



4Q 2015 Earnings Presentation

January 19, 2016

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/events/earnings/4q15.html> The Non-GAAP Supplemental Materials are also included as Attachment II to the Company's Form 8-K dated January 19, 2016.

4Q and Full Year 2015 Overview

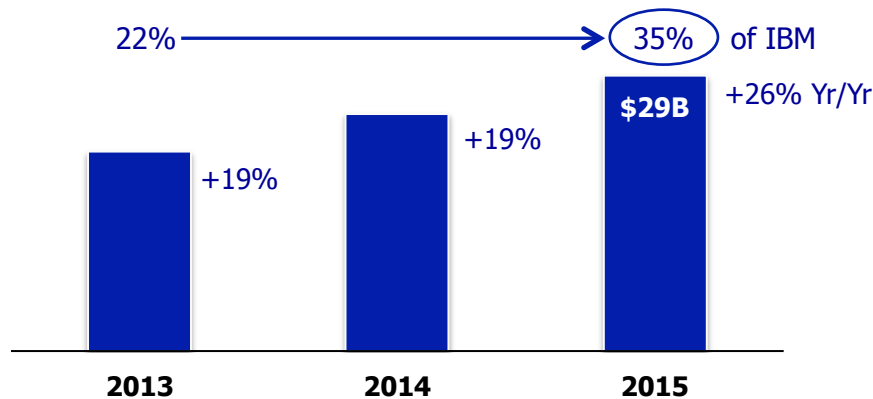
	<u>4Q15</u>	<u>Yr/Yr</u>	<u>FY15</u>	<u>Yr/Yr</u>
Revenue (\$B)	\$ 22.1	(2%)*	\$ 81.7	(1%)*
Yr/Yr As Reported		(9%)		(12%)
Operating (Non-GAAP) EPS	\$ 4.84	(17%)	\$14.92	(10%)

*Revenue growth rate @CC , FY15 Revenue growth also excludes divested businesses

- Continued strength in Strategic Imperatives
 - \$29B revenue, +26% Yr/Yr, 35% of IBM revenue
- Profit dynamics reflect shift to higher value, higher investment levels, currency impacts and prior period gains
- Free cash flow of \$13.1B, up Yr/Yr
 - Free cash flow realization of 98%

Transformation Progress

Strategic Imperatives Revenue Progression



	<u>2015</u>	<u>Yr/Yr</u>
Analytics	\$18B	16%
Cloud	10	57%
Mobile	3	250%
Security	2	12%
Social	1	21%

aaS-exit run rate *\$5.3B* *+\$1.8B*

Capital deployed for growth

- Watson Health: Merge, Explorys, Phytel
- Watson IoT: The Weather Co (announced)
- Cloud acquisitions, including Cleversafe, Clearleap
- Cloud data centers, Bluemix expansion
- Expanded partnerships
- Repositioned Power and rolled out z13

Capital returned to shareholders:

- Reduced average share count by 2.7%
- Paid ~\$5B in dividends

Revenue growth rate @CC and excludes divested businesses

Overlap in Strategic Imperatives primarily reflects solutions delivered via Cloud



Key Financial Metrics

\$ in Billions, except EPS

<u>P&L Highlights</u>	<u>4Q15</u>	<u>Yr/Yr</u>	<u>impact of 4Q14 gain*</u>	<u>P&L Ratios (Operating)</u>	<u>4Q15</u>	<u>B/(W) Yr/Yr</u>	<u>impact of 4Q14 gain*</u>
Revenue	\$22.1	(2%)		GP Margin	52.7%	(1.2 pts)	
PTI – Operating	\$5.5	(25%)	(17 pts)	PTI Margin	25.0%	(5.7 pts)	(5.8 pts)
NI – Operating	\$4.7	(19%)	(19 pts)	Tax Rate	14.7%	7.1 pts	
EPS – Operating	\$4.84	(17%)	(20 pts)	NI Margin	21.3%	(2.7 pts)	(4.6 pts)

Revenue growth rate @CC
*impact of \$1.4B pre-tax 4Q14 System x divestiture gain

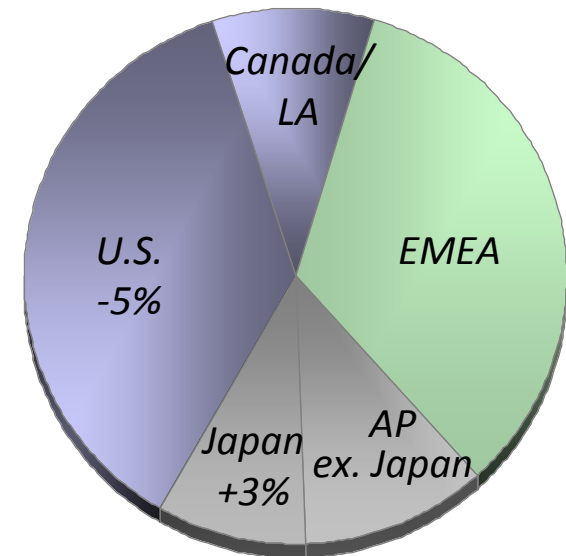
Cash Highlights

	<u>4Q15</u>	<u>FY15</u>
Free Cash Flow (excl. GF Receivables)	\$ 6.1	\$ 13.1
Share Repurchase (Gross)	0.8	4.6
Dividends	1.3	4.9
Cash Balance @ December 31	8.2	

Revenue by Geography

\$ in Billions

	<u>4Q15</u>	<u>Yr/Yr</u>
Americas	\$10.3	(4%)
Europe/ME/Africa	7.3	1%
Asia Pacific	4.4	(3%)
IBM	\$22.1	(2%)
<i>Major Markets</i>		<i>(2%)</i>
<i>Growth Markets</i>		<i>(4%)</i>
<i>BRIC Countries</i>		<i>(11%)</i>



Revenue growth rate @CC



Revenue and Gross Profit Margin by Segment

\$ in Billions	Revenue		Operating Gross Profit Margin	
	<u>4Q15</u>	<u>Yr/Yr</u>	<u>4Q15</u>	<u>Yr/Yr Pts</u>
Global Technology Services	\$ 8.1	1%	37.7%	(1.5 pts)
Global Business Services	4.3	(4%)	28.2%	(3.3 pts)
Software	6.8	(6%)	88.0%	(2.0 pts)
Systems Hardware	2.4	3%	48.0%	(1.6 pts)
Global Financing	0.5	(6%)	39.9%	(8.8 pts)
Total Revenue & Op. GP Margin	\$22.1	(2%)	52.7%	(1.2 pts)

Revenue growth rates @CC

Expense Summary

\$ in Billions				
	<u>4Q15</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>Drivers</u>	<u>B/(W)</u> <u>Yr/Yr</u>
SG&A – Operating	\$5.0	15%		
RD&E – Operating	1.4	(1%)	Divestiture Gain 4Q'14* (OI/E)	(25 pts)
IP and Development Income	(0.2)	(3%)	Workforce Rebalancing (SG&A)	10 pts
Other (Income)/Expense	(0.1)	(90%)	Currency	8 pts
Interest Expense	0.1	(10%)	Acquisitions	(2 pts)
Operating Expense & Other Income	\$6.1	(9%)		

*impact of \$1.4B pre-tax 4Q14 System x divestiture gain

Services Segments

Global Technology Services (GTS)

\$ in Billions

	<u>4Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$8.1	1%
Gross Margin (External)	37.7%	(1.5 pts)
PTI Margin	17.8%	1.9 pts

GTS 4Q15 Revenue

	<u>Yr/Yr</u>
GTS Outsourcing	(1%)
Integrated Technology Services	5%
Maintenance	Flat

GBS 4Q15 Revenue

GBS Outsourcing	(4%)
Consulting & Systems Integration	(4%)

	<u>4Q15</u>	
Backlog	\$121B	1%

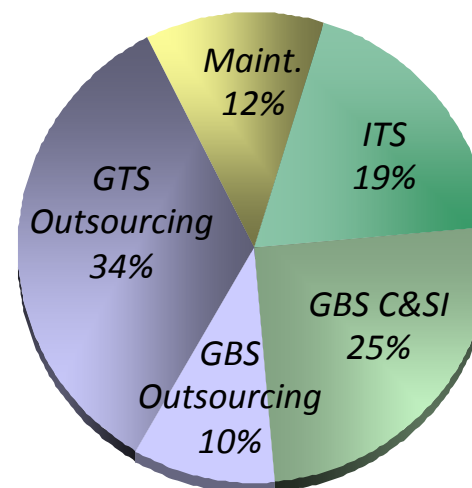
Revenue growth rates @CC

Global Business Services (GBS)

\$ in Billions

	<u>4Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$4.3	(4%)
Gross Margin (External)	28.2%	(3.3 pts)
PTI Margin	16.0%	0.2 pts

4Q15 Revenue
(% of Total Services)



Software Segment

\$ in Billions

Revenue (External)
Gross Margin (External)
PTI Margin

<u>4Q15</u>	<u>Yr/Yr</u>
\$6.8	(6%)
88.0%	(2.0 pts)
39.4%	(5.3 pts)

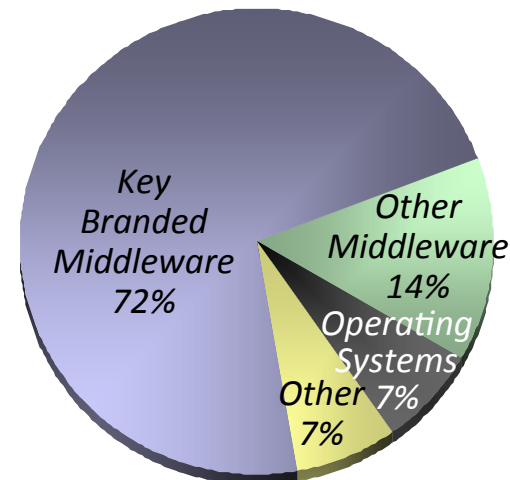
4Q15 Revenue

	<u>Yr/Yr</u>
WebSphere	(5%)
Information Management	(5%)
Tivoli	(1%)
Workforce Solutions	(4%)
Rational	(28%)

Key Branded Middleware	(6%)
Total Middleware	(6%)
Total Software	(6%)

Revenue growth rates @CC

*4Q15 Revenue
(% of Total Software)*



Systems Hardware Segment

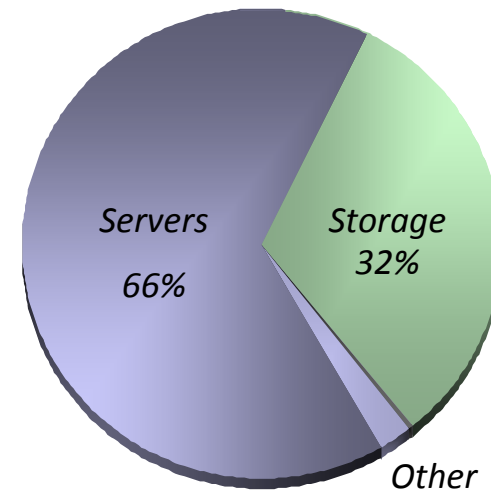
\$ in Billions

	<u>4Q15</u>	<u>Yr/Yr</u>
Revenue (External)	\$2.4	3%
Gross Margin (External)	48.0%	(1.6 pts)
PTI Margin	13.9%	(1.5 pts)

4Q15 Revenue

	<u>Yr/Yr</u>
z Systems	21%
Power Systems	8%
Storage	(7%)
Total Systems Hardware	3%

*4Q15 Revenue
(% of Total Systems Hardware)*



Revenue growth rates @CC

Cash Flow Summary

\$ in Billions	<u>4Q15</u>	<u>B/(W)</u> <u>Yr/Yr</u>	<u>FY15</u>	<u>B/(W)</u> <u>Yr/Yr</u>
Net Cash from Operations	\$5.3	(\$0.8)	\$17.0	\$0.1
Less: Global Financing Receivables	<u>(1.8)</u>	<u>(0.3)</u>	<u>0.2</u>	<u>(0.6)</u>
Net Cash from Operations (excluding GF Receivables)	7.1	(0.5)	16.9	0.7
Net Capital Expenditures	<u>(1.0)</u>	<u>(0.0)</u>	<u>(3.8)</u>	<u>(0.0)</u>
Free Cash Flow (excluding GF Receivables)	6.1	(0.5)	13.1	0.7
Acquisitions	(2.5)	(2.5)	(3.3)	(2.7)
Divestitures	0.1	(1.8)	(0.4)	(2.8)
Dividends	(1.3)	(0.2)	(4.9)	(0.6)
Share Repurchases (Gross)	(0.8)	(0.6)	(4.6)	9.1
Non-GF Debt	(0.9)	5.0	(0.1)	1.2
Other (includes GF A/R & GF Debt)	<u>(2.1)</u>	<u>0.4</u>	<u>0.0</u>	<u>(2.6)</u>
Change in Cash & Marketable Securities	(\$1.4)	(\$0.3)	(\$0.3)	\$2.3

Balance Sheet Summary

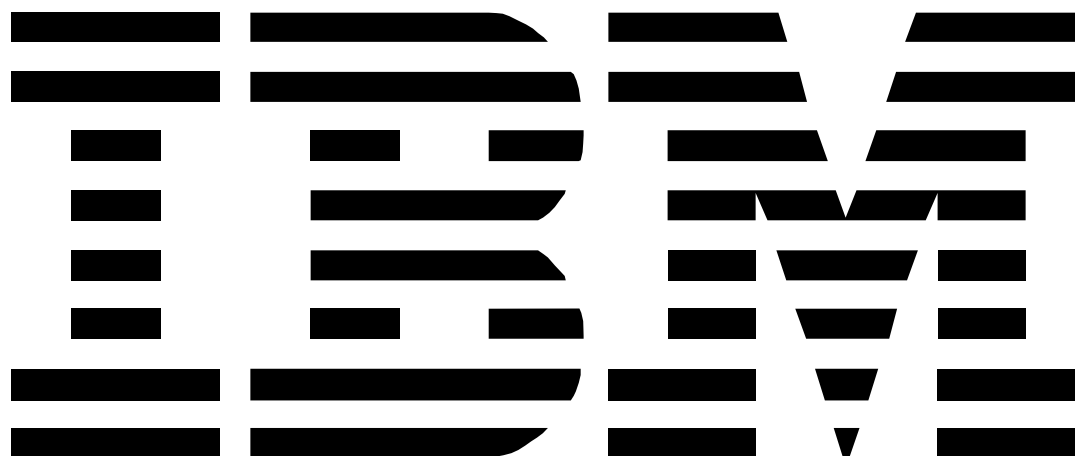
\$ in Billions	<u>Dec. 14*</u>	<u>Dec. 15</u>
Cash & Marketable Securities	\$8.5	\$8.2
Non-GF Assets**	71.5	67.7
Global Financing Assets	37.3	34.6
Total Assets	117.3	110.5
Other Liabilities	64.5	56.2
Non-GF Debt* *	11.6	12.7
Global Financing Debt	29.1	27.2
Total Debt	40.7	39.9
Total Liabilities	105.3	96.1
Equity	12.0	14.4
Non-GF Debt / Capital	59%	54%
Global Financing Leverage	7.2	7.3

* Prior year reclassified for the adoption of the FASB guidance (Debt issuance cost and Deferred Tax classification)

** Includes eliminations of inter-company activity

Summary

- Investing and adding capabilities
 - R&D 6% of revenue, \$4B capital, \$3B acquisitions
 - Building platforms and ecosystems
- Strong base of business
 - Continued strength in Strategic Imperatives
 - Successful mainframe product cycle and repositioned Power systems
 - Large and growing services backlog
 - Growth in annuity software content
- Profit dynamics reflect shift to higher value, higher investment levels, currency impact
- Continued progress in transformation of the business



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 Hardware, Software
- Global Financing Portfolio
- Key Financial Metrics – FY 2015
- Revenue by Geography – FY 2015
- Revenue and Gross Profit Margin by Segment – FY 2015
- Expense Summary – FY 2015
- Historical Free Cash Flow Performance
- Cash Flow (FAS 95)
- 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, Customer Care Outsourcing and System x Business Divestiture
 - GAAP to Operating (Non-GAAP) Bridge – 4Q 2015
 - GAAP to Operating (Non-GAAP) Bridge – 4Q 2014
 - GAAP to Operating (Non-GAAP) Bridge – FY 2015
 - GAAP to Operating (Non-GAAP) Bridge – FY 2014
 - GAAP to Operating (Non-GAAP) Bridge – 4Q 2015 and 4Q 2014
 - GAAP to Operating (Non-GAAP) Bridge – FY 2015 and FY 2014
 - Reconciliation of Debt-to-Capital Ratio
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth
 - Reconciliation of Revenue Growth
 - Reconciliation of Free Cash Flow (excluding GF Receivables, adjusted for Taxes and Gains)

Currency – Year/Year Comparison

Quarterly Averages per US \$

	<u>3Q15</u>	<u>Yr/Yr</u>	<u>4Q15</u>	<u>Yr/Yr</u>	<u>1/15/16</u> <u>Spot</u>	<u>1Q16</u>	<u>Yr/Yr @ 1/15/16 Spot</u>			<u>4Q16</u>	<u>FY16</u>
							<u>2Q16</u>	<u>3Q16</u>			
Euro	0.90	(19%)	0.91	(14%)	0.91	(3%)	(1%)	(2%)	0%		(1%)
Pound	0.65	(8%)	0.66	(4%)	0.70	(6%)	(7%)	(8%)	(6%)		(7%)
Yen	122	(17%)	121	(6%)	117	2%	4%	4%	4%		3%

IBM Revenue Impact	(8.6 pts)	(6.2 pts)	(3-4 pts)	(3 pts)	~(2 pts)	(1 pts)	(2-3 pts)
Prior View (Oct 2015)		~(5 pts)	~(1 pts)	~(0-1 pts)			

	<u>(US\$B)</u>	<u>Yr/Yr</u>
Revenue As Reported	\$22.1	(9%)
Currency Impact	(1.5)	(6.2 pts)
Revenue @ CC		(2%)

Supplemental Segment Information – 4Q 2015

Global Services Revenue

<u>Revenue Growth</u>	<u>Yr/Yr</u>
GTS Outsourcing	(1%)
Integrated Tech Services	5%
Maintenance	Flat
Total GTS	1%
GBS Outsourcing	(4%)
GBS C&SI	(4%)
Total GBS	(4%)
Total Outsourcing	(2%)
Total Transactional	Flat
Maintenance	Flat

Growth rates @CC

Global Services Backlog / Signings

<i>\$ in Billions</i>		
<u>Backlog</u>	<u>4Q15</u>	<u>Yr/Yr</u>
Total Backlog	\$121	1%
<u>Change in Backlog due to Currency</u>		
Quarter-to-Quarter	(\$2)	
Year-to-Year	(\$9)	
Outsourcing Backlog	\$76	2%
<u>Signings</u>	<u>4Q15</u>	<u>Yr/Yr</u>
Outsourcing	\$9.5	(6%)
- GTS O/S, GBS O/S		
Transactional	7.1	7%
- ITS, Consulting & AMS SI (incl. US Federal)		
Total Signings	\$16.7	(1%)

Actual backlog calculated using Dec 31 currency spot rates

Supplemental Segment Information – 4Q 2015

Systems Hardware

<u>Revenue Growth</u>	<u>Yr/Yr</u>	<u>GP%</u>
z Systems	21%	↓
Power Systems	8%	↓
Storage	(7%)	=
Total Systems Hardware	3%	

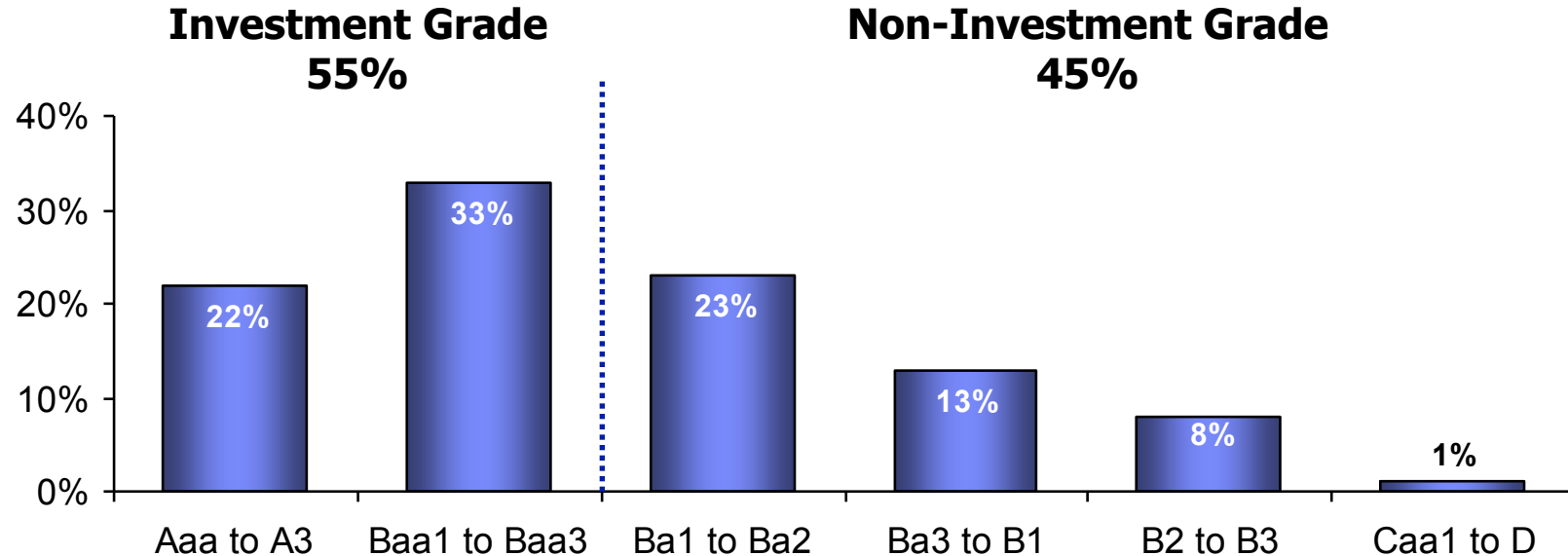
Software

<u>Revenue Growth</u>	<u>Yr/Yr</u>
WebSphere	(5%)
Information Management	(5%)
Tivoli	(1%)
Workforce Solutions	(4%)
Rational	(28%)
Key Branded Middleware	(6%)
Other Middleware	(9%)
Total Middleware	(6%)
Operating Systems	(7%)
Other Software/Services	1%
Total Software	(6%)

Revenue growth rates @CC

Global Financing Portfolio

4Q15 – \$28.5B Net External Receivables



	4Q15	3Q15	4Q14
Identified Loss Rate	1.8%	2.1%	1.6%
Anticipated Loss Rate	0.3%	0.3%	0.3%
Reserve Coverage	2.1%	2.4%	1.9%
Client Days Delinquent Outstanding	3.8	4.2	4.1
Commercial A/R > 30 days	\$15M	\$33M	\$26M

Key Financial Metrics – FY 2015

\$ in Billions, except EPS

<u>P&L Highlights</u>	<u>FY15</u>	<u>Yr/Yr</u>	<u>impact of 2014 gains*</u>	<u>P&L Ratios (Operating)</u>	<u>FY15</u>	<u>B/(W) Yr/Yr</u>	<u>impact of 2014 gains*</u>
Revenue	\$81.7	(1%)		GP Margin	50.8%	0.2 pts	
PTI – Operating	\$17.7	(16%)	(7 pts)	PTI Margin	21.6%	(1.1 pts)	(1.7 pts)
NI – Operating	\$14.7	(12%)	(7 pts)	Tax Rate	17.2%	3.8 pts	
EPS – Operating	\$14.92	(10%)	(7 pts)	NI Margin	17.9%	(0.1 pts)	(1.3 pts)

Revenue growth rate @CC and excluding divested businesses
*impact of System x (4Q14) and Customer Care (1H14) divestiture gains

Cash Highlights

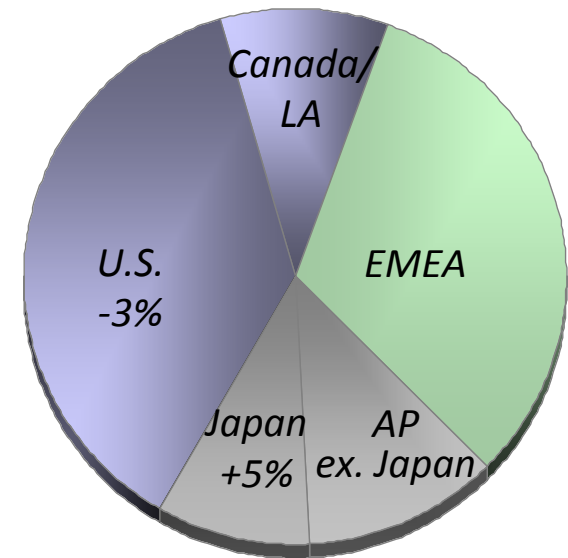
	<u>FY15</u>
Free Cash Flow (excl. GF Receivables)	\$ 13.1
Share Repurchase (Gross)	4.6
Dividends	4.9
Cash Balance @ December 31	8.2

Revenue by Geography – FY 2015

\$ in Billions

FY15 Yr/Yr

Americas	\$38.5	(2%)
Europe/ME/Africa	26.1	Flat
Asia Pacific	16.9	(2%)
IBM	\$81.7	(1%)
<i>Major Markets</i>		<i>(1%)</i>
<i>Growth Markets</i>		<i>(3%)</i>
<i>BRIC Countries</i>		<i>(10%)</i>



Revenue growth rate @CC and excluding divested businesses

Revenue and Gross Profit Margin by Segment – FY 2015

\$ in Billions	Revenue		Operating Gross Profit Margin	
	<u>FY15</u>	<u>Yr/Yr</u>	<u>FY15</u>	<u>Yr/Yr Pts</u>
Global Technology Services	\$32.0	1%	37.4%	(1.5 pts)
Global Business Services	17.2	(4%)	28.2%	(2.2 pts)
Software	22.9	(4%)	87.3%	(1.3 pts)
Systems Hardware	7.6	8%	46.6%	7.2 pts
Global Financing	1.8	2%	45.6%	(3.7 pts)
Total Revenue & Op. GP Margin	\$81.7	(1%)	50.8%	0.2 pts

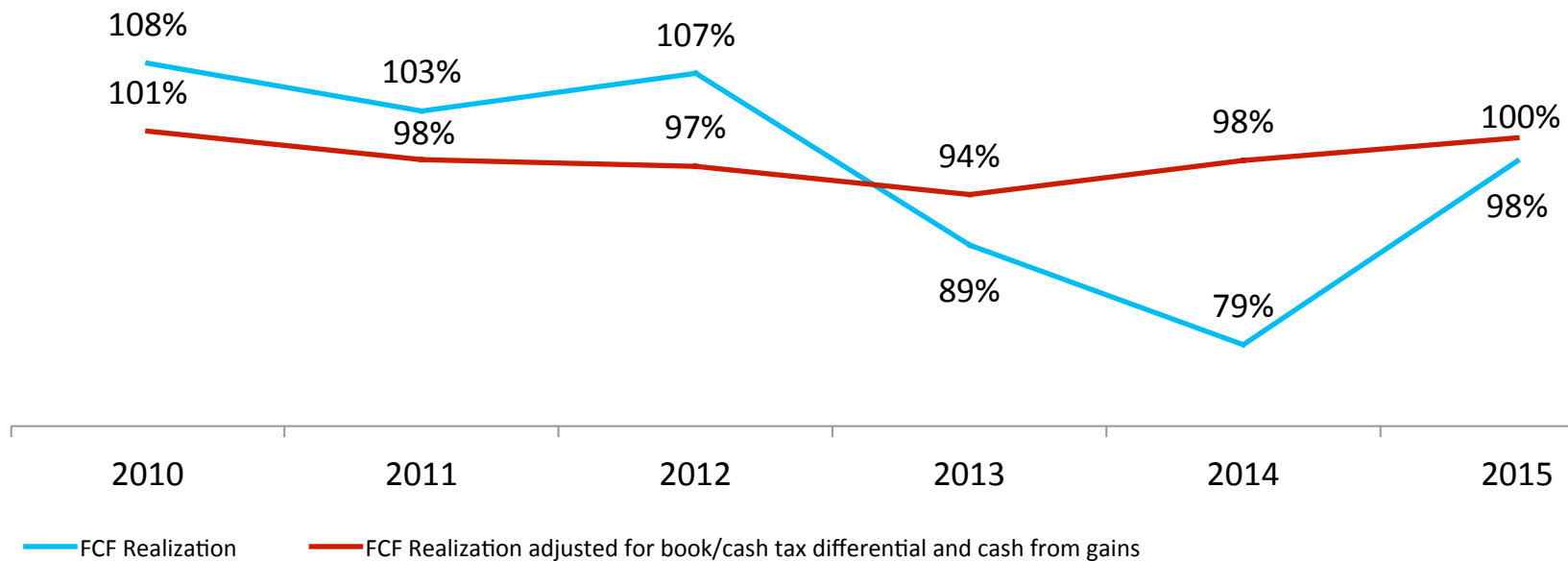
Revenue growth rate @CC and excluding divested businesses

Expense Summary – FY 2015

\$ in Billions	<u>FY15</u>	<u>B/(W) Yr/Yr</u>		
SG&A – Operating	\$19.6	13%		
RD&E – Operating	5.2	6%	<u>Drivers</u>	<u>B/(W) Yr/Yr</u>
IP and Development Income	(0.7)	(8%)	Currency	9 pts
Other (Income)/Expense	(0.7)	(62%)	Divestiture Gains*	(6 pts)
Interest Expense	0.5	3%	Workforce Rebalancing	3 pts
Operating Expense & Other Income	\$23.8	8%	Acquisitions	(1 pts)

*impact of 2014 System x (4Q14) and Customer Care (1H14) divestiture gains

Historical Free Cash Flow Performance



Free Cash Flow realization = Free Cash Flow / GAAP Net Income from continuing operations.

Cash Flow (FAS 95)

\$ in Billions

	<u>4Q15</u>	<u>4Q14</u>	<u>FY15</u>	<u>FY14</u>
Net Income from Operations	\$4.5	\$5.5	\$13.2	\$12.0
Depreciation / Amortization of Intangibles	1.0	1.0	3.9	4.5
Stock-based Compensation	0.1	0.1	0.5	0.5
Working Capital / Other	1.5	0.9	(0.7)	(4.3)
Global Financing A/R	(1.8)	(1.5)	0.2	0.7
Loss on Microelectronics Business Disposal	0.0	0.0	0.1	3.4
Net Cash provided by Operating Activities	5.3	6.1	17.0	16.9
Capital Expenditures, net of payments & proceeds	(1.0)	(1.0)	(3.8)	(3.8)
Divestitures, net of cash transferred	0.1	1.9	(0.4)	2.4
Acquisitions, net of cash acquired	(2.5)	(0.0)	(3.3)	(0.7)
Marketable Securities / Other Investments, net	(2.0)	(2.1)	(0.6)	(0.9)
Net Cash used in Investing Activities	(5.4)	(1.2)	(8.2)	(3.0)
Debt, net of payments & proceeds	0.6	(4.6)	0.0	1.8
Dividends	(1.3)	(1.1)	(4.9)	(4.3)
Common Stock Repurchases	(0.8)	(0.1)	(4.6)	(13.7)
Common Stock Transactions - Other	0.1	0.2	0.3	0.7
Net Cash used in Financing Activities	(1.3)	(5.7)	(9.2)	(15.5)
Effect of Exchange Rate changes on Cash	(0.3)	(0.2)	(0.5)	(0.7)
Net Change in Cash & Cash Equivalents	(1.8)	(1.1)	(0.8)	(2.2)

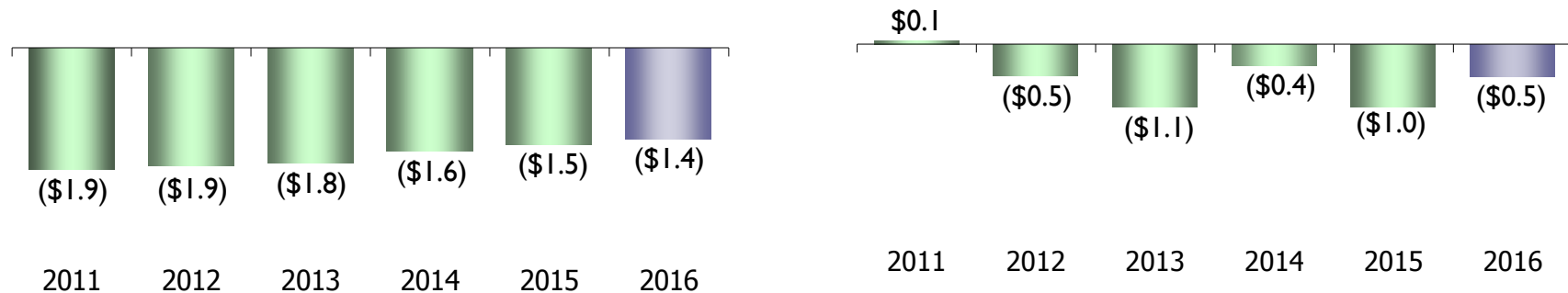
Retirement-Related Charges

	<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>
YE 2014	102%	97%	6.7%	12.2%	3.1%
YE 2015	101%	97%	6.4%	-0.2%	3.3%

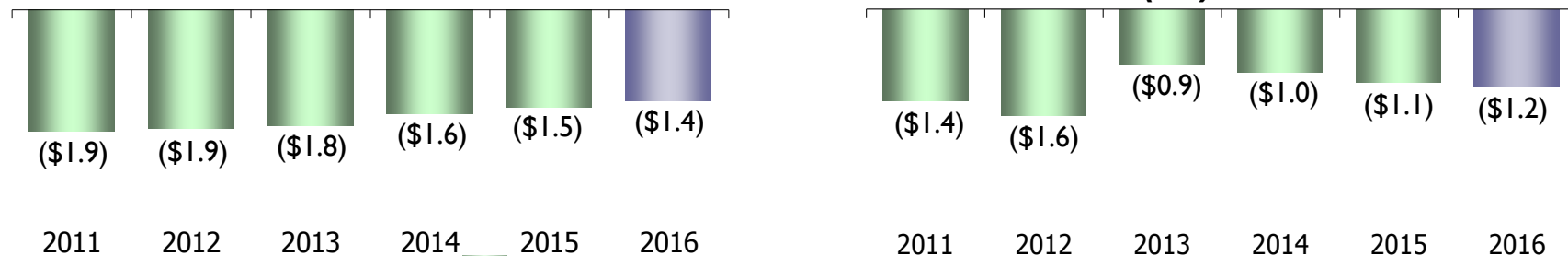
Operating

Non-Operating

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



Retirement-Related Contribution Drivers (\$B)



*Tax-qualified plans

Actual

Projection based on year-end 2015 assumptions

Retirement-Related Metrics

	<u>YE 2014</u>		<u>YE 2015</u>	
	<u>US</u>	<u>WW</u>	<u>US</u>	<u>WW</u>
Funded status	102%	97%	101%	97%
Expected ROA	7.5%	6.7%	7.0%	6.4%
Actual ROA	10.1%	12.2%	-1.0%	-0.2%
Discount rate	3.7%	3.1%	4.0%	3.3%

<i>\$ billions</i>	<u>2015</u>	<u>2016</u>
Operating cost	1.5	1.4
Non-operating cost	1.0	0.5
Total cost	2.6	2.0
Contributions*	2.6	2.6

*includes cash and non-cash contributions

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 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.

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 and System x Business Divestiture

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.

Non-GAAP Supplemental Materials

GAAP to Operating (Non-GAAP) Bridge – 4Q 2015

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$11,407	\$105	\$119	\$11,630
SG&A	5,157	(95)	(88)	4,975
RD&E	1,362	-	(12)	1,350
Other Income & Expense	(146)	0	-	(146)
Total Operating Expense & Other Income	6,308	(95)	(100)	6,114
Pre-Tax Income from Continuing Operations	5,098	199	218	5,516
Tax ***	638	89	82	809
Net Income from Continuing Operations	4,460	110	137	4,707
Diluted Earnings Per Share from Continuing Operations	\$4.59	\$0.11	\$0.14	\$4.84

* 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 from continuing operations 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 "4Q and Full Year 2015 Overview", "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 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	\$12,862	\$101	\$33	\$12,996
SG&A	6,034	(94)	(95)	5,845
RD&E	1,320	-	21	1,341
Other Income & Expense	(1,506)	(1)	-	(1,506)
Total Operating Expense & Other Income	5,767	(95)	(74)	5,598
Pre-Tax Income from Continuing Operations	7,094	196	107	7,398
Tax ***	1,580	10	24	1,613
Net Income from Continuing Operations	5,515	186	84	5,785
Diluted Earnings Per Share from Continuing Operations	\$5.54	\$0.19	\$0.08	\$5.81

* 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 "4Q and Full Year 2015 Overview", "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 2015

\$ in Millions, except EPS

	<u>GAAP</u>	<u>Acquisition-related Adjustments*</u>	<u>Retirement-related Adjustments**</u>	<u>Operating (Non-GAAP)</u>
Gross Profit	\$40,684	\$373	\$469	\$41,526
SG&A	20,430	(324)	(533)	19,573
RD&E	5,247	-	(48)	5,200
Other Income & Expense	(724)	(5)	-	(729)
Total Operating Expense & Other Income	24,740	(330)	(581)	23,830
Pre-Tax Income from Continuing Operations	15,945	703	1,050	17,697
Tax ***	2,581	141	316	3,037
Net Income from Continuing Operations	13,364	562	734	14,659
Diluted Earnings Per Share from Continuing Operations	\$13.60	\$0.57	\$0.75	\$14.92

* 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 tax impact on the Operating (Non-GAAP) Pre-Tax Income from continuing operations 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 "4Q and Full Year 2015 Overview", "Key Financial Metrics – FY 2015" and "Expense Summary – FY 2015" 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 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	\$46,407	\$416	\$173	\$46,996
SG&A	23,180	(385)	(257)	22,537
RD&E	5,437	-	77	5,514
Other Income & Expense	(1,938)	(1)	-	(1,939)
Total Operating Expense & Other Income	26,421	(386)	(180)	25,855
Pre-Tax Income from Continuing Operations	19,986	803	353	21,142
Tax ***	4,234	133	73	4,440
Net Income from Continuing Operations	15,751	670	280	16,702
Diluted Earnings Per Share from Continuing Operations	\$15.59	\$0.66	\$0.28	\$16.53

* 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 from continuing operations 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 "4Q and Full Year 2015 Overview", "Key Financial Metrics – FY 2015" and "Expense Summary – FY 2015" 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 2015 and 4Q 2014

<u>4Q 2015</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement-related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin from Continuing Operations	51.7%	0.5 pts	0.5 pts	52.7%
PTI Margin from Continuing Operations	23.1%	0.9 pts	1.0 pts	25.0%
Tax Rate ***	12.5%	1.2 pts	1.0 pts	14.7%
Net Income Margin from Continuing Operations	20.2%	0.5 pts	0.6 pts	21.3%

4Q 2014

Gross Profit Margin from Continuing Operations	53.3%	0.4 pts	0.1 pts	53.9%
PTI Margin from Continuing Operations	29.4%	0.8 pts	0.4 pts	30.7%
Tax Rate ***	22.3%	-0.5 pts	0.0 pts	21.8%
Net Income Margin from Continuing Operations	22.9%	0.8 pts	0.3 pts	24.0%

* 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 from continuing operations 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 "Key Financial Metrics" and "Revenue and Gross Profit Margin by Segment" 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 2015 and FY 2014

<u>FY 2015</u>	<u>GAAP</u>	<u>Acquisition- related Adjustments*</u>	<u>Retirement-related Adjustments **</u>	<u>Operating (Non-GAAP)</u>
Gross Profit Margin from Continuing Operations	49.8%	0.5 pts	0.6 pts	50.8%
PTI Margin from Continuing Operations	19.5%	0.9 pts	1.3 pts	21.6%
Tax Rate ***	16.2%	0.2 pts	0.9 pts	17.2%
Net Income Margin from Continuing Operations	16.3%	0.7 pts	0.9 pts	17.9%

FY 2014

Gross Profit Margin from Continuing Operations	50.0%	0.4 pts	0.2 pts	50.6%
PTI Margin from Continuing Operations	21.5%	0.9 pts	0.4 pts	22.8%
Tax Rate ***	21.2%	-0.2 pts	0.0 pts	21.0%
Net Income Margin from Continuing Operations	17.0%	0.7 pts	0.3 pts	18.0%

* 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 from continuing operations 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 "Key Financial Metrics – FY 2015" and "Revenue and Gross Profit Margin by Segment – FY 2015" 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 Debt-to-Capital Ratio

	<u>Dec. 2015</u>	<u>Sept. 2015*</u>	<u>Dec. 2014*</u>
Non-Global Financing Debt / Capital	54%	58%	59%
IBM Consolidated Debt / Capital	73%	75%	77%

* Prior periods reclassified for the adoption of the FASB guidance (Debt issuance cost classification)

The above serves to reconcile the Non-GAAP financial information contained in the “Balance Sheet Summary” discussions 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>FY15 Yr/Yr</u>			<u>FY14 Yr/Yr</u>			<u>FY13 Yr/Yr</u>	
	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Businesses</u>	<u>GAAP</u>	<u>@CC</u>	<u>@CC excl. Divested Businesses</u>	<u>GAAP</u>	<u>@CC</u>
Strategic Imperatives	17%	24%	26%	16%	18%	19%	17%	19%
Cloud	43%	54%	57%					

	<u>FY15 Yr/Yr</u>	
	<u>GAAP</u>	<u>@CC</u>
Mobile	220%	250%
Social	14%	21%

The above serves to reconcile the Non-GAAP financial information contained in the "Transformation Progress" discussions in the company's earnings presentation. See Slides 29-30 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

	<u>FY 2015 Yr/Yr</u>		<u>@CC excl. Divested Business</u>
	<u>GAAP</u>	<u>@CC</u>	
Americas	(7%)	(4%)	(2%)
U.S.	(4%)	(4%)	(3%)
Europe/ME/Africa	(15%)	(2%)	Flat
Asia Pacific	(17%)	(7%)	(2%)
Japan	(10%)	3%	5%
Major Markets	(10%)	(2%)	(1%)
Growth Markets	(18%)	(10%)	(3%)
BRIC Countries	(27%)	(18%)	(10%)

	<u>4Q15 Yr/Yr</u>	
	<u>GAAP</u>	<u>@CC</u>
Major Markets	(7%)	(2%)
Growth Markets	(14%)	(4%)
Japan	(3%)	3%

The above serves to reconcile the Non-GAAP financial information contained in the “Revenue by Geography” and “Revenue by Geography – FY 2015” discussions in the company’s earnings presentation. See Slides 29-30 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

4Q15 Yr/Yr

	<u>GAAP</u>	<u>@CC</u>
GTS Outsourcing	(9%)	(1%)
Integrated Technology Services	(3%)	5%
GBS Outsourcing	(10%)	(4%)
Consulting & Systems Integration	(10%)	(4%)
Total Outsourcing	(9%)	(2%)
Total Transactional	(7%)	Flat
Maintenance	(8%)	Flat
WebSphere	(9%)	(5%)
Information Management	(10%)	(5%)
Tivoli	(6%)	(1%)
Workforce Solutions	(10%)	(4%)
Rational	(32%)	(28%)
Total Middleware	(11%)	(6%)
Other Middleware	(14%)	(9%)
Other Software/Services	(4%)	1%

The above serves to reconcile the Non-GAAP financial information contained in the “Services Segments”, “Software Segments” and “Supplemental Segment Information – 4Q 2015” discussions in the company’s earnings presentation. See Slides 29 of this presentation for additional information on the use of these Non-GAAP financial measures.

Non-GAAP Supplemental Materials

Reconciliation of Revenue Growth

	<u>FY15 Yr/Yr</u>		<u>@CC excl. Divested Businesses</u>
	<u>GAAP</u>	<u>@CC</u>	
Global Technology Services	(10%)	(0%)	1%
Global Business Services	(12%)	(4%)	(4%)
Systems Hardware	(24%)	(20%)	8%

	<u>FY15 Yr/Yr</u>	
	<u>GAAP</u>	<u>@CC</u>
Software	(10%)	(4%)
Global Financing	(10%)	2%

The above serves to reconcile the Non-GAAP financial information contained in the "Supplemental Segment Information - FY 2015" discussions in the company's earnings presentation. See Slides 29-30 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, adjusted for Taxes and Gains)

	<u>FY 2015</u>
Free Cash Flow (excluding GF Receivables)	\$13.1
Less: Taxes and Gains adjustments	
Book/Cash Tax Differential*	(0.1)
Gains on assets sales and other**	(0.3)
Free Cash Flow (excluding GF Receivables, adjusted for Taxes and Gains)	\$13.4

* Taxes (Continuing Operations Provision for Income Taxes less Income Taxes paid)

** Net gains on asset sales and other

The above serves to reconcile the Non-GAAP financial information contained in the “Historical Free Cash Flow Performance” discussions in the company’s earnings presentation. For reconciliation to GAAP and other information about FY 2010 through FY 2014 non-GAAP measures of Free Cash Flow refer to page 66 of the company’s 2014 Annual Report which is Exhibit 13 to the Form 10-K submitted to the SEC on February 24, 2015 and see Non-GAAP Supplementary Materials and related information in the Form 8-K submitted to the SEC on February 26, 2015. See Slide 30 of this presentation for additional information on the use of these Non-GAAP financial measures.

