



1Q 2014 Earnings Presentation

April 16, 2014

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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/events/1q14.phtml> The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated April 16, 2014.

1Q 2014 Overview

	<u>1Q14</u>	
	<u>\$</u>	<u>Yr/Yr</u>
Revenue	\$22.5	(4%)
@CC excl. Cust. Care BPO		(1%)
Operating (Non-GAAP) EPS	\$2.54	(15%)

- Significant actions to continue shift to higher value
- Revenue dynamics:
 - Growth in Software, Services and Financing @CC
 - Hardware impacted by product cycle and ongoing business model challenges
- Expanded gross margin
- EPS includes workforce rebalancing charge of \$0.67 and Customer Care BPO divestiture gain of \$0.07, in line with January guidance
- Significant return to shareholders

Transitioning to key growth areas and transforming the business



Key Financial Metrics

\$ in Billions, except EPS

P&L Highlights

	<u>1Q14</u>	<u>B/(W) Yr/Yr</u>
Revenue	\$22.5	(4%)
@CC		(2%)
@CC excl. Cust. Care		(1%)
PTI – Operating	\$3.3	(19%)
NI – Operating	\$2.6	(22%)
EPS – Operating	\$2.54	(15%)

P&L Ratios (Operating)

	<u>1Q14</u>	<u>B/(W) Yr/Yr</u>
GP Margin	47.6%	0.9 pts
PTI Margin	14.7%	(2.7 pts)
Tax Rate	20.0%	(2.7 pts)
NI Margin	11.8%	(2.7 pts)

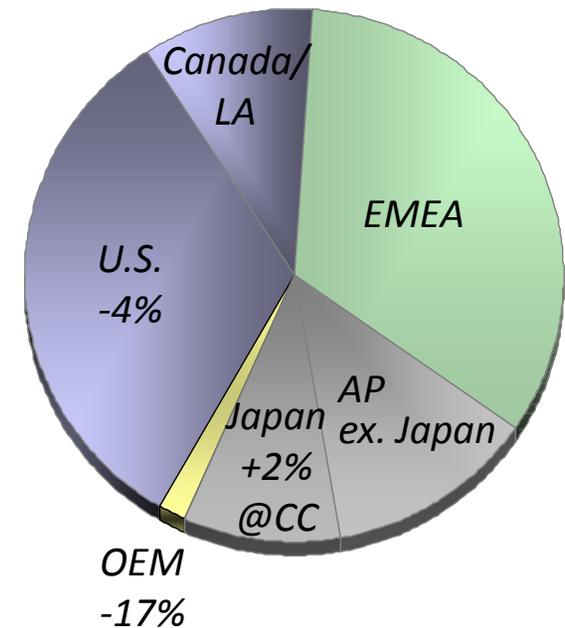
Profit metrics reflect Workforce Rebalancing charge and Customer Care Business Process Outsourcing (BPO) divestiture gain

Cash Highlights

	<u>1Q14</u>	<u>Last 12 Mos.</u>
Free Cash Flow (excl GF Receivables)	\$0.6	\$14.0
Share Repurchase (Gross)	8.2	19.4
Dividends	1.0	4.1
Cash Balance @ Mar. 31	9.7	

Revenue by Geography

\$ in Billions	B/(W) Yr/Yr		
	1Q14	Rptd	@CC
Americas	\$9.6	(4%)	(2%)
Europe/ME/A	7.6	4%	1%
Asia Pacific	5.0	(12%)	(6%)
Total Geographies	\$22.1	(4%)	(2%)
IBM	\$22.5	(4%)	(2%)
<i>excl. Cust. Care BPO</i>		<i>(3%)</i>	<i>(1%)</i>
<i>Major Markets</i>		<i>(2%)</i>	<i>(1%)</i>
<i>Growth Markets</i>		<i>(11%)</i>	<i>(5%)</i>
<i>BRIC Countries</i>		<i>(11%)</i>	<i>(6%)</i>





Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue			Operating Gross Profit Margin	
	<u>1Q14</u>	<u>B/(W) Yr/Yr</u>		<u>1Q14</u>	<u>B/(W) Yr/Yr Pts</u>
		<u>Rptd</u>	<u>@CC</u>		
Global Technology Services <i>excl. Cust. Care BPO</i>	\$9.3	(3%) (1%)	(1%) 2%	37.9%	1.2 pts
Global Business Services	4.5	Flat	2%	30.0%	1.4 pts
Software Key Branded Middleware	5.7	2% 4%	2% 5%	87.5%	0.3 pts
Systems & Technology	2.4	(23%)	(23%)	27.0%	(5.3 pts)
Global Financing	0.5	3%	6%	46.1%	0.4 pts
Total Revenue & Op. GP Margin <i>excl. Cust. Care BPO</i>	\$22.5	(4%) (3%)	(2%) (1%)	47.6%	0.9 pts

Margin expansion driven by Services and mix to Software



Expense Summary

\$ in Billions	<u>1Q14</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**	\$6.1	(13%)	1 pts	(2 pts)	(13 pts)
RD&E – Operating	1.5	7%	1 pts	(2 pts)	8 pts
IP and Development Income	(0.2)	13%			
Other (Income)/Expense**	(0.1)	88%			
Interest Expense	0.1	(12%)			
Operating Expense & Other Income	\$7.4	(8%)	~0 pts	(2 pts)	(7 pts)

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

** SG&A includes Workforce Rebalancing charge of \$0.9B; Other (Income)/Expense includes Customer Care BPO divestiture gain of (\$0.1B)

Services Segments

Global Technology Services (GTS)

Global Business Services (GBS)

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>1Q14</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External) <i>excl. Cust. Care BPO</i>	\$9.3	(3%) (1%)	(1%) 2%
Gross Margin (External)	37.9%	1.2 pts	
PTI Margin*	14.1%	(2.0 pts)	

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>1Q14</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$4.5	Flat 2%	
Gross Margin (External)	30.0%	1.4 pts	
PTI Margin*	13.6%	(1.5 pts)	

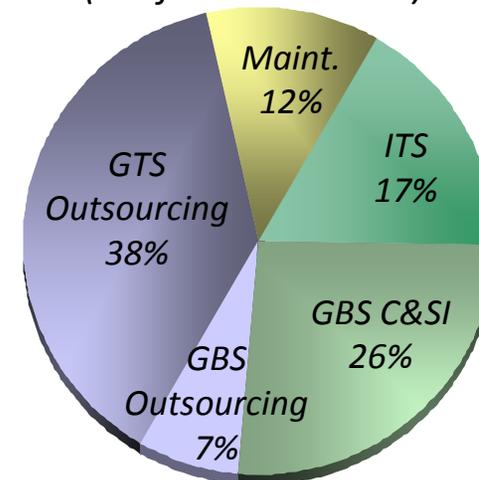
* GTS reflects Workforce Rebalancing charge of \$0.3B & Cust. Care BPO gain of \$0.1B; GBS reflects Workforce Rebalancing charge of \$0.2B

<u>GTS 1Q14 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
GTS Outsourcing <i>excl. Cust. Care BPO</i>	(5%) (1%)	(3%) 1%
Integrated Technology Services	2%	5%
Maintenance	(3%)	Flat

<u>GBS 1Q14 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
GBS Outsourcing	(10%)	(8%)
Consulting & Systems Integration	3%	5%

	<u>1Q14</u>	<u>Yr/Yr</u>
Backlog <i>adj. for Cust. Care BPO</i>	\$138B	Flat 1%

1Q14 Revenue
(% of Total Services)



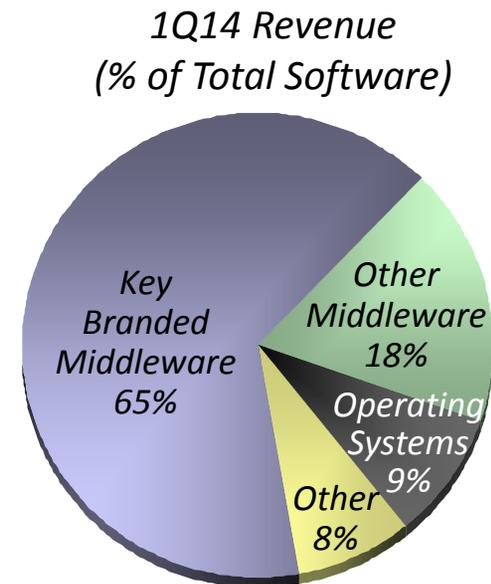
Continued gross margin expansion

Software Segment

\$ in Billions	B/(W) Yr/Yr		
	1Q14	Rptd	@CC
Revenue (External)	\$5.7	2%	2%
Gross Margin (External)	87.5%	0.3 pts	
PTI Margin*	29.1%	(2.4 pts)	

* Reflects Workforce Rebalancing charge of \$0.2B

1Q14 Revenue	Yr/Yr	
	Rptd	@CC
WebSphere	12%	12%
Information Management	1%	2%
Tivoli	7%	7%
Workforce Solutions	(4%)	(4%)
Rational	1%	2%
Key Branded Middleware	4%	5%
Total Middleware	3%	4%
Total Software	2%	2%



Led by Key Branded Middleware

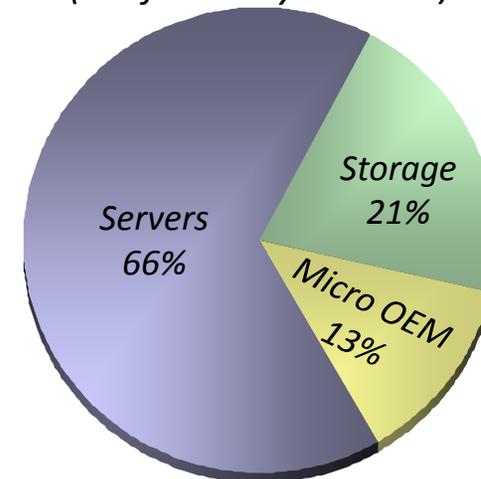
Systems & Technology Segment

\$ in Billions	<u>B/(W) Yr/Yr</u>		
	<u>1Q14</u>	<u>Rptd</u>	<u>@CC</u>
Revenue (External)	\$2.4	(23%)	(23%)
Gross Margin (External)	27.0%	(5.3 pts)	
PTI Margin*	(25.8%)	(13.2 pts)	

* Reflects Workforce Rebalancing charge of \$0.2B

<u>1Q14 Revenue</u>	<u>Yr/Yr</u>	
	<u>Rptd</u>	<u>@CC</u>
System z	(40%)	(40%)
Power Systems	(22%)	(21%)
System x	(18%)	(17%)
Storage	(23%)	(23%)
Total Systems	(24%)	(24%)
Microelectronics OEM	(16%)	(16%)
Total Systems & Technology	(23%)	(23%)

1Q14 Revenue
(% of Total Sys & Tech)



Actions taken to stabilize profit for the year

Cash Flow Analysis

\$ in Billions	<u>1Q14</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>FY13</u>
Net Cash from Operations	\$3.3	(\$0.7)	\$17.5
Less: Global Financing Receivables	<u>1.8</u>	<u>0.2</u>	<u>(1.3)</u>
Net Cash from Operations (excluding GF Receivables)	1.5	(0.9)	18.8
Net Capital Expenditures	<u>(0.9)</u>	<u>(0.2)</u>	<u>(3.8)</u>
Free Cash Flow (excluding GF Receivables)	0.6	(1.1)	15.0
Acquisitions	(0.3)	(0.2)	(3.1)
Divestitures	0.4	0.4	0.3
Dividends	(1.0)	0.0	(4.1)
Share Repurchases (Gross)	(8.2)	(5.6)	(13.9)
Non-GF Debt	3.6	4.4	3.2
Other (includes GF A/R & GF Debt)	<u>3.4</u>	<u>(0.1)</u>	<u>2.4</u>
Change in Cash & Marketable Securities	(\$1.4)	(\$2.2)	(\$0.1)



Balance Sheet Summary

\$ in Billions	<u>Mar. 13</u>	<u>Dec. 13</u>	<u>Mar. 14</u>
Cash & Marketable Securities	\$12.0	\$11.1	\$9.7
Non-GF Assets*	70.7	76.5	76.7
Global Financing Assets	34.5	38.7	36.2
Total Assets	117.3	126.2	122.6
Other Liabilities	64.6	63.6	61.9
Non-GF Debt*	8.2	12.2	15.7
Global Financing Debt	25.2	27.5	28.3
Total Debt	33.4	39.7	44.0
Total Liabilities	98.0	103.3	105.9
Equity	19.2	22.9	16.7
Non-GF Debt / Capital	34%	39%	55%
Global Financing Leverage	7.2	7.2	7.1

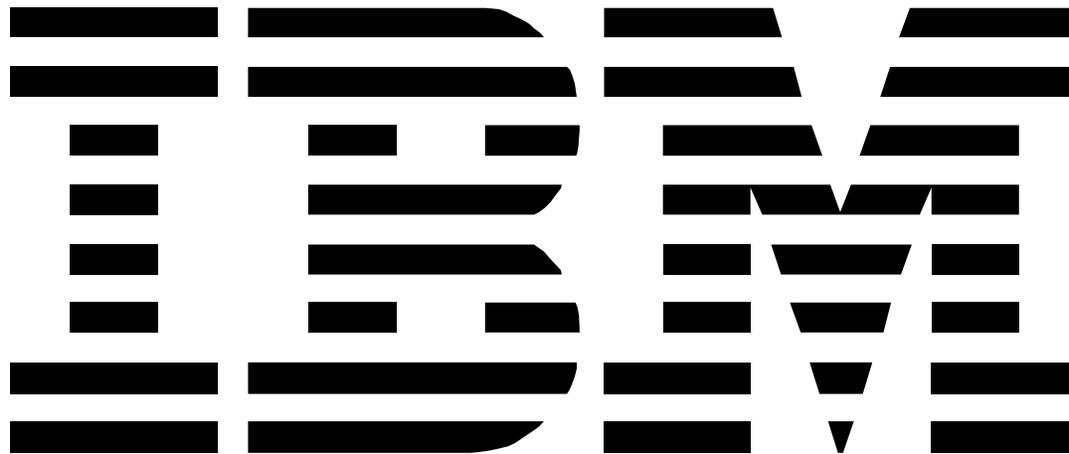
* Includes eliminations of inter-company activity

1Q 2014 Summary

- Significant actions to continue shift to higher value and right-size business
 - Continued investment aligned with strategic shifts of Data, Cloud, Engagement
 - SoftLayer, BlueMix, Watson
 - Aspera and Cloudant acquisitions
 - Divesting businesses that no longer fit strategic profile
 - Workforce rebalancing aligns resources and skills to demand profile

- Expect at least \$18.00 of Operating EPS in 2014
 - Will update for System x divestiture later in the year

- Allocating capital and managing business for the long-term
 - Continue to expect to deliver at least \$20.00 of Operating EPS in 2015 along the way



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
- Pre-Tax Income by Segment
- Global Financing Portfolio
- Revenue by Key Industry Sales Unit
- Cash Flow (FAS 95)
- Non-GAAP Supplemental Materials
 - Operating (Non-GAAP) Earnings Per Share and Related Income Statement Items, Constant Currency
 - Cash Flow, Debt-to-Capital Ratio, Customer Care Outsourcing Business Divestiture, Workforce Rebalancing,
 - Reconciliation of Operating Earnings Per Share
 - GAAP to Operating (Non-GAAP) Bridge – 1Q 2014
 - GAAP to Operating (Non-GAAP) Bridge – 1Q 2013
 - GAAP to Operating (Non-GAAP) Bridge – 1Q 2014 and 1Q 2013
 - Reconciliation of B/(W) Yr/Yr Expense Drivers – 1Q14
 - Reconciliation of B/(W) Yr/Yr Expense Drivers – 1Q14
 - Reconciliation of Debt-to-Capital Ratio
 - Reconciliation of Free Cash Flow (excluding GF Receivables) – 12 months ended 3/31/14
 - Reconciliation of Revenue Growth

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>1Q14</u>	<u>Yr/Yr</u>	<u>4/15 Spot</u>	<u>2Q14</u>	<u>Yr/Yr @ 4/15 Spot</u>		<u>FY14</u>
					<u>3Q14</u>	<u>4Q14</u>	
Euro	0.73	4%	0.72	5%	4%	2%	4%
Pound	0.60	6%	0.60	8%	7%	3%	6%
Yen	103	(11%)	102	(3%)	(3%)	(1%)	(4%)
<hr/>							
IBM Revenue Impact		(2 pts)		~0 pts	~1 pts	~0 pts	~0 pts
	<u>(US\$B)</u>	<u>Yr/Yr</u>					
Revenue As Reported	\$22.5	(4%)					
Currency Impact	(0.4)	(2 pts)					
Revenue @CC		(2%)					

Supplemental Segment Information – 1Q 2014

Global Services Revenue

Global Services Backlog / Signings

	<u>Revenue Growth</u>		<u>\$ in Billions</u>		
	<u>Yr/Yr</u>	<u>@CC</u>	<u>1Q14</u>	<u>Yr/Yr</u>	<u>@CC</u>
GTS Outsourcing	(5%)	(3%)	Total Backlog	(2%)	(2%)
<i>excl. Cust. Care BPO</i>	<i>(1%)</i>	<i>1%</i>			
Integrated Tech Services	2%	5%	Change in Backlog due to Currency	Flat	1%
Maintenance	(3%)	Flat			
Total GTS	(3%)	(1%)	Quarter-to-Quarter	\$0	
<i>excl. Cust. Care BPO</i>	<i>(1%)</i>	<i>2%</i>	Year-to-Year	\$0	
GBS Outsourcing	(10%)	(8%)	Outsourcing Backlog	\$86	(5%) (5%)
GBS C&SI	3%	5%	<u>Signings</u>		
Total GBS	Flat	2%	<u>1Q14</u>	<u>Yr/Yr</u>	<u>@CC</u>
Total Outsourcing	(6%)	(4%)	Outsourcing	\$5.5	(49%) (48%)
Total Transactional	3%	5%	- GTS O/S, GBS O/S (AMS)		
Maintenance	(3%)	Flat	Transactional	5.7	(9%) (7%)
			- ITS, Consulting & AMS SI (incl. US Federal)		
			Total Signings	\$11.2	(34%) (33%)

Note: Actual backlog calculated using March 31 currency spot rates

Supplemental Segment Information – 1Q 2014

Systems & Technology

	<u>Revenue Growth</u>		
	<u>Yr/Yr</u>	<u>@CC</u>	<u>GP%</u>
System z	(40%)	(40%)	↑
Power Systems	(22%)	(21%)	↓
System x	(18%)	(17%)	↑
Storage	(23%)	(23%)	↓
Total Systems	(24%)	(24%)	↓
Microelectronics OEM	(16%)	(16%)	
Total Sys & Tech	(23%)	(23%)	

Software

	<u>Revenue Growth</u>	
	<u>Yr/Yr</u>	<u>@CC</u>
WebSphere	12%	12%
Information Management	1%	2%
Tivoli	7%	7%
Workforce Solutions	(4%)	(4%)
Rational	<u>1%</u>	<u>2%</u>
Key Branded Middleware	4%	5%
Other Middleware	<u>Flat</u>	<u>Flat</u>
Total Middleware	3%	4%
Operating Systems	(10%)	(9%)
Other Software/Services	<u>Flat</u>	<u>1%</u>
Total Software	2%	2%

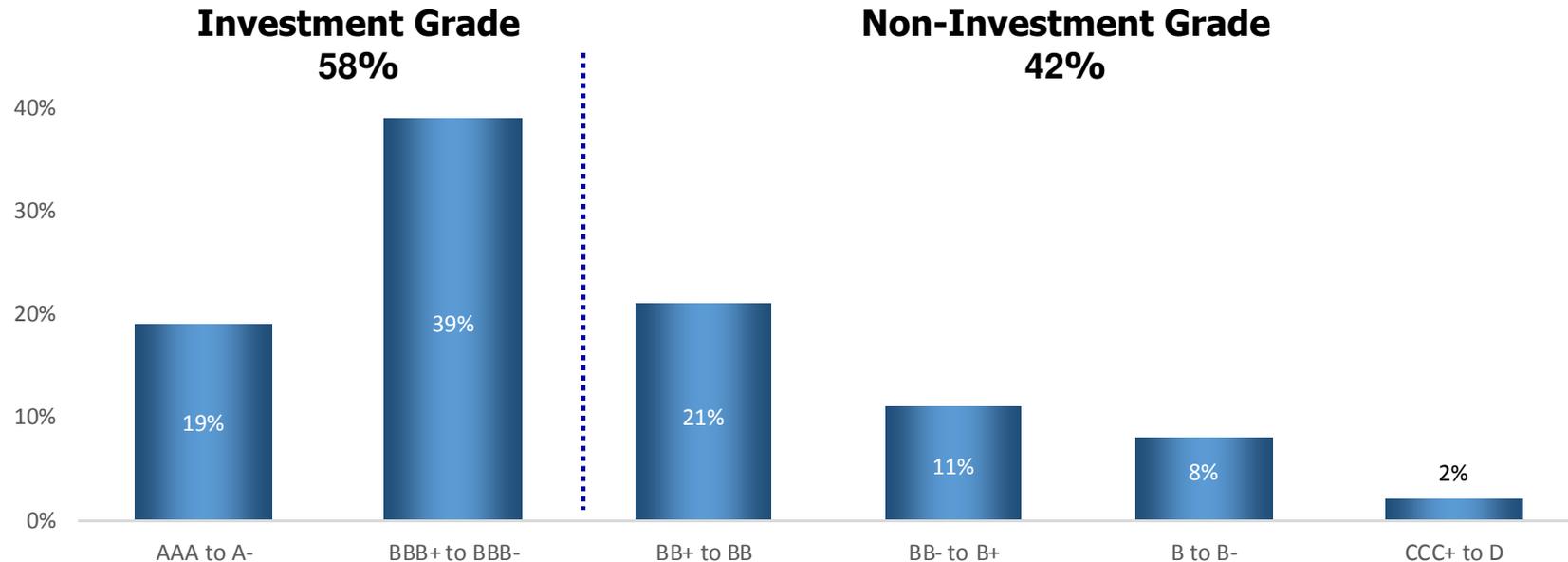
Pre-Tax Income by Segment

\$ in Billions	<u>Segment PTI \$</u>			<u>Segment PTI Margin</u>		
	<u>1Q14 PTI \$</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Excl. WFR*</u>	<u>1Q14 PTI %</u>	<u>B/(W) Yr/Yr</u>	<u>B/(W) Yr/Yr Excl. WFR*</u>
Global Technology Services	\$1.3	(15%)	5%	14.1%	(2.0 pts)	1.3 pts
Global Business Services	0.6	(11%)	12%	13.6%	(1.5 pts)	1.9 pts
Software	1.9	(5%)	3%	29.1%	(2.4 pts)	Flat
Systems & Technology	(0.7)	(\$0.3)	(10%)	(25.8%)	(13.2 pts)	(4.8 pts)
Global Financing	0.6	11%	11%	52.8%	1.0 pts	1.3 pts

* Yr/Yr excludes Workforce Rebalancing from both years for comparison purposes

Global Financing Portfolio

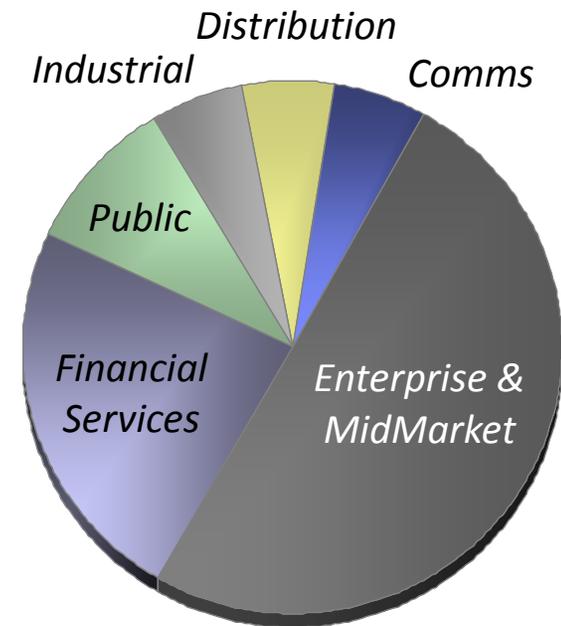
1Q14 – \$29.7B Net External Receivables



	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Identified Loss Rate	1.0%	0.8%	0.8%
Anticipated Loss Rate	0.4%	0.4%	0.4%
Reserve Coverage	1.4%	1.2%	1.2%
Client Days Delinquent Outstanding	3.6	3.3	2.5
Commercial A/R > 30 Days	\$ 36 M	\$ 43 M	\$ 22 M

Revenue by Key Industry Sales Unit

\$ in Billions	<u>B/(W) Yr/Yr*</u>		
	<u>1Q14</u>	<u>Rptd</u>	<u>@CC</u>
Financial Services	\$5.1	Flat	3%
Public	2.0	3%	4%
Industrial	1.2	(12%)	(11%)
Distribution	1.2	4%	5%
Communications	1.2	(11%)	(9%)
Enterprise & MidMarket	10.8	(4%)	(3%)
Total IBM	\$22.5	(4%)	(2%)



* Reclassified to conform with 2014 presentation.

This view reflects the company's client segmentation. Revenue reported in the industry sectors based on the company's current structure now represents about half of IBM's revenue. As a result starting in the second quarter this view will no longer be provided.

Cash Flow (FAS 95)

\$ in Billions	<u>1Q14</u>	<u>1Q13</u>
Net Income from Operations	\$2.4	\$3.0
Depreciation / Amortization of Intangibles	1.1	1.2
Stock-based Compensation	0.1	0.1
Working Capital / Other	(2.1)	(1.9)
Global Financing A/R	1.8	1.6
Net Cash provided by Operating Activities	3.3	4.0
Capital Expenditures, net of payments & proceeds	(0.9)	(0.7)
Divestitures, net of cash transferred	0.4	0.0
Acquisitions, net of cash acquired	(0.3)	(0.1)
Marketable Securities / Other Investments, net	0.8	(0.2)
Net Cash used in Investing Activities	0.0	(1.0)
Debt, net of payments & proceeds	4.2	0.5
Dividends	(1.0)	(0.9)
Common Stock Repurchases (Gross)	(8.2)	(2.6)
Common Stock Transactions - Other	0.3	0.4
Net Cash used in Financing Activities	(4.7)	(2.7)
Effect of Exchange Rate changes on Cash	0.0	(0.1)
Net Change in Cash & Cash Equivalents	(\$1.3)	\$0.2

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.

Customer Care Outsourcing Business Divestiture

On September 10, 2013, the company announced that it had signed a definitive agreement with SYNnex for the sale of its worldwide customer care process outsourcing services business. Management presents certain financial results excluding the effects of the customer care outsourcing business divestiture. Management believes that presenting financial information without this item 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.

Workforce Rebalancing

Management presents certain financial results excluding the effects of charges in connection with workforce rebalancing actions. Management believes that presenting financial information without this item 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.

Non-GAAP Supplemental Materials

Reconciliation of Operating Earnings Per Share

	2014 Expectations
IBM GAAP EPS	\$17.00+
IBM Operating EPS (Non-GAAP)	\$18.00+
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Adjustments	
Acquisition-Related Charges *	\$0.72
Amortization of Purchased Intangibles	\$0.69
Other Acquisition-Related Charges	\$0.03
Non-Operating Retirement-Related Items	\$0.28

* Includes acquisitions through March 31, 2014

The above serves to reconcile the Non-GAAP financial information contained in "1Q 2014 Overview" discussion in the company's earnings presentation. See Slide 23 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 – 1Q 2014

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$10,543	\$104	\$52	\$10,699
SG&A	6,289	(97)	(87)	6,104
RD&E	1,501	0	17	1,518
Other Income & Expense	(126)	0	0	(126)
Total Operating Expense & Other Income	7,563	(98)	(70)	7,395
Pre-Tax Income	2,980	201	123	3,304
Tax ***	596	40	25	661
Net Income	2,384	161	98	2,643
Diluted Earnings Per Share	\$2.29	\$0.16	\$0.09	\$2.54

* 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 “1Q 2014 Overview”, “Key Financial Metrics” and “Expense Summary” discussions in the company’s earnings presentation. See Slide 23 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 – 1Q 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	\$10,678	\$95	\$164	\$10,937
SG&A	5,577	(92)	(104)	5,381
RD&E	1,644	0	(16)	1,628
Other Income & Expense	(60)	(7)	0	(67)
Total Operating Expense & Other Income	7,072	(99)	(120)	6,853
Pre-Tax Income	3,606	194	283	4,084
Tax ***	574	54	79	708
Net Income	3,032	140	204	3,376
Diluted Earnings Per Share	\$2.70	\$0.12	\$0.18	\$3.00

* 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 “1Q 2014 Overview”, “Key Financial Metrics” and “Expense Summary” discussions in the company’s earnings presentation. See Slide 23 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 – 1Q 2014 and 1Q 2013

<u>1Q 2014</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement- related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin	46.9%	0.5 pts	0.2 pts	47.6%
PTI Margin	13.3%	0.9 pts	0.5 pts	14.7%
Tax Rate ***	20.0%	0.0 pts	0.0 pts	20.0%
Net Income Margin	10.6%	0.7 pts	0.4 pts	11.8%
<u>1Q 2013</u>				
Gross Profit Margin	45.6%	0.4 pts	0.7 pts	46.7%
PTI Margin	15.4%	0.8 pts	1.2 pts	17.4%
Tax Rate ***	15.9%	0.6 pts	0.9 pts	17.3%
Net Income Margin	13.0%	0.6 pts	0.9 pts	14.4%

* 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 "1Q 2014 Overview" and "Key Financial Metrics" discussions in the company's earnings presentation. See Slide 23 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 – 1Q14

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
SG&A			
Currency	1 pts	0 pts	1 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	(12 pts)	(1 pts)	(13 pts)
RD&E			
Currency	1 pts	0 pts	1 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	10 pts	(2 pts)	8 pts
Operating Expense & Other Income			
Currency	0 pts	0 pts	0 pts
Acquisitions	(2 pts)	0 pts	(2 pts)
Base	(5 pts)	(1 pts)	(7 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 23 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 – 1Q14

	<u>GAAP</u>	<u>Non-GAAP Adjustments</u>	<u>Operating (Non-GAAP)</u>
Operating Expense & Other Income			
Base excluding workforce rebalancing and divestiture gains	5 pts	(1 pts)	4 pts

The above serves to reconcile the Non-GAAP financial information contained in the “Expense Summary” discussion in the company’s earnings presentation. See Slides 23-24 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>March 2014</u>	<u>Dec. 2013</u>	<u>March 2013</u>
Non-Global Financing Debt / Capital	55%	39%	34%
IBM Consolidated Debt / Capital	72%	63%	63%

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 24 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	12 months ended <u>3/31/14</u>
Net Cash from Operations	\$16.8
Less: Global Financing Receivables	<u>(1.1)</u>
Net Cash from Operations (excluding GF Receivables)	17.9
Net Capital Expenditures	<u>(3.9)</u>
Free Cash Flow (excluding GF Receivables)	\$14.0

The above serves to reconcile the Non-GAAP financial information contained in the “Key Financial Metrics” discussion in the company’s earnings presentation. See Slide 24 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

	<u>1Q14 Yr/Yr</u>		<u>4Q13 Yr/Yr</u>	
	<u>As Reported</u>	<u>At Constant Currency</u>	<u>As Reported</u>	<u>At Constant Currency</u>
IBM			(5%)	(3%)
IBM Total Services	(2%)	~0		
IBM Total Services excluding customer care business	~0	2%		
Japan	(8%)	2%		
China	(19%)	(20%)		

The above serves to reconcile the Non-GAAP financial information contained in the “Key Financial Metrics”, “Revenue by Geography” and “Services Segments” discussions in the company’s earnings presentation. See Slide 23 of this presentation for additional information on the use of these Non-GAAP financial measures.

