic Imperatives
  - Resource shift aligned with market opportunity
- Annuity content driven by Outsourcing activity

**Technology Services & Cloud Platforms**
- Strategic Imperatives driven by Infrastructure-as-a-Service – Public, Private and Hybrid Cloud offerings
- Significant and stable annuity content

**Systems**
- Hardware platforms repositioned for evolving client needs
  - Mainframe for Mobile, Analytics, Cloud, Power for Linux, OpenPOWER, Flash & Object Storage
- Operating systems drives annuity content

Note 6
Cognitive Solutions Segment

2015 Performance

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$17.8</td>
<td>(3%)</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>85.1%</td>
<td>(2 pts)</td>
</tr>
<tr>
<td>PTI</td>
<td>$7.2</td>
<td>(12%)</td>
</tr>
<tr>
<td>PTI Margin</td>
<td>36.1%</td>
<td>(1 pt)</td>
</tr>
</tbody>
</table>

- Cognitive capabilities significantly expand market opportunity
- Building platforms for Watson, Watson Health and Watson Internet of things

Segment Revenue Elements

- Solutions
- Software
- Flat Yr/Yr
- Transaction Processing Software (8%) Yr/Yr

2015 Strategic Imperatives Revenue

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>$11.0</td>
<td>4%</td>
</tr>
<tr>
<td>Cloud</td>
<td>$1.4</td>
<td>52%</td>
</tr>
<tr>
<td>as-a-Service run rate</td>
<td>$1.2</td>
<td>$0.2</td>
</tr>
</tbody>
</table>
Global Business Services Segment

2015 Performance

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$17.2</td>
<td>(4%)</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>28.2%</td>
<td>(2 pts)</td>
</tr>
<tr>
<td>PTI</td>
<td>$2.6</td>
<td>(22%)</td>
</tr>
<tr>
<td>PTI Margin</td>
<td>14.7%</td>
<td>(2 pts)</td>
</tr>
</tbody>
</table>

- Industry centric skills, depth of design thinking drives client value
- Lead with cognitive capabilities across offerings

Segment Revenue Elements

- Global Process Services (7%) Yr/Yr
- Application Management +1% Yr/Yr
- Consulting (8%) Yr/Yr

2015 Strategic Imperatives Revenue

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>$7.7</td>
<td>44%</td>
</tr>
<tr>
<td>Cloud</td>
<td>$1.8</td>
<td>83%</td>
</tr>
<tr>
<td>as-a-Service run rate</td>
<td>$0.7</td>
<td>$0.5</td>
</tr>
</tbody>
</table>

Revenue Yr/Yr @CC from Continuing Ops; excluding divested businesses

©2016 IBM Corporation

For reconciliation to GAAP, refer to the Non-GAAP Supplemental Materials
Technology Services & Cloud Platforms Segment

2015 Performance

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$35.1</td>
<td>Flat</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>42.7%</td>
<td>(2 pts)</td>
</tr>
<tr>
<td>PTI</td>
<td>$5.7</td>
<td>(20%)</td>
</tr>
<tr>
<td>PTI Margin</td>
<td>15.8%</td>
<td>(2 pts)</td>
</tr>
</tbody>
</table>

- Transforming GTS model from systems integration to services integration
- Enabling clients digital transformation through the cloud – Hybrid, Private, Public
- Software enabled to integrate with cloud platforms

Segment Revenue Elements

- GTS +1%
- Integration Software (2%) Yr/Yr
- Infrastructure Services +1% Yr/Yr
- Technical Support Services +1% Yr/Yr

2015 Strategic Imperatives Revenue

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>$6.3</td>
<td>59%</td>
</tr>
<tr>
<td>Cloud</td>
<td>$4.0</td>
<td>59%</td>
</tr>
<tr>
<td>as-a-Service run rate</td>
<td>$3.5</td>
<td>$1.1</td>
</tr>
</tbody>
</table>

Revenue Yr/Yr @CC from Continuing Ops; excluding divested businesses $ in billions
Systems Segment

<table>
<thead>
<tr>
<th>2015 Performance</th>
<th>2015</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$9.5</td>
<td>4%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>55.8%</td>
<td>7 pts</td>
</tr>
<tr>
<td>PTI</td>
<td>$1.7</td>
<td>24%</td>
</tr>
<tr>
<td>PTI Margin</td>
<td>16.7%</td>
<td>6 pts</td>
</tr>
</tbody>
</table>

- Transforming Systems for growth – IBM OpenPOWER, IBM FlashSystem, IBM Spectrum Storage, Object Storage for cloud
- New cognitive and cloud centric capabilities

Segment Revenue Elements

- Operating Systems (8%) Yr/Yr
- Systems Hardware +8% Yr/Yr
- z Systems: +35% Yr/Yr
- Power: +4% Yr/Yr
- Storage: (7%) Yr/Yr

2015 Strategic Imperatives Revenue

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>$4.0</td>
</tr>
<tr>
<td>Cloud</td>
<td>$3.0</td>
</tr>
<tr>
<td>as-a-Service run rate</td>
<td>$0</td>
</tr>
</tbody>
</table>

Revenue Yr/Yr @CC from Continuing Ops; excluding divested businesses $ in billions
Systems Hardware Transformation

Power

~40% 2015
~60%

Open innovation platform with Power8, Power for Linux, OpenPOWER

z Systems

~55% 2015
~45%

z13 Mainframe designed for mobile, analytics and cloud

Storage

~45% 2015
~55%

FlashSystem, Object Storage
IBM Financial Model

- 2016 segment structure reflective of management system and consistent with IBM’s platform and solutions focus

- Significant investment levels over the last couple of years to drive returns in the future

Longer-term financial model

- Low single-digit revenue growth
- Mid single-digit pre-tax income growth
- High single-digit EPS growth with return to shareholders
- Free Cash Flow realization in the 90%’s
2016 Guidance

The company reaffirms 2016 Operating Earnings and Free Cash Flow guidance, including the quarterly earnings skew, as described in the January 2016 earnings call.
Notes

Note 1
2010-2015 Revenue from Continuing Ops

Note 2
2006-2015 Operating GP%, 2010-2015 from Continuing Ops

Note 3
Operating GP% from Continuing Ops - Strategic Imperatives & Core content margins are approximate

Note 4
2005-2015 Operating PTI, 2010-2015 from Continuing Ops

Note 5
Cash from Operations excludes GF receivables. Share count reduction 2006 to 2015, reflects weighted average shares outstanding. RDE 2010-2015 from Continuing Ops

Note 6
Strategic Imperatives & Core content revenue mix, mix points represents Yr/Yr change in mix
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/investor0216.html. The Non-GAAP Supplemental Materials are also included as Attachment II to the company’s Forms 8-K dated January 19, 2016 and Attachment I to the company’s Form 8-K dated February 25, 2016.
Non-GAAP Supplemental Materials

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company also discusses, in its Investor Briefing materials and presentations, the following Non-GAAP information which management believes provides useful information to investors.

Operating (Non-GAAP) and Related Income Statement Items

Management presents certain financial measures from continuing operations excluding the effects of certain acquisition-related charges, non-operating retirement-related costs and any related tax impacts. Management uses the term "operating" to describe this view of the company's financial results and other financial information. For acquisitions, these measures exclude the amortization of purchased intangible assets and acquisition-related charges such as in-process research and development, transaction costs, applicable restructuring and related expenses, and tax charges related to acquisition integration. For retirement-related costs, the company has characterized certain items as operating and others as non-operating. The company includes service cost, amortization of prior service cost and the cost of defined contribution plans in its operating results. Non-operating retirement-related costs include interest cost, expected return on plan assets, amortized actuarial gains/losses, the impacts of any plan curtailments/settlements, multi-employer plan costs, pension insolvency costs, and other costs. Non-operating costs primarily relate to changes in pension plan assets and liabilities which are tied to market performance, and management considers these costs to be outside the operational performance of the business. Management's calculation of these operating measures, as presented, may differ from similarly titled measures reported by other companies.

Overall, management believes that providing investors with an operating view as described above provides increased transparency and clarity into both the operational results of the business and the performance of the company’s pension plans, improves visibility to management decisions and their impacts on operational performance, enables better comparison to peer companies, and allows the company to provide a long term strategic view of the business going forward. For its earnings per share guidance, the company is utilizing an operating view to establish its objectives and track its progress. The company’s segment financial results and performance reflect operating earnings, consistent with the company’s management and measurement system.
Non-GAAP Supplemental Materials

Cash Flow
Management uses a free cash flow measure to evaluate the company’s operating results, plan share repurchase levels, evaluate strategic investments and assess the company’s ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. The company defines free cash flow as net cash from operating activities less the change in Global Financing receivables and net capital expenditures, including the investment in software. A key objective of the Global Financing business is to generate strong returns on equity, and increasing receivables is the basis for growth. Accordingly, management considers Global Financing receivables as a profit-generating investment, not as working capital that should be minimized for efficiency. Therefore, management includes presentations of both free cash flow and cash flow from operations that exclude the effect of Global Financing receivables.

Constant Currency
Management refers to growth rates at constant currency or adjusting for currency so that certain financial results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the company's business performance. Financial results adjusted for currency are calculated by translating current period activity in local currency using the comparable prior year period’s currency conversion rate. This approach is used for countries where the functional currency is the local currency. Generally, when the dollar either strengthens or weakens against other currencies, the growth at constant currency rates or adjusting for currency will be higher or lower than growth reported at actual exchange rates.

Customer Care Outsourcing and System x Business Divestitures
With respect to the sale of IBM's worldwide customer care outsourcing services business to SYNNEX, the initial closing date was January 31, 2014. With respect to the sale of IBM’s x86 server business to Lenovo, the initial closing date was October 1, 2014. Management believes that presenting financial information without either or both of these items is more representative of operational performance and provides additional insight into, and clarifies the basis for, historical and/or future performance, which may be more useful to investors.
Reconciliation of Free Cash Flow (excluding GF Receivables)

<table>
<thead>
<tr>
<th>$ Billions</th>
<th>2006 - 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash from Operations</td>
<td>$181</td>
</tr>
<tr>
<td>Less: Global Financing Receivables</td>
<td>(5)</td>
</tr>
<tr>
<td>Net Cash from Operations (excluding GF Receivables)</td>
<td>186</td>
</tr>
<tr>
<td>Net Capital Expenditures</td>
<td>(42)</td>
</tr>
<tr>
<td>Free Cash Flow (excluding GF Receivables)</td>
<td>$144</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. For reconciliation to GAAP and other information, refer to FY 2015 non-GAAP measures of Gross Profit Margin from Continuing Operations, Pre-tax Income from Continuing Operations and Pre-tax Income Margin from Continuing Operations in Attachment II (Non-GAAP Supplemental Materials) in the Form 8-K submitted to the SEC on January 19, 2016. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
## Reconciliation of Revenue Growth

<table>
<thead>
<tr>
<th></th>
<th>FY15 Yr/Yr</th>
<th></th>
<th>FY14 Yr/Yr</th>
<th></th>
<th>FY13 Yr/Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GAAP</td>
<td>@CC excl.</td>
<td>GAAP</td>
<td>@CC excl.</td>
<td>GAAP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Divested</td>
<td></td>
<td>Divested</td>
<td></td>
</tr>
<tr>
<td>Strategic Imperatives</td>
<td>17%</td>
<td>26%</td>
<td>16%</td>
<td>24%</td>
<td>17%</td>
</tr>
<tr>
<td>Total IBM</td>
<td>(12%)</td>
<td>(1%)</td>
<td>(6%)</td>
<td>(4%)</td>
<td>(4%)</td>
</tr>
<tr>
<td>Core Content</td>
<td>(22%)</td>
<td>(11%)</td>
<td>(12%)</td>
<td>(10%)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in "IBM Investor Briefing" contained in the “Financial Overview” presentation. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth Software Performance

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional</td>
<td>(19%)</td>
<td>(14%)</td>
</tr>
<tr>
<td>Annuity</td>
<td>(6%)</td>
<td>1%</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
## Reconciliation of Revenue Growth within Global Business Services Segment

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC excl. Divested Businesses</th>
<th>Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>32%</td>
<td>44%</td>
<td>Strategic Imperatives $0.5B $1.0B</td>
</tr>
<tr>
<td>Core Content</td>
<td>(31%)</td>
<td>(25%)</td>
<td>Core Content $(1.9B) $(1.7B)</td>
</tr>
<tr>
<td>Cloud</td>
<td>71%</td>
<td>83%</td>
<td>Total</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. For reconciliation to GAAP and other information, refer to FY 2015 non-GAAP measures of Reconciliation of Revenue Growth by Segment in Attachment II (Non-GAAP Supplemental Materials) in the Form 8-K submitted to the SEC on January 19, 2016. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.

### Reconciliation of Revenue Growth by Segment

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
<th>@CC excl. Divested Businesses</th>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Services &amp; Cloud Platforms</td>
<td>(10%)</td>
<td>Flat</td>
<td>Flat</td>
<td>Cognitive Solutions</td>
<td>(9%)</td>
<td>(3%)</td>
</tr>
<tr>
<td>Systems</td>
<td>(22%)</td>
<td>(18%)</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Reconciliation of Revenue Growth Cognitive Solutions Segment

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>(3%)</td>
<td>4%</td>
</tr>
<tr>
<td>Cloud</td>
<td>45%</td>
<td>52%</td>
</tr>
</tbody>
</table>
Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth Technology Services & Cloud Platforms Segment

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
<th>@CC excl. Divested Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>44%</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Cloud</td>
<td>45%</td>
<td>59%</td>
<td>59%</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth Systems Segment

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
<th>@CC excl. Divested Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Imperatives</td>
<td>20%</td>
<td>27%</td>
<td>41%</td>
</tr>
<tr>
<td>Cloud</td>
<td>27%</td>
<td>35%</td>
<td>45%</td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.
**Non-GAAP Supplemental Materials**

**Reconciliation of Revenue Growth**

<table>
<thead>
<tr>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
<th>FY15 Yr/Yr</th>
<th>GAAP</th>
<th>@CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration Software</td>
<td>(9%)</td>
<td>(2%)</td>
<td>Technical Support Services</td>
<td>(10%)</td>
<td>(1%)</td>
</tr>
<tr>
<td>Infrastructure Services</td>
<td>(10%)</td>
<td>1%</td>
<td>Global Process Services</td>
<td>(15%)</td>
<td>(10%)</td>
</tr>
<tr>
<td>Consulting</td>
<td>(15%)</td>
<td>(8%)</td>
<td>Systems Hardware</td>
<td>(24%)</td>
<td>(20%)</td>
</tr>
<tr>
<td>Application Management</td>
<td>(8%)</td>
<td>1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solutions Software</td>
<td>(6%)</td>
<td>Flat</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction Processing Software</td>
<td>(15%)</td>
<td>(8%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Systems</td>
<td>(14%)</td>
<td>(8%)</td>
<td>@CC excl. Divested Businesses</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

The above serves to reconcile the Non-GAAP financial information contained in “IBM Investor Briefing” contained in the “Financial Overview” presentation. For reconciliation to GAAP and other information, refer to FY 2015 non-GAAP measures of z Systems revenue at constant currency, Power revenue at constant currency and Storage revenue at constant currency, on page 33 of the company’s 2015 Annual Report, which is Exhibit 13 to the Form 10-K submitted to the SEC on February 23, 2016. See the third slide in these supplemental materials for additional information on the use of these Non-GAAP financial measures.