



# 4Q 2013 Earnings Presentation

*January 21, 2014*

[www.ibm.com/investor](http://www.ibm.com/investor)



## Forward Looking Statements and Non-GAAP Information

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. Those statements by their nature address matters that are uncertain to different degrees. Those statements 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 during this presentation speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements. These charts and the associated remarks and comments are integrally related, and 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), the company also discusses, in its earnings press release and earnings presentation materials, 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 in supplemental materials entitled "Non-GAAP Supplemental Materials" that are posted on the Company's investor relations web site at <http://www.ibm.com/investor/4q13/>. The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated January 21, 2014.

## 2013 Summary

	<u>4Q13</u>		<u>FY13</u>	
	<u>\$</u>	<u>Yr/Yr</u>	<u>\$</u>	<u>Yr/Yr</u>
Revenue	\$27.7	(5%)	\$99.8	(5%)
@CC		(3%)		(2%)
Operating (Non-GAAP) EPS	\$6.13	14%	\$16.28	7%

- Momentum in key growth areas drives mix to higher value Software and GBS
  - Software growth across the portfolio
  - Services revenue performance stable, growth led by GBS
- Hardware impacted by product cycle and business model challenges
- Maintained high investment level, targeted to key growth areas
- Expanded gross and net margins
  - Improving business mix
  - Ongoing productivity initiatives
  - Lower tax rate
- Significant shareholder returns

*Continue to expect at least \$20 Operating EPS in 2015*



## Key Financial Metrics

\$ in Billions, except EPS

### P&L Highlights

	<u>4Q13</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$27.7	(5%)
@CC		(3%)
PTI – Operating	\$7.4	(8%)
NI – Operating	\$6.6	8%
EPS – Operating	\$6.13	14%

### P&L Ratios (Operating)

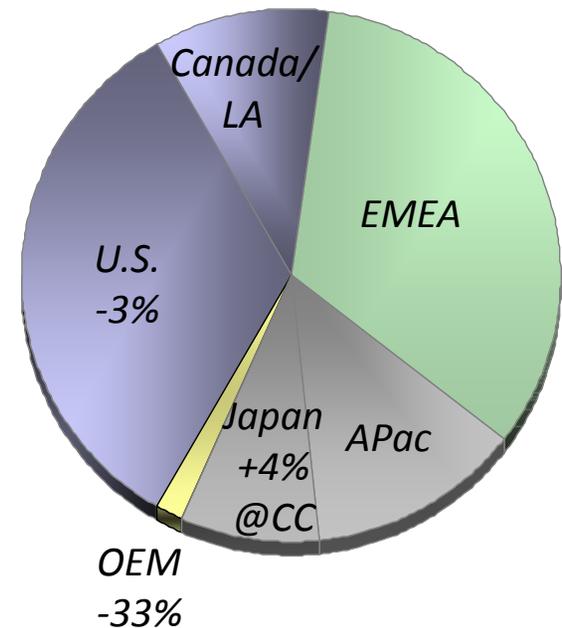
	<u>4Q13</u>	<u>B/(W) Yr/Yr</u>
GP Margin	52.6%	0.3 pts
PTI Margin	26.8%	(0.8 pts)
Tax Rate	11.0%	13.5 pts
NI Margin	23.9%	3.0 pts

### Cash Highlights

	<u>4Q13</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$8.4	\$15.0
Share Repurchase (Gross)	5.8	13.9
Dividends	1.0	4.1
Cash Balance @ Dec. 31	11.1	

# Revenue by Geography

\$ in Billions	B/(W) Yr/Yr		
	4Q13	Rptd	@CC
Americas	\$12.2	(3%)	(2%)
Europe/ME/A	9.2	1%	(2%)
Asia Pacific	5.9	(16%)	(6%)
<b>Total Geographies</b>	<b>\$27.2</b>	<b>(5%)</b>	<b>(3%)</b>
<b>IBM</b>	<b>\$27.7</b>	<b>(5%)</b>	<b>(3%)</b>
<i>Major Markets</i>		<i>(3%)</i>	<i>(2%)</i>
<i>Growth Markets</i>		<i>(9%)</i>	<i>(6%)</i>
<i>BRIC Countries</i>		<i>(14%)</i>	<i>(11%)</i>





## Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Operating Gross Profit Margin	
	4Q13	B/(W) Rptd	Yr/Yr @CC	4Q13	B/(W) Yr/Yr Pts
Global Technology Services	\$9.9	(4%)	(1%)	38.8%	1.2 pts
Global Business Services	4.7	1%	4%	30.7%	0.7 pts
Software	8.1	3%	4%	90.5%	(0.1 pts)
Systems & Technology	4.3	(26%)	(25%)	38.6%	(5.5 pts)
Global Financing	0.5	Flat	3%	43.3%	(0.4 pts)
<b>Total Revenue &amp; Op. GP Margin</b>	<b>\$27.7</b>	<b>(5%)</b>	<b>(3%)</b>	<b>52.6%</b>	<b>0.3 pts</b>

*Margin expansion driven by Services and mix to Software*



## Expense Summary

\$ in Billions	<u>4Q13</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Drivers</u>		
			<u>Currency</u>	<u>Acq.*</u>	<u>Base</u>
SG&A – Operating	\$5.8	Flat	2 pts	(2 pts)	0 pts
RD&E – Operating	1.6	2%	0 pts	(2 pts)	3 pts
IP and Development Income	(0.2)	(12%)			
Other (Income)/Expense	(0.1)	126%			
Interest Expense	0.1	(4%)			
<b>Operating Expense &amp; Other Income</b>	<b>\$7.1</b>	<b>1%</b>	<b>2 pts</b>	<b>(2 pts)</b>	<b>1 pts</b>

\* Includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

*Within base expense, productivity savings reinvested to growth areas*

# Services Segments

## Global Technology Services (GTS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q13</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$9.9	(4%)	(1%)
Gross Margin (External)	38.8%	1.2 pts	
Pre-Tax Income	\$2.0	(2%)	
PTI Margin	19.5%	0.4 pts	

## Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q13</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.7	1%	4%
Gross Margin (External)	30.7%	0.7 pts	
Pre-Tax Income	\$0.9	12%	
PTI Margin	19.1%	2.0 pts	

### 4Q13 Revenue

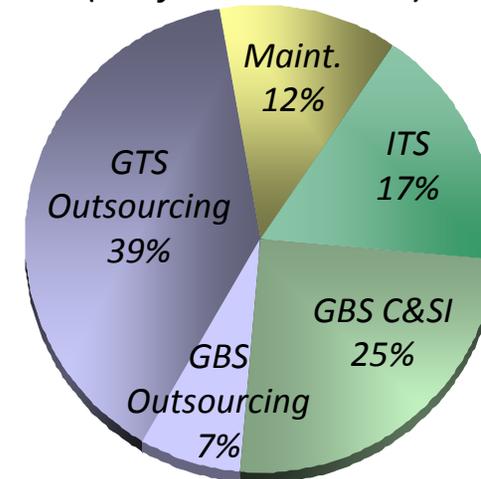
	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
<u>GTS</u>		
GTS Outsourcing	(4%)	(1%)
Integrated Technology Services	(3%)	Flat
Maintenance	(2%)	Flat

### GBS

GBS Outsourcing	(7%)	(2%)
Consulting & Systems Integration	3%	6%

	<u>4Q13</u>		
<u>Services Backlog</u>	\$143B	2%	5%

4Q13 Revenue  
(% of Total Services)



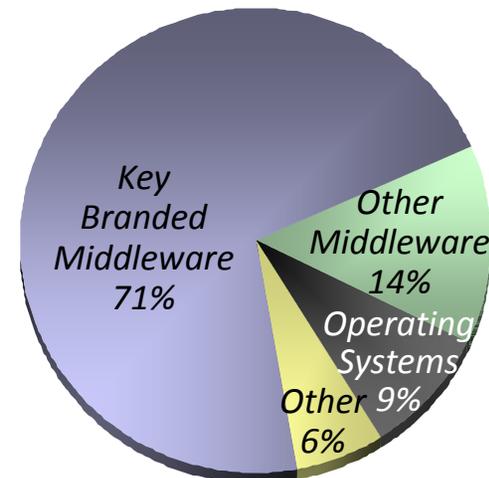
*Continued margin expansion*

# Software Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q13</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$8.1	3%	4%
Gross Margin (External)	90.5%	(0.1 pts)	
Pre-Tax Income	\$4.2	6%	
PTI Margin	47.0%	1.0 pts	

<u>4Q13 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
WebSphere Family	14%	15%
Information Management	5%	5%
Tivoli	1%	1%
Social Workforce Solutions	2%	3%
Rational	Flat	1%
Key Branded Middleware	5%	6%
Total Middleware	4%	4%
Total Software	3%	4%

4Q13 Revenue  
(% of Total Software)



*Growth across the Branded Middleware portfolio*

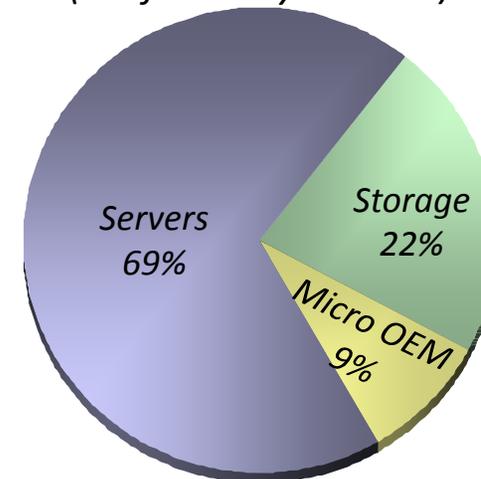
# Systems & Technology Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>4Q13</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.3	(26%)	(25%)
Gross Margin (External)	38.6%	(5.5 pts)	
Pre-Tax Income	\$0.2	(79%)	
PTI Margin	4.7%	(11.7 pts)	

## 4Q13 Revenue

	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	(37%)	(37%)
Power Systems	(31%)	(31%)
System x	(16%)	(15%)
Storage	(13%)	(12%)
<b>Total Systems</b>	<b>(25%)</b>	<b>(25%)</b>
Microelectronics OEM	(33%)	(33%)
<b>Total Systems &amp; Technology</b>	<b>(26%)</b>	<b>(25%)</b>

4Q13 Revenue  
(% of Total Sys & Tech)



*System z product cycle; business model challenges in other brands*



## Cash Flow Analysis

\$ in Billions	<u>4Q13</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>FY13</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$6.5	\$0.2	\$17.5	(\$2.1)
Less: Global Financing Receivables	<u>(2.9)</u>	<u>1.2</u>	<u>(1.3)</u>	<u>1.6</u>
Net Cash from Operations (excluding GF Receivables)	9.5	(1.0)	18.8	(3.7)
Net Capital Expenditures	<u>(1.1)</u>	<u>(0.1)</u>	<u>(3.8)</u>	<u>0.5</u>
<b>Free Cash Flow (excluding GF Receivables)</b>	<b>8.4</b>	<b>(1.1)</b>	<b>15.0</b>	<b>(3.2)</b>
Acquisitions	(0.5)	1.0	(3.1)	0.7
Divestitures	0.1	0.0	0.3	(0.3)
Dividends	(1.0)	(0.1)	(4.1)	(0.3)
Share Repurchases (Gross)	(5.8)	(2.8)	(13.9)	(1.9)
Non-GF Debt	1.6	3.2	3.2	2.5
Other (includes GF A/R & GF Debt)	<u>(1.9)</u>	<u>1.7</u>	<u>2.4</u>	<u>3.2</u>
Change in Cash & Marketable Securities	\$0.8	\$2.0	(\$0.1)	\$0.7



## Balance Sheet Summary

\$ in Billions	<u>Dec. 12</u>	<u>Dec. 13</u>
Cash & Marketable Securities	\$11.1	\$11.1
Non-GF Assets*	70.6	76.5
Global Financing Assets	37.5	38.7
<b>Total Assets</b>	<b>119.2</b>	<b>126.2</b>
Other Liabilities	67.0	63.6
Non-GF Debt*	8.8	12.2
Global Financing Debt	24.5	27.5
<b>Total Debt</b>	<b>33.3</b>	<b>39.7</b>
<b>Total Liabilities</b>	<b>100.2</b>	<b>103.3</b>
<b>Equity</b>	<b>19.0</b>	<b>22.9</b>
<b>Non-GF Debt / Capital</b>	<b>36%</b>	<b>39%</b>
<b>Global Financing Leverage</b>	<b>7.0</b>	<b>7.2</b>

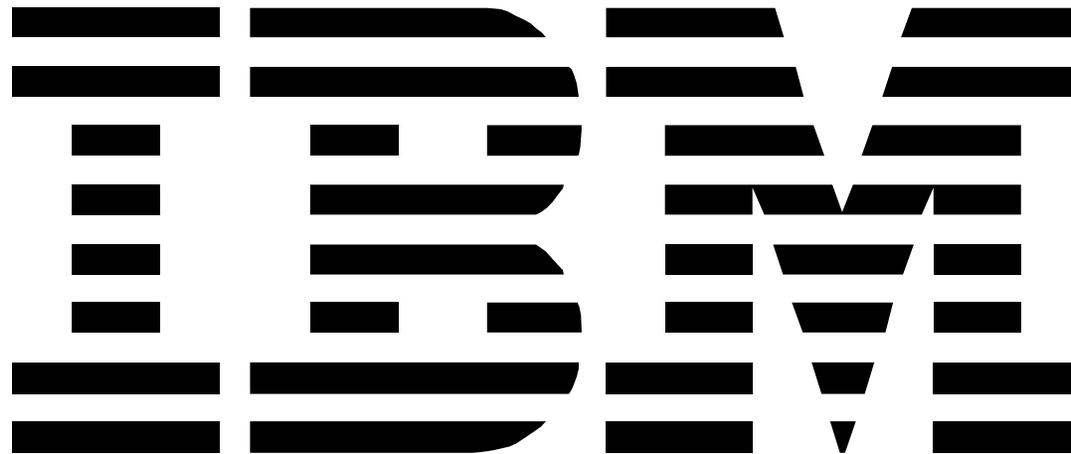
\* Includes eliminations of inter-company activity

# FY 2013 Summary



- Continued momentum in key growth areas
  - Smarter Planet ~20% yr/yr
  - Business Analytics +9% yr/yr
  - Cloud 69% yr/yr
- Delivered profit growth in Software, Services and Financing, while Hardware declined
- Invested in innovation and continued portfolio transformation
  - Maintained high levels of investment
    - R&D \$6B, Capital \$4B, Acquisitions \$3B
    - Strengthened capabilities in analytics, social, mobile, cloud, security
  - Announced divestiture of customer care BPO business
- Significant shareholder returns
  - Share repurchase (gross) \$14B, Dividends \$4B

*Expect at least \$18.00 Operating EPS in 2014*



# Supplemental Materials

Some columns and rows in these materials, including the supplemental exhibits, may not add due to rounding

- Currency – Year/Year Comparison
- Supplemental Segment Information – Global Services
- Supplemental Segment Information – Systems & Technology, Software
- Global Financing Portfolio
- Operating EPS Bridge – 4Q12 to 4Q13 and FY12 to FY13
- Key Financial Metrics – FY 2013
- Revenue by Geography – FY 2013
- Revenue and Gross Profit Margin by Segment – FY 2013
- Revenue by Key Industry Sales Unit – 4Q and FY 2013
- Expense Summary – FY 2013
- Cash Flow (FAS 95)
- Retirement-Related Charges
- Retirement-Related Charges
- Non-GAAP Supplemental Materials
  - Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items, Constant Currency
  - Cash Flow, Debt-to-Capital Ratio, Workforce Rebalancing, Retail Store Solutions (RSS) Divestiture
  - Reconciliation of Operating Earnings Per Share
  - GAAP to Operating (Non-GAAP) Bridge – 4Q 2013
  - GAAP to Operating (Non-GAAP) Bridge – 4Q 2012
  - GAAP to Operating (Non-GAAP) Bridge – FY 2013
  - GAAP to Operating (Non-GAAP) Bridge – FY 2012
  - GAAP to Operating (Non-GAAP) Bridge – 4Q 2013 and 4Q 2012
  - GAAP to Operating (Non-GAAP) Bridge – FY 2013 and FY 2012
  - Reconciliation of B/(W) Yr/Yr Expense Drivers – 4Q13
  - Reconciliation of B/(W) Yr/Yr Expense Drivers – FY13
  - Reconciliation of Operating EPS Bridge 4Q12 to 4Q13
  - Reconciliation of Operating EPS Bridge FY12 to FY13
  - Reconciliation of Debt-to-Capital Ratio
  - Reconciliation of Free Cash Flow (excluding GF Receivables) – 3 months ended 9/30/13
  - Reconciliation of Revenue Growth
  - Reconciliation of Consolidated EPS

# Currency – Year/Year Comparison

## Quarterly Averages per US \$

	<u>3Q13</u>	<u>Yr/Yr</u>	<u>4Q13</u>	<u>Yr/Yr</u>	<u>1/17 Spot</u>	<u>Yr/Yr @ 1/17 Spot</u>				
						<u>1Q14</u>	<u>2Q14</u>	<u>3Q14</u>	<u>4Q14</u>	<u>FY14</u>
Euro	0.75	6%	0.73	5%	0.74	3%	4%	2%	0%	2%
Pound	0.64	(2%)	0.62	1%	0.61	6%	7%	6%	2%	5%
Yen	99	(26%)	100	(24%)	104	(13%)	(6%)	(5%)	(4%)	(7%)
IBM Revenue Impact	(2.5 pts)		(2 pts)			~(2 pts)	~(0-1 pts)	~0 pts	~(1 pts)	~(1 pts)

	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$27.7	(5%)
Currency Impact	(0.6)	(2 pts)
Revenue @CC		(3%)

# Supplemental Segment Information – 4Q 2013

## Global Services Revenue

## Global Services Backlog / Signings

	<u>Revenue Growth</u>		<u>\$ in Billions</u>	<u>Backlog</u>	
	<u>Yr/Yr</u>	<u>@CC</u>		<u>4Q13</u>	<u>Yr/Yr</u>
GTS Outsourcing	(4%)	(1%)	<b>Total Backlog</b>	\$143	2% 5%
Integrated Tech Services	(3%)	Flat	<u>Change in Backlog due to Currency</u>		
Maintenance	(2%)	Flat	Quarter-to-Quarter	(\$1)	
<b>Total GTS</b>	<b>(4%)</b>	<b>(1%)</b>	Year-to-Year	(\$4)	
GBS Outsourcing	(7%)	(2%)	Outsourcing Backlog	\$91	1% 5%
GBS C&SI	3%	6%			<u>Signings</u>
<b>Total GBS</b>	<b>1%</b>	<b>4%</b>		<u>4Q13</u>	<u>Yr/Yr</u> <u>@CC</u>
Total Outsourcing	(5%)	(1%)	Outsourcing	\$9.3	11% 15%
Total Transactional	Flat	4%	- GTS O/S, GBS O/S (AMS)		
Maintenance	(2%)	Flat	Transactional	8.2	(14%) (11%)
			- ITS, Consulting & AMS SI (incl. US Federal)		
			<b>Total Signings</b>	<b>\$17.5</b>	<b>(2%) 1%</b>

Note: Actual backlog calculated using December 31 currency spot rates

# Supplemental Segment Information – 4Q 2013

## Systems & Technology

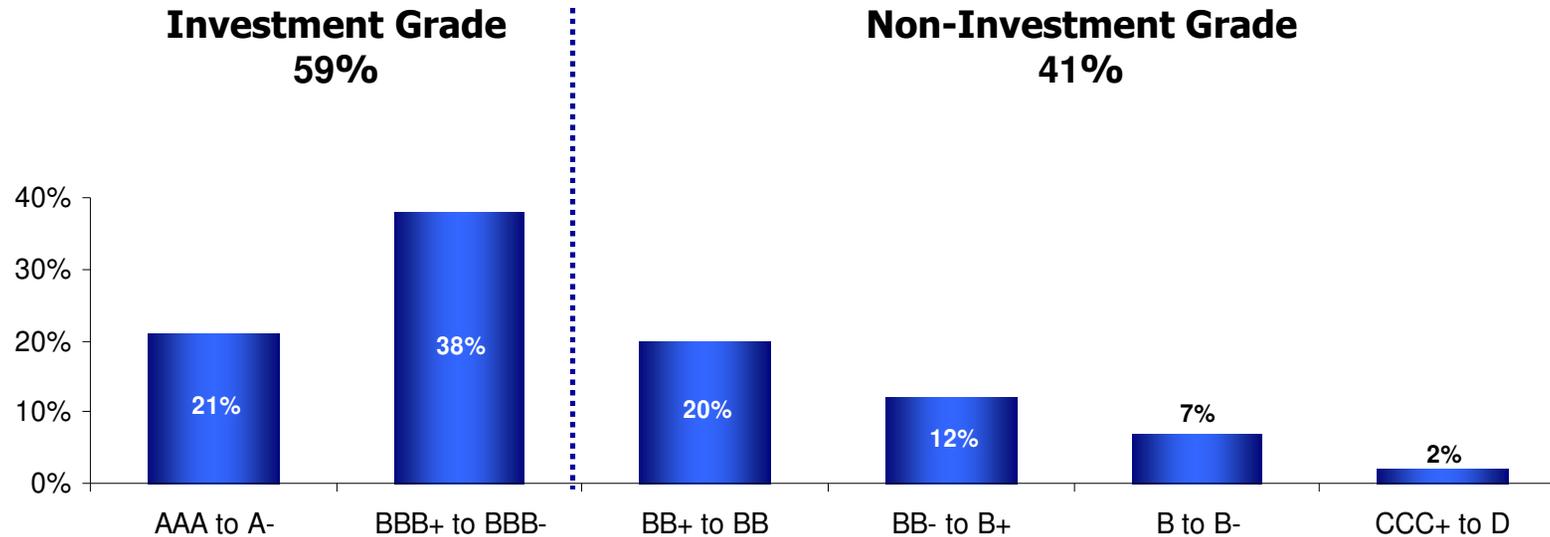
	<u>Revenue Growth</u>			
	<u>Yr/Yr</u>	<u>@CC</u>	<u>GP%</u>	<u>Share</u>
System z	(37%)	(37%)	↑	↓
Power Systems	(31%)	(31%)	↓	=
System x	(16%)	(15%)	↓	↓
Storage	(13%)	(12%)	↓	↓
Total Systems	(25%)	(25%)	↓	
Microelectronics OEM	(33%)	(33%)		
Total Sys & Tech	(26%)	(25%)		

## Software

	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
WebSphere Family	14%	15%
Information Management	5%	5%
Tivoli	1%	1%
Social Workforce Sols.	2%	3%
Rational	Flat	1%
Key Branded Middleware	5%	6%
Other Middleware	<u>(5%)</u>	<u>(4%)</u>
Total Middleware	4%	4%
Operating Systems	(3%)	(2%)
Other Software/Services	<u>1%</u>	<u>2%</u>
Total Software	3%	4%

# Global Financing Portfolio

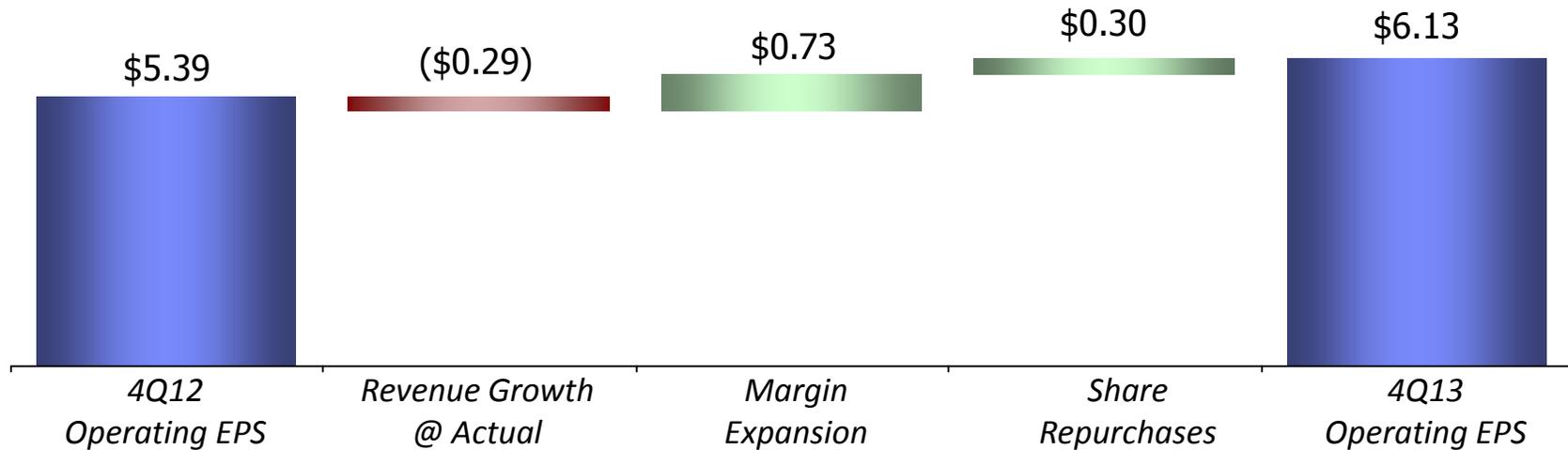
4Q13 – \$31.9B Net External Receivables



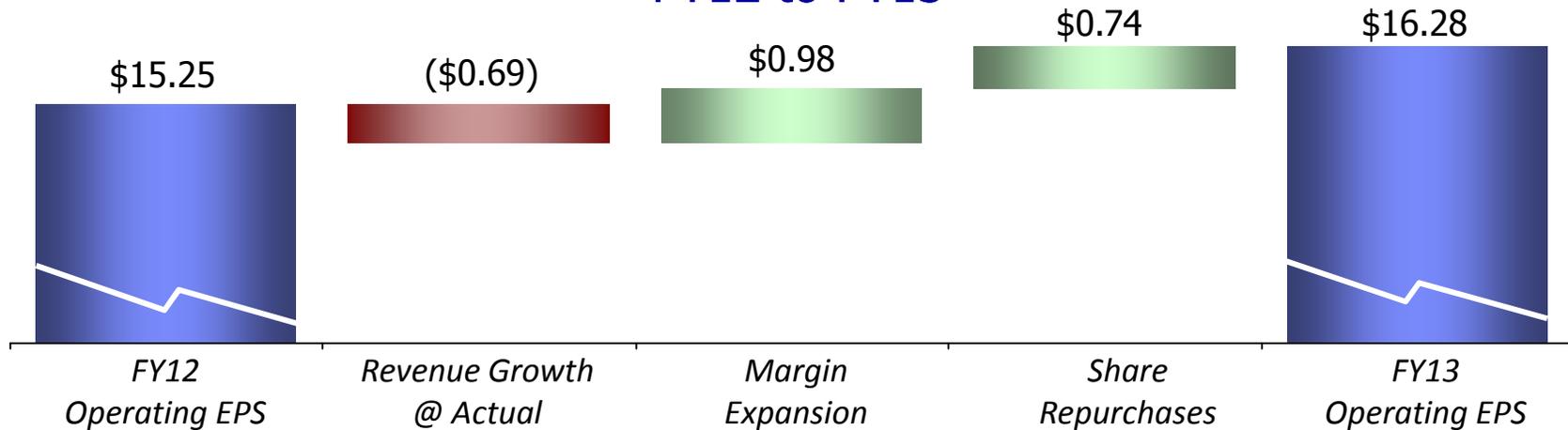
	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>
Identified Loss Rate	0.8%	1.0%	0.8%
Anticipated Loss Rate	0.4%	0.3%	0.4%
<b>Reserve Coverage</b>	<b>1.2%</b>	<b>1.3%</b>	<b>1.2%</b>
Client Days Delinquent Outstanding	3.3	3.0	2.5
Commercial A/R > 30 Days	\$ 43 M	\$ 44 M	\$ 22 M

# Operating EPS Bridge

## 4Q12 to 4Q13



## FY12 to FY13



## Key Financial Metrics – FY 2013

\$ in Billions, except EPS

### P&L Highlights

	<u>FY13</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$99.8	(5%)
@CC		(2%)
PTI – Operating	\$21.4	(8%)
EPS – Operating	\$16.28	7%

### P&L Ratios (Operating)

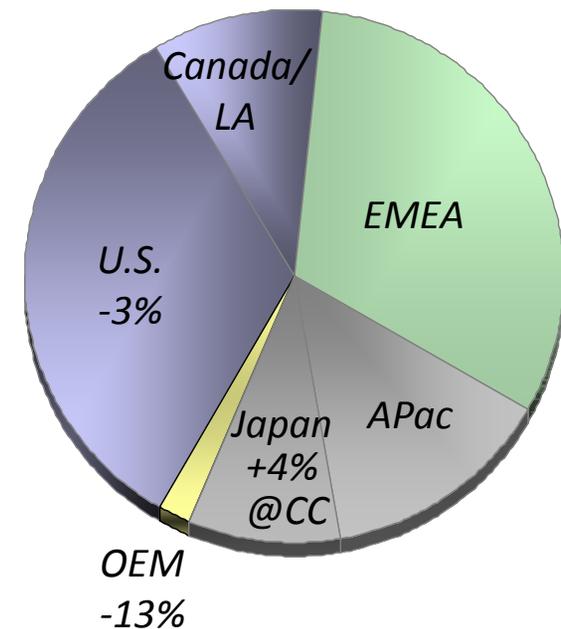
	<u>FY13</u>	<u>B/(W) Yr/Yr</u>
GP Margin	49.7%	0.9 pts
PTI Margin	21.4%	(0.7 pts)
Tax Rate	16.0%	7.9 pts
NI Margin	18.0%	1.1 pts

### Cash Highlights

	<u>FY13</u>
Free Cash Flow (excl GF Receivables)	\$15.0
Share Repurchase (Gross)	13.9
Dividends	4.1
Cash Balance @ Dec. 31	11.1

# Revenue by Geography – FY 2013

\$ in Billions	B/(W) Yr/Yr		
	FY13	Rptd	@CC
Americas	\$43.2	(3%)	(2%)
Europe/ME/A	31.6	Flat	(2%)
Asia Pacific	22.9	(12%)	(3%)
<b>Total Geographies</b>	<b>\$97.8</b>	<b>(4%)</b>	<b>(2%)</b>
<b>IBM</b>	<b>\$99.8</b>	<b>(5%)</b>	<b>(2%)</b>
<i>Major Markets</i>		<i>(4%)</i>	<i>(2%)</i>
<i>Growth Markets</i>		<i>(5%)</i>	<i>(2%)</i>
<i>BRIC Countries</i>		<i>(8%)</i>	<i>(6%)</i>



# Revenue and Gross Profit Margin by Segment – FY 2013

\$ in Billions	Revenue			Operating Gross Profit Margin	
	FY13	B/(W) Yr/Yr		FY13	B/(W) Yr/Yr Pts
		Rptd	@CC		
Global Technology Services	\$38.6	(4%)	(1%)	38.1%	1.5 pts
Global Business Services	18.4	(1%)	3%	30.9%	0.9 pts
Software	25.9	2%	3%	88.8%	0.1 pts
Systems & Technology	14.4	(19%)	(18%)	35.6%	(3.5 pts)
Global Financing	2.0	Flat	3%	45.6%	(0.9 pts)
<b>Total IBM</b>	<b>\$99.8</b>	<b>(5%)</b>	<b>(2%)</b>	<b>49.7%</b>	<b>0.9 pts</b>

# Revenue by Key Industry Sales Unit – 4Q & FY 2013

\$ in Billions	<u>B/(W) Yr/Yr</u>			<u>B/(W) Yr/Yr</u>		
	<u>4Q13</u>	<u>Rptd</u>	<u>@CC</u>	<u>FY13</u>	<u>Rptd</u>	<u>@CC</u>
Financial Services	\$7.8	(3%)	1%	\$26.8	(1%)	2%
Public	3.1	(7%)	(6%)	11.6	(5%)	(5%)
Industrial	2.0	(7%)	(4%)	7.6	(4%)	(1%)
Distribution	1.8	(6%)	(5%)	6.6	(7%)	(5%)
Communications	1.8	(15%)	(13%)	7.0	(11%)	(10%)
General Business	9.7	(3%)	(1%)	34.7	(4%)	(2%)
<b>Total IBM</b>	<b>\$27.7</b>	<b>(5%)</b>	<b>(3%)</b>	<b>\$99.8</b>	<b>(5%)</b>	<b>(2%)</b>

\* Reclassified to conform with 2013 presentation; reflects coverage model change in certain geographies

## Expense Summary – FY 2013

\$ in Billions	FY13	B/(W) Yr/Yr	B/(W) Yr/Yr Drivers		
			Currency	Acq.*	Base
SG&A – Operating	\$22.7	1%	1 pts	(1 pts)	1 pts
RD&E – Operating	6.2	2%	0 pts	(2 pts)	4 pts
IP and Development Income	(0.8)	(23%)			
Other (Income)/Expense	(0.3)	(60%)			
Interest Expense	<u>0.4</u>	12%			
Operating Expense & Other Income	\$28.1	(1%)	1 pts	(2 pts)	(1 pts)

\* Includes acquisitions made in the last twelve months, net of non-operating acquisition-related charges

## Cash Flow (FAS 95)

\$ in Billions	<u>4Q13</u>	<u>4Q12</u>	<u>FY13</u>	<u>FY12</u>
Net Income from Operations	\$6.2	\$5.8	\$16.5	\$16.6
Depreciation / Amortization of Intangibles	1.2	1.2	4.7	4.7
Stock-based Compensation	0.2	0.2	0.6	0.7
Working Capital / Other	1.9	3.3	(3.0)	0.5
Global Financing A/R	(2.9)	(4.2)	(1.3)	(2.9)
<b>Net Cash provided by Operating Activities</b>	<b>6.5</b>	<b>6.3</b>	<b>17.5</b>	<b>19.6</b>
Capital Expenditures, net of payments & proceeds	(1.1)	(1.0)	(3.8)	(4.3)
Divestitures, net of cash transferred	0.1	0.0	0.3	0.6
Acquisitions, net of cash acquired	(0.5)	(1.5)	(3.1)	(3.7)
Marketable Securities / Other Investments, net	(1.4)	(1.7)	(0.8)	(1.6)
<b>Net Cash used in Investing Activities</b>	<b>(2.9)</b>	<b>(4.1)</b>	<b>(7.3)</b>	<b>(9.0)</b>
Debt, net of payments & proceeds	3.6	(0.2)	7.0	2.3
Dividends	(1.0)	(1.0)	(4.1)	(3.8)
Common Stock Repurchases (Gross)	(5.8)	(3.0)	(13.9)	(12.0)
Common Stock Transactions - Other	0.2	0.3	1.1	1.5
<b>Net Cash used in Financing Activities</b>	<b>(3.0)</b>	<b>(3.8)</b>	<b>(9.9)</b>	<b>(12.0)</b>
Effect of Exchange Rate changes on Cash	0.0	0.0	0.0	(0.1)
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>\$0.6</b>	<b>(\$1.5)</b>	<b>\$0.3</b>	<b>(\$1.5)</b>

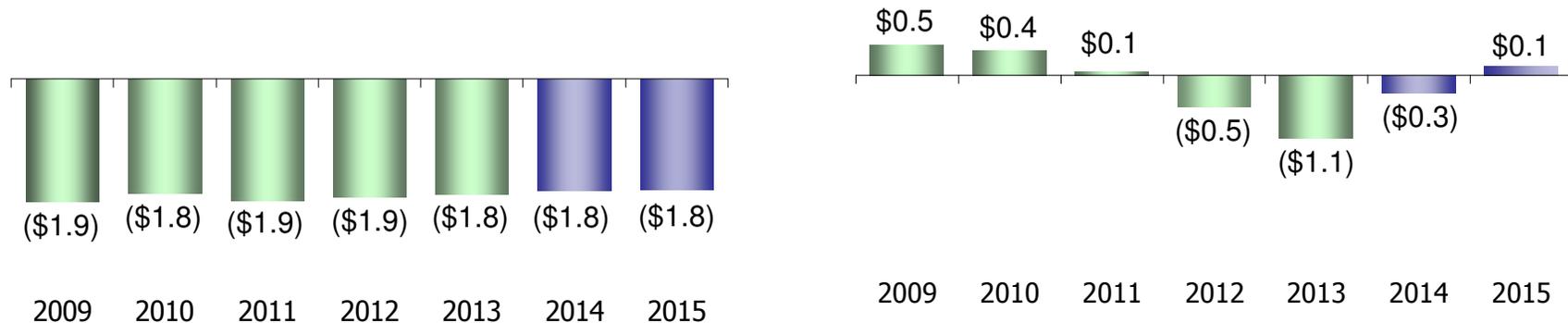
# Retirement-Related Charges

	<u>Funded Status*</u>		<u>Expected ROA</u>	<u>Actual ROA</u>	<u>Discount Rate</u>
	<u>US</u>	<u>WW</u>	<u>WW</u>	<u>WW</u>	<u>WW</u>
<b>YE 2012</b>	<b>98%</b>	<b>94%</b>	<b>7.3%</b>	<b>11.1%</b>	<b>3.4%</b>
<b>YE 2013</b>	<b>109%</b>	<b>102%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>3.9%</b>

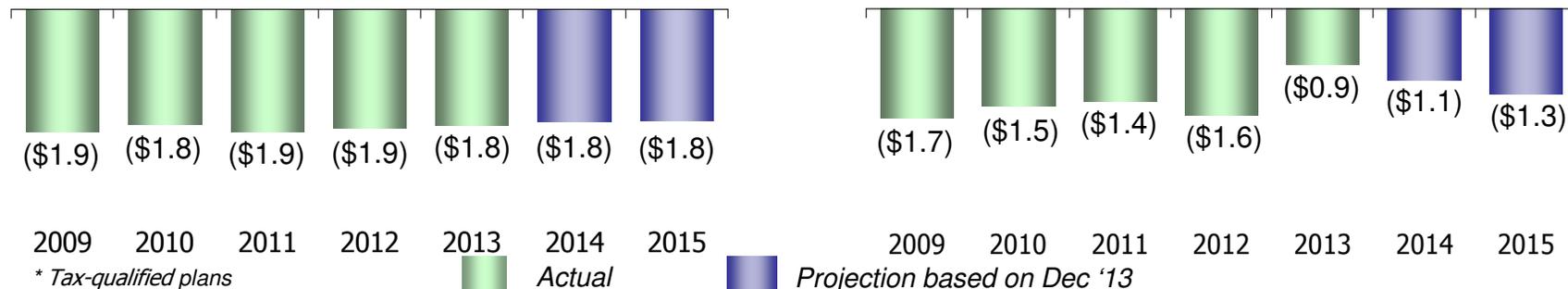
## Operating

## Non-Operating

### Pre-Tax Retirement-Related (Cost) / Income (\$B)



### Retirement-Related Cash Drivers (\$B)



2009

2010

2011

2012

2013

2014

2015

\* Tax-qualified plans

Actual

Projection based on Dec '13

assumptions

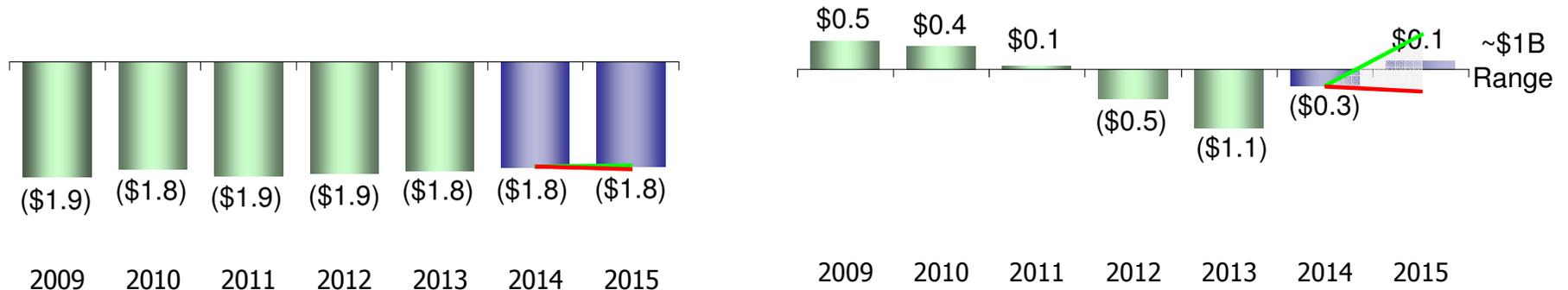
# Retirement-Related Charges

	<u>Funded Status*</u>		<u>Expected ROA</u>	<u>Actual ROA</u>	<u>Discount Rate</u>
	<u>US</u>	<u>WW</u>	<u>WW</u>	<u>WW</u>	<u>WW</u>
<b>YE 2012</b>	<b>98%</b>	<b>94%</b>	<b>7.3%</b>	<b>11.1%</b>	<b>3.4%</b>
<b>YE 2013</b>	<b>109%</b>	<b>102%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>3.9%</b>
<b>Upside</b>			<b>7.2%</b>	<b>14.0%</b>	<b>4.4%</b>
<b>Downside</b>			<b>7.2%</b>	<b>0.0%</b>	<b>3.4%</b>

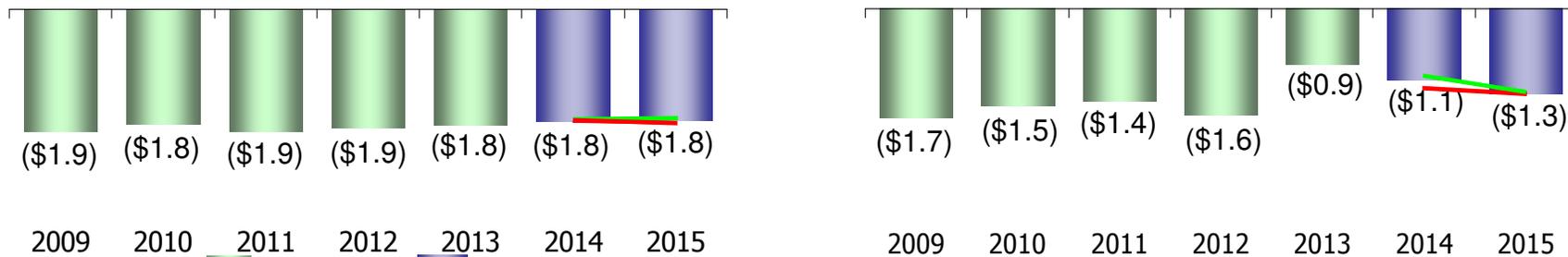
**Operating**

**Non-Operating**

## Pre-Tax Retirement-Related (Cost) / Income (\$B)



## Retirement-Related Cash Drivers (\$B)



\* Tax-qualified plans Actual Projection based on Dec '13 assumptions

Upside Case Downside Case

# 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 earnings press release and earnings presentation materials, the following Non-GAAP information which management believes provides useful information to investors.

## Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items

Management presents certain financial measures 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 the 2015 earnings per share roadmap, 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.

## 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.

# 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.

## Debt-to-Capital Ratio

Management presents its debt-to-capital ratio excluding the Global Financing business. A financing business is managed on a leveraged basis. The company funds its Global Financing segment using a debt-to-equity ratio target of approximately 7 to 1. Given this significant leverage, the company presents a debt-to-capital ratio which excludes the Global Financing segment debt and equity because the company believes this is more representative of the company's core business operations.

## Workforce Rebalancing

On April 18, 2013, the company announced it expected to take most of its workforce rebalancing actions for 2013 in the second quarter as compared to 2012 when these actions were distributed across the four quarters of the year. The company took \$1 billion workforce rebalancing charge in the second quarter. Management believes that presenting certain financial information without this item is most indicative of operational trajectory.

# Non-GAAP Supplemental Materials

## *Reconciliation of Operating Earnings Per Share*

	<b>2014 Expectations</b>
<b>IBM GAAP EPS</b>	<b>\$17.00</b>
<b>IBM Operating EPS (Non-GAAP)</b>	<b>\$18.00+</b>

### Adjustments

<b>Acquisition-Related Charges *</b>	<b>\$0.76</b>
Amortization of Purchased Intangibles	\$0.73
Other Acquisition-Related Charges	\$0.03
<b>Non-Operating Retirement-Related Items</b>	<b>\$0.24</b>

\* Includes acquisitions through December 31, 2013

The above serves to reconcile the Non-GAAP financial information contained in "FY 2013 Summary" discussion in the company's earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – 4Q 2013

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$14,315	\$105	\$154	\$14,574
SG&A	5,989	(101)	(90)	5,798
RD&E	1,566	0	(14)	1,552
Other (Income) & Expense	(113)	(8)	0	(121)
Total Operating Expense & Other (Income)	7,353	(109)	(104)	7,140
Pre-Tax Income	6,962	213	258	7,434
Tax ***	777	(55)	94	817
Net Income	6,185	268	164	6,617
Diluted Earnings Per Share	\$5.73	\$0.25	\$0.15	\$6.13

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the “2013 Summary”, “Key Financial Metrics” and “Expense Summary” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – 4Q 2012

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$15,167	\$100	\$60	\$15,327
SG&A	5,921	(91)	(29)	5,801
RD&E	1,580	0	6	1,586
Other (Income) & Expense	(47)	(7)	0	(54)
Total Operating Expense & Other (Income)	7,336	(98)	(23)	7,215
Pre-Tax Income	7,831	198	83	8,112
Tax ***	1,998	(45)	30	1,983
Net Income	5,833	243	53	6,129
Diluted Earnings Per Share	\$5.13	\$0.21	\$0.05	\$5.39

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

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The above serves to reconcile the Non-GAAP financial information contained in the “2013 Summary,” “Key Financial Metrics” and “Expense Summary” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – FY 2013

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$48,505	\$394	\$629	\$49,527
SG&A	23,502	(394)	(376)	22,731
RD&E	6,226	0	(57)	6,170
Other (Income) & Expense	(327)	(16)	0	(343)
Total Operating Expense & Other (Income)	28,981	(410)	(433)	28,137
Pre-Tax Income	19,524	804	1,062	21,390
Tax ***	3,041	57	333	3,431
Net Income	16,483	747	729	17,959
Diluted Earnings Per Share	\$14.94	\$0.68	\$0.66	\$16.28

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the “2013 Summary”, “Key Financial Metrics- FY 2013” and “FY 2013 Summary” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – FY 2012

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$50,298	\$376	\$264	\$50,938
SG&A	23,553	(349)	(294)	22,910
RD&E	6,302	0	20	6,322
Other (Income) & Expense	(843)	(13)	0	(857)
Total Operating Expense & Other (Income)	28,396	(363)	(274)	27,760
Pre-Tax Income	21,902	739	538	23,179
Tax ***	5,298	98	156	5,552
Net Income	16,604	641	381	17,627
Diluted Earnings Per Share	\$14.37	\$0.55	\$0.33	\$15.25

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the “2013 Summary”, “ Key Financial Metrics – FY 2013” and “FY 2013 Summary” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – 4Q 2013 and 4Q 2012

<u>4Q 2013</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	51.7%	0.4 pts	0.6 pts	52.6%
PTI Margin	25.1%	0.8 pts	0.9 pts	26.8%
Tax Rate ***	11.2%	(1.1 pts)	0.9 pts	11.0%
Net Income Margin	22.3%	1.0 pts	0.6 pts	23.9%

<u>4Q 2012</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	51.8%	0.3 pts	0.2 pts	52.3%
PTI Margin	26.7%	0.7 pts	0.3 pts	27.7%
Tax Rate ***	25.5%	(1.2 pts)	0.1 pts	24.4%
Net Income Margin	19.9%	0.8 pts	0.2 pts	20.9%

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the "2013 Summary" and "Key Financial Metrics" discussions in the company's earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## GAAP to Operating (Non-GAAP) Bridge – FY 2013 and FY 2012

<u>FY 2013</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	48.6%	0.4 pts	0.6 pts	49.7%
PTI Margin	19.6%	0.8 pts	1.1 pts	21.4%
Tax Rate ***	15.6%	(0.3 pts)	0.8 pts	16.0%
Net Income Margin	16.5%	0.7 pts	0.7 pts	18.0%
 <u>FY 2012</u>				
Gross Profit Margin	48.1%	0.4 pts	0.3 pts	48.7%
PTI Margin	21.0%	0.7 pts	0.5 pts	22.2%
Tax Rate ***	24.2%	(0.4 pts)	0.1 pts	24.0%
Net Income Margin	15.9%	0.6 pts	0.4 pts	16.9%

\* Includes amortization of purchased Intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance

\*\*\*The tax impact on the Operating (Non-GAAP) Pre-Tax Income is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

The above serves to reconcile the Non-GAAP financial information contained in the “2013 Summary” and “Key Financial Metrics –FY 2013” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of B/(W) Yr/Yr Expense Drivers – 4Q13*

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
<b>SG&amp;A</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	(1 pts)	1 pts	0 pts
<b>RD&amp;E</b>			
Currency	0 pts	0 pts	0 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	2 pts	1 pts	3 pts
<b>Operating Expense &amp; Other Income</b>			
Currency	2 pts	0 pts	2 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	0 pts	1 pts	1 pts

The above serves to reconcile the Non-GAAP financial information contained in the “Expense Summary” discussion in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of B/(W) Yr/Yr Expense Drivers – FY13*

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
<b>SG&amp;A</b>			
Currency	1 pts	0 pts	1 pts
Acquisitions	(2 pts)	0 pts	(1 pts)
Base	1 pts	0 pts	1 pts
<b>RD&amp;E</b>			
Currency	0 pts	0 pts	0 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	3 pts	1 pts	4 pts
<b>Operating Expense &amp; Other Income</b>			
Currency	1 pts	0 pts	1 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	(1 pts)	0 pts	(1 pts)

The above serves to reconcile the Non-GAAP financial information contained in the “Expense Summary – FY 2013” discussion in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Operating EPS Bridge 4Q12 to 4Q13*

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
4Q12 EPS	\$5.13	\$0.21	\$0.05	\$5.39
Revenue growth @ actual	(0.28)	(0.01)	0.00	(0.29)
Margin expansion	0.60	0.04	0.09	0.73
Share repurchases	0.28	0.01	0.01	0.30
4Q13 EPS	\$5.73	\$0.25	\$0.15	\$6.13

\* Includes amortization of purchased intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

The above serves to reconcile the Non-GAAP financial information contained in the "Operating EPS Bridge – 4Q12 to 4Q13" discussion in the company's earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Operating EPS Bridge FY12 to FY13*

	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
FY12 EPS	\$14.37	\$0.55	\$0.33	\$15.25
Revenue growth @ actual	(0.65)	(0.03)	(0.01)	(0.69)
Margin expansion	0.54	0.13	0.31	0.98
Share repurchases	0.68	0.03	0.03	0.74
FY13 EPS	\$14.94	\$0.68	\$0.66	\$16.28

\* Includes amortization of purchased intangibles, in process R&D, severance cost for acquired employees, vacant space for acquired companies, deal costs and acquisition integration tax charges.

\*\* Includes retirement related interest cost, expected return on plan assets, recognized actuarial losses or gains, amortization of transition assets, other settlements, curtailments, multi-employer plans and insolvency insurance.

The above serves to reconcile the Non-GAAP financial information contained in the "Operating EPS Bridge – FY12 to FY13" discussion in the company's earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Debt-to-Capital Ratio*

	<u>FY 13</u>	<u>FY 12</u>
Non-Global Financing Debt / Capital	39%	36%
IBM Consolidated Debt / Capital	63%	64%

The above serves to reconcile the Non-GAAP financial information contained in the “Balance Sheet Summary” discussion in the company’s earnings presentation. See Slide 30 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Free Cash Flow (excluding GF Receivables)*

\$ in Billions	3 months ended <u>9/30/13</u>
Net Cash from Operations	\$3.8
Less: Global Financing Receivables	<u>0.5</u>
Net Cash from Operations (excluding GF Receivables)	3.3
Net Capital Expenditures	<u>(1.0)</u>
Free Cash Flow (excluding GF Receivables)	\$2.2

The above serves to reconcile the Non-GAAP financial information contained in the "Cash Flow Analysis" discussion in the company's earnings presentation. See Slide 30 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Revenue Growth*

	<u>4Q13 Yr/Yr</u>		<u>FY13 Yr/Yr</u>	
	<u>As Rptd</u>	<u>@CC</u>	<u>As Rptd</u>	<u>@CC</u>
Japan	(16%)	4%	(15%)	4%
China	(22%)	(23%)		
Key Branded Middleware			5%	6%
	<u>4Q12 Yr/Yr</u>			
	<u>As Rptd</u>	<u>@CC</u>		
Latin America	13%	18%		

The above serves to reconcile the Non-GAAP financial information contained in the “Revenue by Geography,” “Software Segment” and “Revenue by Geography – FY 2013,” discussions in the company’s earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

# Non-GAAP Supplemental Materials

## *Reconciliation of Consolidated EPS*

	<u>EPS (As Reported)</u>	<u>Acquisition- Related</u>	<u>Non-Operating Retirement- Related</u>	<u>Operating EPS</u>
2010	\$11.52	\$0.34	(\$0.20)	\$11.67
2011	13.06	0.41	(0.03)	13.44

The above serves to reconcile the Non-GAAP financial information contained in the "FY 2013 Summary" discussion in the company's earnings presentation. See Slide 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

