In 2023, we made significant progress in our journey to become a more innovative and focused company, built around the two most transformational technologies of our time: hybrid cloud and AI. We executed against a proven strategy, refined our portfolio, expanded our ecosystem of partners, and enhanced productivity throughout IBM.

We also continued to address the evolving needs of our clients. As AI becomes a top priority, our clients are using watsonx – IBM's flagship AI and data platform – to help revolutionize customer service, modernize countless lines of code, and automate enterprise tasks to boost employee productivity.

I have never been more confident in IBM's direction. Today's IBM is more capable and more productive. We have a strong portfolio and a solid foundation to support sustainable growth. And we are delivering on our promise to be the catalyst that makes the world work better.

2023 performance

For the year, IBM generated $61.9 billion in revenue, up 3% at constant currency, and $11.2 billion of free cash flow, up $1.9 billion year-over-year. We experienced growing demand for our new watsonx platform, marked by thousands of client interactions. This demand contributed to roughly doubling the book of business for watsonx and generative AI from the third to the fourth quarter.

We also expanded profit margins by emphasizing high-value offerings in Consulting and Software and by digitally

transforming our processes and scaling AI to enhance productivity within IBM.

Software revenues were up more than 5% at constant currency, as clients turned to our advanced software capabilities across hybrid cloud, data & AI, automation, transactions processing, and security. Our performance was led by Red Hat, and we had solid growth in our recurring revenue base.

Consulting revenues were up 6% at constant currency. We capitalized on the growing need for expertise in digital transformation and AI deployment, leveraging our consulting services in data and technology consulting, cloud modernization, application operations, and business transformation.

Infrastructure revenues decreased by 4% at constant currency, in line with the typical product cycle dynamics in this segment. IBM z16 is significantly outperforming previous cycles, demonstrating the enduring value this platform provides to our clients.

IBM's revenue growth and cash generation enabled us to make substantial investments in the business and deliver value to our shareholders. In 2023, IBM spent nearly $7 billion on research and development, more than $5 billion to acquire nine companies, and returned more than $6 billion to stockholders through dividends.

Technology and expertise

AI and hybrid cloud continue to drive value creation, allowing businesses to scale, increase productivity, and seize new market opportunities. IBM has built two powerful platforms to capitalize on the strong demand for both technologies: watsonx for AI, and Red Hat OpenShift for hybrid cloud.

Watsonx is our comprehensive AI and data platform, built to deliver AI models and give our clients the ability to manage the entire lifecycle of AI for business, including the training, tuning, deployment, and ongoing governance of those models. As clients shift from experimenting with generative AI to building and deploying it throughout their enterprises, we are focused on practical and urgent business use cases, including code modernization, customer service, and digital labor. Financial institutions like Citi, Bradesco, and NatWest are using watsonx to help increase productivity, improve code quality, and enhance customer experiences. Our enterprise-ready AI capabilities are being embedded into SAP solutions. EY launched EY.ai Workforce, a new solution that will use watsonx Orchestrate to automate HR tasks and processes. Service partners such as NTT Data Business Solutions, Wipro, and TCS are launching watsonx Centers of Excellence to scale AI-powered client innovations. And generative AI from watsonx, combined with expertise from Consulting, is enhancing the digital experiences of the U.S. Open, the Masters, Wimbledon, the GRAMMYs, and ESPN Fantasy Football.

2IBMers are also embracing watsonx to unleash greater productivity, eliminate complexity, simplify workflows, and automate manual tasks. Examples include processing HR and IT tasks more easily, generating code up to 60% faster, and answering client inquiries more quickly.

Hybrid cloud architectures have seen massive adoption, with nearly 80% of IT decision makers operating hybrid cloud environments. But nearly two thirds of companies report difficulty managing these complex environments, a challenge that will grow as businesses deploy generative AI across

multiple clouds. IBM's industry-leading hybrid cloud platform, based on Red Hat OpenShift, can solve this problem. It helps our clients move from architectures that are hybrid by default to architectures that are hybrid by design. It enables companies to run workloads seamlessly across multiple clouds, both public and private, to simplify operations, unify data and applications, and accelerate new innovations. And it complements our watsonx platform, allowing clients the flexibility to manage multi-model AI across complex, multi-cloud environments.

Virgin Money is harnessing IBM's hybrid cloud to enable new digital customer experiences and improve their credit card services. Red Hat OpenShift is now the preferred platform provider to Nokia's core network applications business. And the Boston Red Sox are leveraging our hybrid cloud technologies to improve the club's operations.

Experts from Consulting provide differentiated value as we establish IBM as a leader in AI for business, just as they did with our hybrid cloud business. Our extensive network of data and AI consultants has already facilitated thousands of hands-on client interactions. IBM combines technology with consulting services to deliver the data architecture, security, and governance our clients need to adopt trusted AI solutions. IBM consultants are working with Riyadh Air on mission-critical technology and business capabilities to support the path to their first flight. NATO chose IBM to help detect and respond to cyber threats with greater speed. And Diageo partnered with Consulting and SAP on an ambitious five-year business transformation and cloud migration.

Throughout 2023, clients modernized their infrastructure with the z16 platform in alignment with their hybrid cloud and AI

strategies. IBM launched a new suite of AI offerings for IBM Z along with new machine learning, intelligence, and operational improvements for z/OS.

In addition, we enhanced IBM's portfolio with nine acquisitions in 2023, including Apptio, a suite of software to help our clients better understand their technology investment and the business value it delivers.

Client engagement and partnership

IBM's success is directly tied to the success of our clients. Their problems are our problems. And their opportunities are our opportunities. That is why we developed a more collaborative, experience-based approach that allows us to respond effectively to their needs.

The IBM Garage Method, now integrated across our business, combines agile development and design thinking to facilitate co-creation with our clients. Clients have embraced this highly collaborative way of working with IBM, turning ideas into outcomes with thousands of Garage engagements throughout the year.

Our approach to client engagement allows us to meet clients where they are, bringing together whatever technology and expertise are needed across our expanding partner ecosystem. That is why we strengthened our strategic partnerships with key industry players like Adobe, AWS, Microsoft, SAP, Salesforce, Samsung, and others. Strategic partnerships now make up more than 40% of our Consulting revenue and delivered double-digit growth in both signings and revenue for the year.

Research and development

In 2023, IBM Research advanced the fundamental science of several critical technologies, including AI, quantum

computing, and semiconductors.

In AI, we demonstrated our ability to quickly transform research into commercial applications. We launched the watsonx AI and data platform, introduced the groundbreaking Granite AI foundational model, and developed new AI-optimized hardware.

We have IBM Quantum System One engagements with several leading organizations, including Cleveland Clinic, the Platform for Digital and Quantum Innovation of Quebec, Rensselaer Polytechnic Institute, and the University of Tokyo. We also IBM 2023 Annual Reportunveiled our 133-qubit Quantum Heron processor, which enhanced the performance, efficiency, and scalability of the newly deployed IBM Quantum System Two. And our work on error correction and mitigation is helping to lay the foundation for a new era of quantum utility.

Research also pushed the limits of semiconductor design and packaging, building on recent innovations such as the 2nm node chip, hybrid bonding, and vertical transistors. We are working with Rapidus to propel Japan's push for leadership in semiconductor research and manufacturing, and we are participating in an initiative with New York State, Micron, and others to jointly invest $10 billion in semiconductor R&D.

The promise of IBM

IBM is in the business of shaping the future for our clients. That future must be built on trust.

IBM is at the forefront of technologies, like AI and quantum computing, which will fundamentally change the way we work and live. We bear significant responsibility to develop those technologies ethically and deploy them with transparency and trust. That is why we built powerful AI governance into our watsonx platform and developed quantum-safe cryptography

to secure sensitive data. It is why we advocate for smart AI regulation, including holding those who develop and deploy AI accountable for fraudulent, discriminatory, and harmful activity. And it is why IBM and Meta announced the formation of the AI Alliance, a group of more than 70 organizations dedicated to advancing open, safe, and responsible AI.

We also earn trust by operating with integrity, staying true to our values, and addressing the needs of all stakeholders. We continue to advance our efforts on the environment, ethics, and education. IBM has achieved a 63% reduction in greenhouse gas emissions against base year 2010. We announced a new program to train 1,000 suppliers in technology ethics by 2025. And IBM committed to training two million learners in AI by the end of 2026 to address the technology skills gap.

But IBM's commitment to trust goes beyond our citizenship, products, and policies. We earn trust by delivering on our promises.

We articulated a clear vision for the future of IBM in the spring of 2020. We promised a more focused company built around two powerful technologies: hybrid cloud and AI. We promised fundamental changes to our go-to-market strategy, putting clients at the center of everything we do and transforming competitors into partners. And we promised operational changes to simplify our internal processes and increase our productivity. As this report details, we are fulfilling those promises.

As we look ahead, we renew our commitment to the journey we began in 2020. We will continue to innovate, to execute with speed and purpose, find more opportunities for operational efficiency, and further enhance our productivity

by employing the same technologies we use to drive growth for our clients. And as always, we will be the catalyst that makes the world work better, bringing together our colleagues, clients, and partners with a simple invitation: Let's Create. This is the promise of IBM.