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International Business Machines Corporation and Subsidiary Companies

**DESCRIPTION OF BUSINESS**

Please refer to IBM's Annual Report on Form 10-K filed with the SEC on February 23, 2021, for Item 1A, entitled "Risk Factors."

We create value for clients by providing integrated solutions and products that leverage: data, information technology, deep expertise in industries and business processes, with trust and security and a broad ecosystem of partners and alliances. Our hybrid cloud platform and AI technology and services capabilities support clients' digital transformations and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud, digital and cognitive offerings, and enterprise systems and software which are all bolstered by one of the world's leading research organizations.

**IBM Strategy**

As technology has increasingly become a key engine of business success, enterprises around the world are prioritizing digital transformation. The pressing need to adapt to evolving market requirements and adopt new business models that improve customer experience and streamline business performance has accelerated the urgency of this transformation.

To date, only 25 percent of enterprise workloads have made it onto a public cloud— mostly limited to greenfield cloud applications or ones that are easy to "lift and shift". The remaining 75 percent have not moved, as enterprises wrestle with how to handle the mission-critical workloads and data that require heightened security, particularly for highly regulated industries with complex, often cross-border, compliance needs.

Hybrid cloud and AI are the only way to deliver the digital transformation businesses are looking for across all their processes, applications and data. Together, they have a multiplier effect on the speed and breadth of transformation. Only a fraction of enterprise data is being leveraged for business insights, in part because it is spread across public clouds, datacenters and increasingly, edge computing. The emergence of edge computing across many industries will only expand the kinds of hybrid environments our clients use.

A hybrid cloud approach bridges the silos within this existing enterprise infrastructure, maintaining security for mission-critical workloads while enabling the data collection and analysis that accelerates development and deployment of AI at scale. AI unlocks the value of enterprise data, using it to reinvent processes, predict outcomes and transform businesses.

The pressing need to pivot to remote work and reinvent their business models during the pandemic accelerated the urgency of this transformation for many enterprises. Companies are focused more than ever on moving workloads to the cloud.

**IBM's Commitment to Hybrid Cloud and AI**

That makes hybrid cloud and AI an enormous opportunity for IBM. Hybrid cloud alone represents a \$1 trillion market.

We are targeting this market because we recognize the value it brings to our clients. Through deep engagement with a wide breadth of clients, we know that a hybrid cloud approach on average creates 2.5 times more value for enterprises than a public cloud-alone strategy, and IBM leads in delivering better return on investment (ROI) through hybrid cloud. This higher ROI comes from enhanced business acceleration, developer productivity, infrastructure cost efficiency and regulatory compliance and security.

We have built a hybrid cloud platform, based on open technologies, that allows clients to realize their digital and AI transformations across the applications, data and environments in which they operate. Watson is IBM's industry leading AI for business, a portfolio of enterprise-ready pre-built applications and tools designed to reduce the costs and hurdles of AI adoption through industry-leading natural language processing, automation and trust in our responsible use of AI. Building on our hybrid cloud platform, our software collects and analyzes data from across our clients' enterprises, training our AI to provide insights into their business processes. These insights enable intelligent workflows, reinventing