Evolving IBM's Core Franchises–Overview

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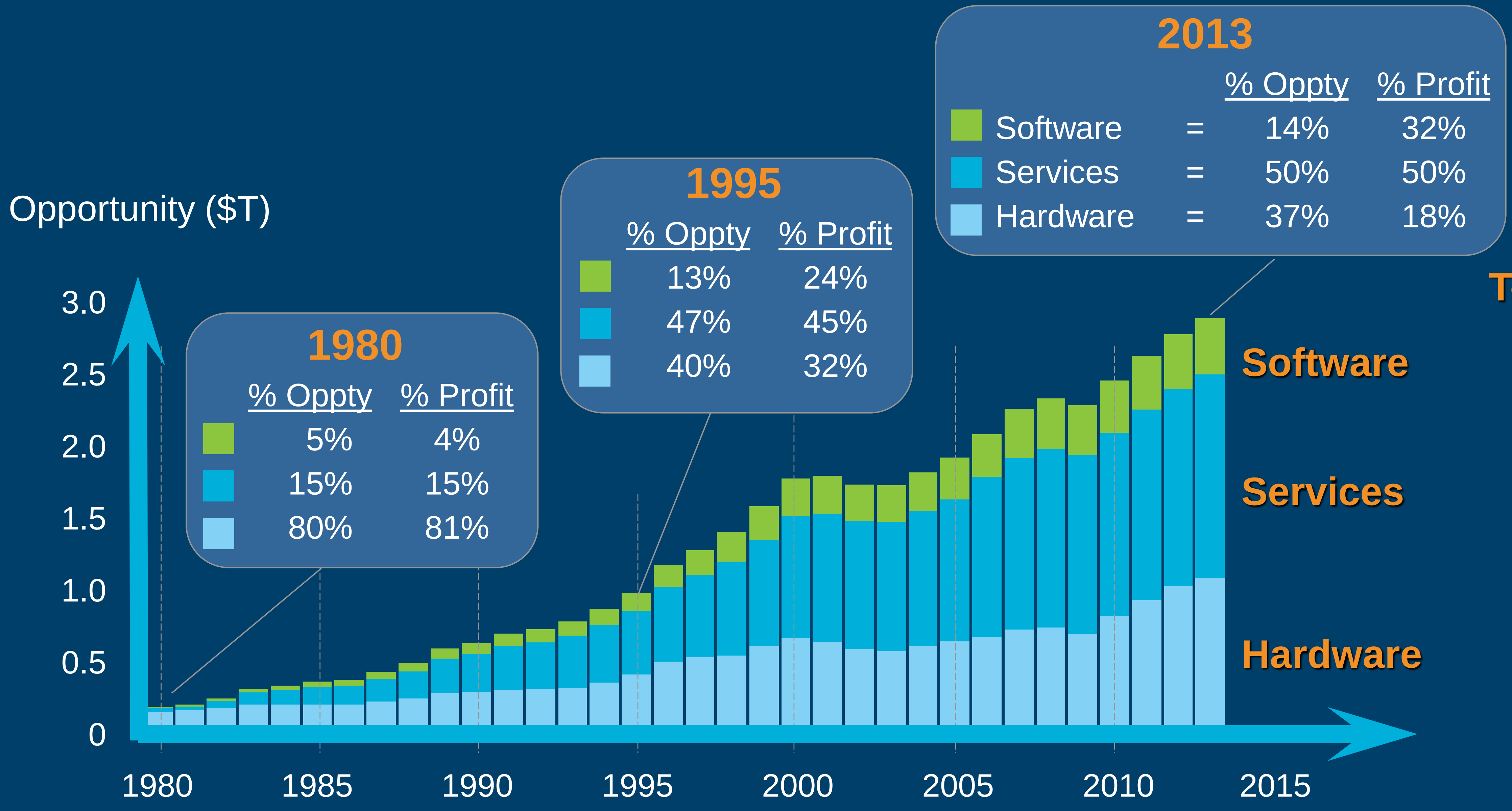
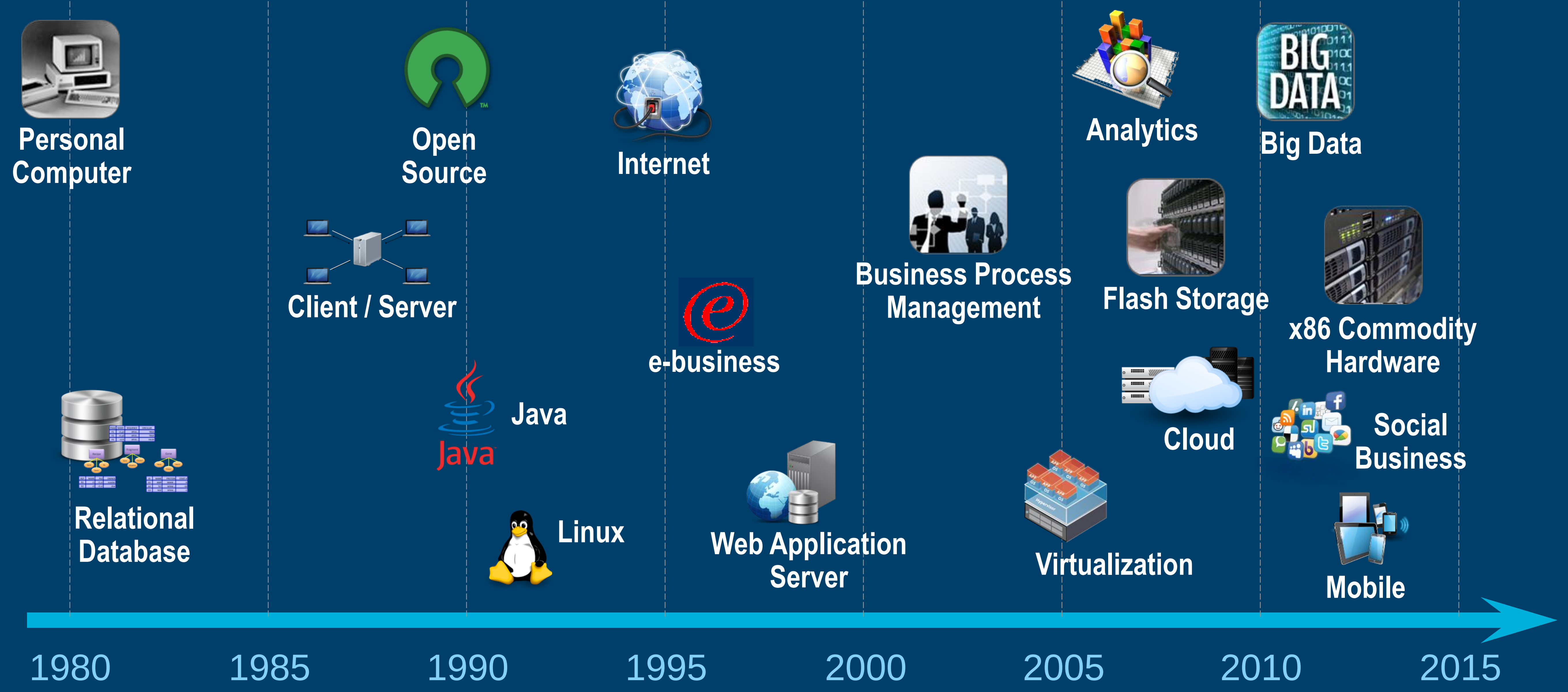
Worldwide IT Opportunity with Profit Pools



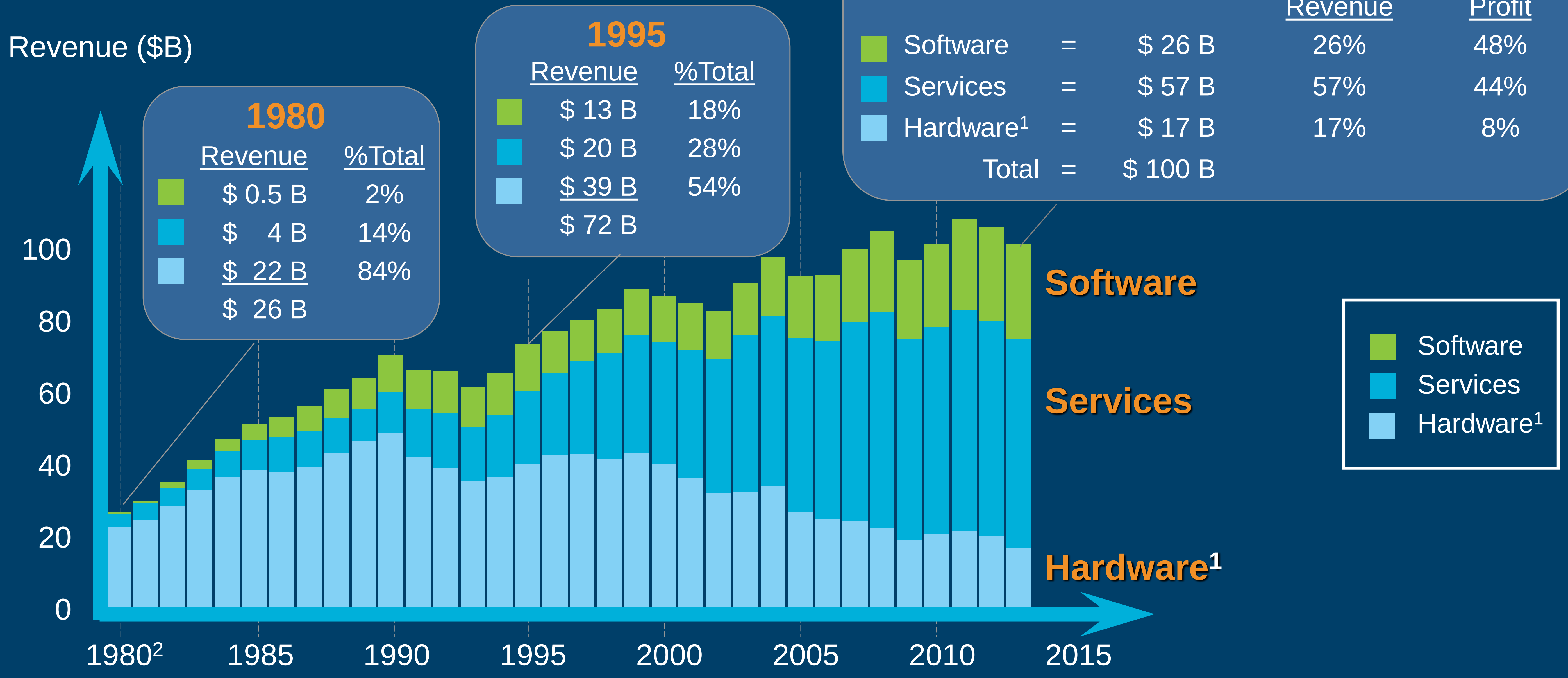
	Opportunity '80 - '13 CAGR%	Profit Pool '80 - '13 CAGR%
Total	9%	8%
Software	10%	15%
Services	11%	12%
Hardware	8%	3%

Source: IBM internal assessment, May 2014

IT Technologies Impact on the Evolution of the Enterprise



IBM Worldwide Revenue



2013		Revenue	% of Segment Revenue	% of Segment Profit
Software	=	$ 26 B	26%	48%
Services	=	$ 57 B	57%	44%
Hardware[1]	=	$ 17 B	17%	8%
Total	=	$ 100 B		

Note: 1) Hardware segment revenue includes Global Financing and other revenue
2) Revenue by segment prior to year 2003 is a representation of current structure

 Source: IBM Annual Reports, 1980 - 2013

IBM Continuously Remixes Portfolio to Reflect Our Strategy

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

- Nearly $42B on more than 150 acquisitions since the beginning of 2000
  - $17B to acquire more than 30 Big Data and analytics companies
  - $7B to acquire 15 companies related to cloud
  - Acquired nearly two dozen companies related to mobile, security, and social
- Approximately $6B annual investment in IBM R&D to create innovations like Watson, streaming analytics, advanced security and front office solutions

Exit commoditized businesses that no longer fit our strategy

DRAM	1999
Network	1999
Flat Panel Displays	2001
Hard Disk Drives	2002
Personal Computers	2005
Printers	2007
PLM Sales Operations	2010
Retail Store Solutions	2012
Customer Care BPO	2013
x86 Servers *	2014

** Announced, but not closed*

Reinvent and Leverage IBM's "Core Franchises" to Support the Rapid Transition to Growth Areas

Global Technology Services

- Leverage existing outsourcing agreements with clients to add new services including support of cloud and hybrid environments
  - Re-mix and re-skill business and IBMers to meet emerging technologies
  - Enable hybrid/cloud environments through dynamic automation and analytics

Global Business Services

- Core business services support mission critical client applications. Shift to cloud driving additional opportunity – not less
  - As a service applications driving clients to transform themselves
  - Requires substantial consulting work to get up and running

Software

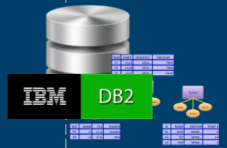
- Application Server business continues to show strong growth
  - Clients utilizing on premise/cloud software to manage workloads driven by mobile, big data and analytics

Systems and Technology

- Mainframe developed specialty engines which expands the use of mainframe for new workloads
  - An unmatched capability to support secure growth in data and transactions

Major Deliverables and Acquisitions

IBM S/390



IBM DB2 Universal Database

IBM WebSphere Application Server

IBM BlueGene

IBM z9 -Specialty Engines for z

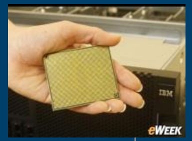
IBM Business Analytics

IBM Big Data Platform

IBM Cloud

IBM Watson Debut

IBM FlashSystem



IBM Power8

IBM BlueMix

1990 1995 2000 2005 2010 2015

IBM Enters Services Business - 1991

Lotus Acquired - 1995

IBM Software Group Established - 1995

Tivoli. Acquired - 1996

Rational. Acquired - 2003

PWC CONSULTING A business of PricewaterhouseCoopers Acquired - 2003

NISC National Interest Security Company, An IBM Company Acquired - 2006

COGNOS Acquired - 2008

unica Acquired - 2010

NETEZZA Acquired - 2010

Q1 Labs Acquired - 2011

tms Acquired - 2012

SOFTLAYER Acquired - 2013

IBM Watson Group Established - 2014

IBM’s Core Franchises are Critical to Our Clients

- 90% of top 60 banks use IBM products to run their IT systems
- 100% of Global Fortune 100 Banking and Financial Services use CICS

- 90% of global credit card transactions processed on IBM Mainframes

- 21 of top 25 Insurance companies use IBM Mainframes to run their business

- IDC ranks IBM GBS Application Management Services as the market leader

- 80% of all worldwide airline reservations are processed on IBM hardware and software

- IBM is a strategic partner with the top 20 global Communication Services Providers

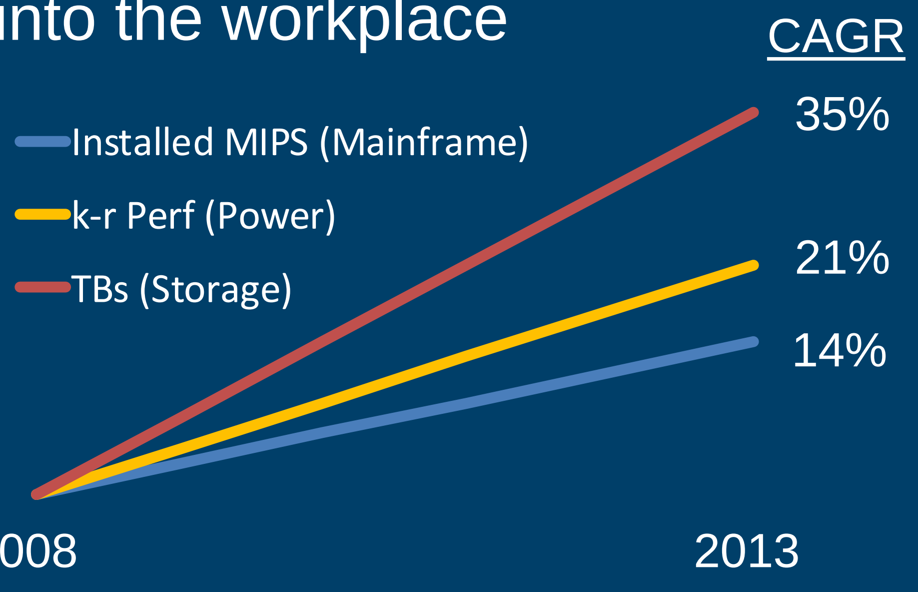
- 23 of the top 25 US Retailers run their business on IBM Mainframes

- 71% of Global Fortune 500 companies run their business on IBM Mainframes

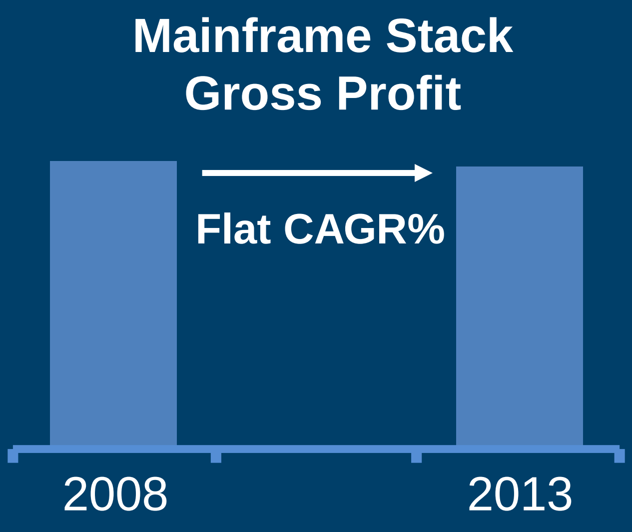
70% of World’s Business Data is Managed by the Mainframe

Providing Stability for IBM's Business Model

Continuing to sell significant capacity into the workplace



IBM Mainframe: A Core Franchise



Customers continue to demonstrate the value of IBM's mission critical offerings by consistently renewing

- Maintenance
  - Revenue stable last four years
  - Improvement in loyalty rates
- Core Software
  - Annual renewals of Subscription & Support continues to show strong growth
- Strategic Outsourcing: Top 100 Clients
  - Drive 60% of SO Revenue
  - 99% client retention over past 4 years
- Global Business Services
  - Core business supporting mission critical ERP enterprise applications continues to grow

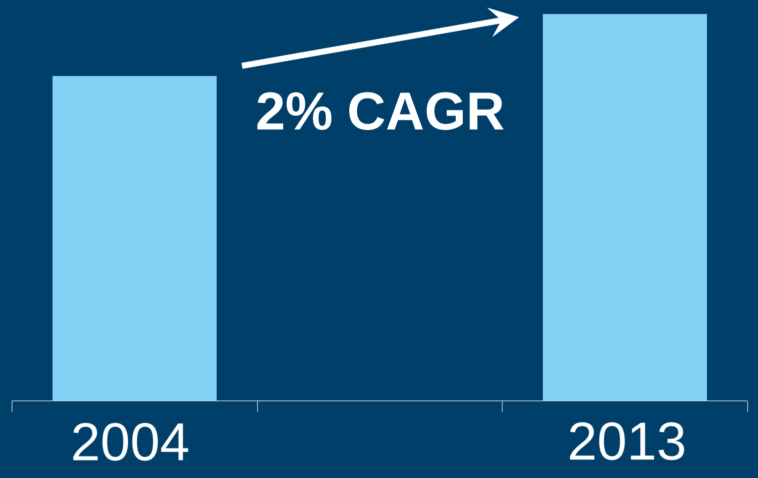
Enhancing the Base to Reinvent IBM's Core Franchises

- IBM Information Management System (IMS), deployed on an IBM Mainframe, provides the lowest cost for mission critical transactions

50+ billion transactions managed daily across the globe by IMS

- Expansive integration capabilities enable service oriented architecture (SOA) exploitation, enhanced analytics, new application development and mobile technology

IMS Revenue



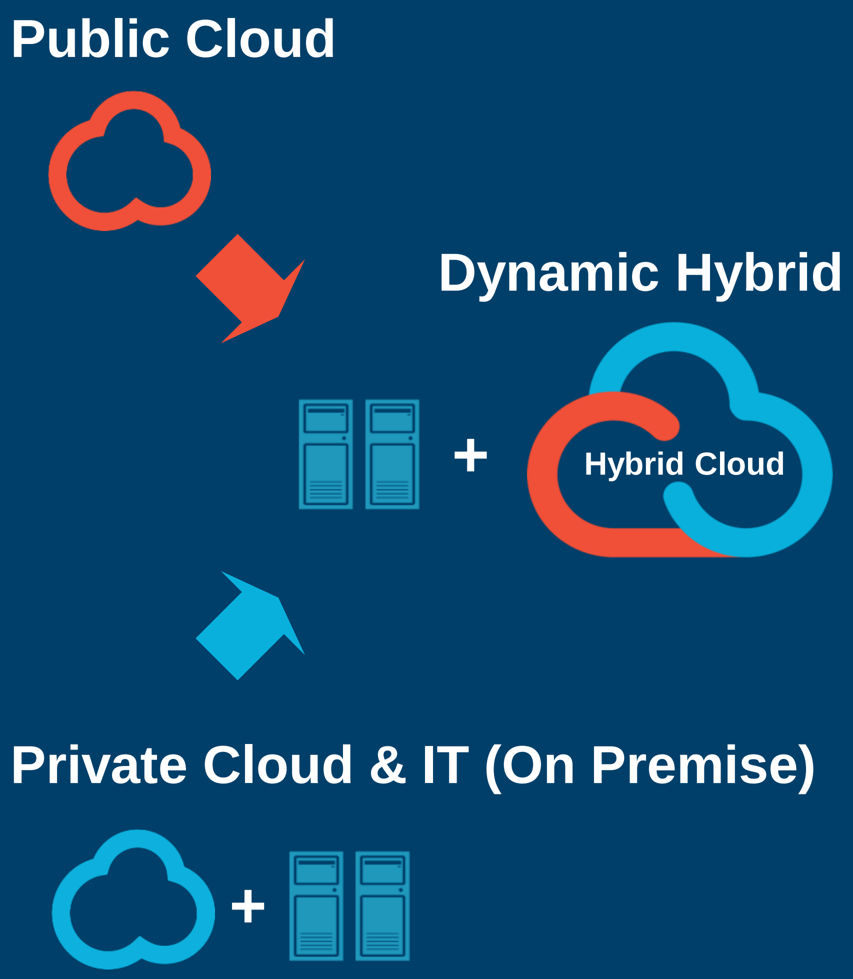
- FNB delivers "bank-in-a-box" solutions via South Africa's first mobile banking app
- The mainframe and IMS support 234 million mobile banking transactions per month

Workload Requirements Should Determine Which of the Available Deployment Options is Used to Maximize Business Success

Cloud Computing Services

- **Software as a Service (SaaS)**
- **Platform as a Service (PaaS)**
- **Infrastructure as a Service (IaaS)**

Cloud Deployment Options



Cloud Economics

- Cloud economics are driven by workload and I/O
  - Best economics are around variable workload
  - 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 processes
  - Ability to move work back on premise is a requirement

Summary

- Worldwide IT Revenue Opportunity continues to grow
  - IT Profit Pools shift from Hardware to Software and Services

- Our Core Franchises:
  - are mission critical to our clients
  - provide stability to IBM's business model
  - are continuously reinvented and leveraged to enter new markets

IBM has a strong track record of transforming and shifting to higher value / higher profit

IBM **Investor** Briefing

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/investor0514.phtml. The Non-GAAP Supplemental Materials are also included as Attachment II to the company's Forms 8-K dated January 21, 2014 and May 14, 2014.

IBM **Investor** Briefing