

IBM Investor Update

April 2018



Business Overview

IBM is at the forefront of enterprise technology market opportunities

2017 Business Highlights

- Returned IBM to **revenue growth** in the 4th quarter, capping off a year led by:
 - Cloud revenues of **\$17B** and an as-a-service exit run-rate of **\$10B**
 - Security revenue over **\$3B**
 - Sustained Systems momentum
- Generated over **\$11B** in pre-tax income, reflecting IBM's high-value business
- Delivered free cash flow of **\$13B** with a realization rate of **116%** of GAAP net income (excluding one-time tax charge of \$5.5B)
- Returned **~\$10B** to stockholders in dividends and share repurchases

High Value & Financial Returns in 2017

\$79.1B Revenue

46% Gross Profit Margin

\$11.4B Pre-Tax Income

\$13B Free Cash Flow

\$6 Annualized Dividend per Share*



Strong Foundation for the Cognitive Era

IBM has made bold changes to reposition for the future building on our enterprise leadership and integrated model

Repositioned for the Future

- Invested in key emerging high value segments; rebuilt innovation pipeline
- Portfolio actions have driven a fundamentally different business mix
- Built new business models for the new IT era
- Remixed skills and implemented new ways of working

\$37B

Invested in R&D, capital expenditures, and acquisitions over last 3 years

#1

AI platform for business, #1 Blockchain, #1 Quantum...

34

Companies acquired in last 3 years

\$17B

Cloud revenue and \$10.3B as a Service exit run-rate in 2017

\$7B

of annual revenue divested in last 5 years

~50%

of employees are new in last 5 years

IBM Differentiation

- Innovative technology enables market leadership
- Leverage industry expertise to provide integrated industry solutions
- Trust and security with deep client relationships
- Delivered through an integrated model

#1

in Enterprise IT

80%

of 2017 revenue from clients buying cross-IBM solutions

95%

of Fortune 500 are IBM clients

~60%

Annuity mix in 2017, up 14 points over past decade

~70%

of world's business data managed responsibly

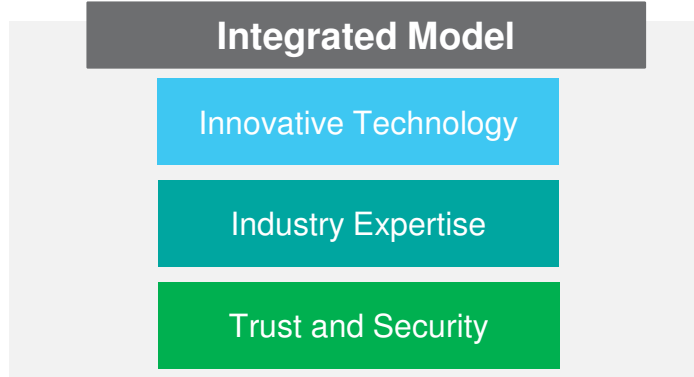
17%

Return On Invested Capital in 2017



Investing for Long-Term Value

IBM leverages innovation and expertise to build new platforms and solutions while modernizing our enduring platforms



Value Drivers

1. Integrated model and trusted client relationships
2. First mover in the most promising, emerging technologies
3. Unique ability to provide integrated industry solutions
4. Leading market position in high value segments
5. Strong R&D track record through multiple technology eras
6. Deep expertise with unrivaled global customer base

High Value and Financial Returns



Year-Round Stockholder Engagement

We have a long-standing practice of meeting with a significant number of our largest investors to solicit their feedback on corporate governance and executive compensation matters

100+

of Stockholders We Reach Out to Every Year on Corporate Governance and Executive Compensation Matters

>70%

% of Institutional Ownership That We Contact at Least Annually

250,000

of Registered and Beneficial Stockholders We Reach Out to Every Year on Corporate Governance and Executive Compensation Matters

- We engage on a broad number of topics including our ESG practices and our executive compensation program
- Informs our Board's compensation decisions
- Ensures we are incorporating shareholder feedback and sentiment into our Board processes and governance



Enhancements to Compensation Program

Following our Say on Pay vote last year, members of the Board and management conducted extensive outreach, meeting with investors representing more than 55% of shares that voted on Say on Pay

What We Heard	Compensation Committee's Response
On Disclosure Transparency	
<ul style="list-style-type: none"> ▪ General preference for simplicity in pay program disclosure ▪ Increased transparency around achievement of incentive goals 	<ul style="list-style-type: none"> ✓ Redesigned proxy to enhance readability and clarity of disclosure ✓ Added context on link between business strategy and executive compensation ✓ Included disclosure of performance against goals in both the AIP and LTIP to increase transparency around the rigor of our goals and their linkage to the business strategy
On One-Time Grants	
<ul style="list-style-type: none"> ▪ Many disfavored IBM's one-time grant in 2016 	<ul style="list-style-type: none"> ✓ No one-time awards have been granted to the Chairman & CEO or other NEOs in more than 2 years
On Pay Program Design	
<ul style="list-style-type: none"> ▪ Overall support for rigorous pay program ▪ The maximum AIP payout opportunity of 3x target is at the high end of market practice for the Chairman & CEO ▪ Preference for a relative metric in the long-term plan ▪ Request for increased clarity around stock ownership guidelines 	<ul style="list-style-type: none"> ✓ Reduced AIP maximum opportunity for the Chairman & CEO to 2x target to align with market practice ✓ Included a relative Return on Invested Capital (ROIC) modifier, beginning with PSUs granted in 2018 ✓ Described stock ownership guidelines as a multiple of base salary



Executive Compensation Alignment

Pay Element	Vehicle	Metrics	2018 Program Enhancements
Long-Term Incentive Plan	Performance Share Units <i>(3-year vest)</i>	<ul style="list-style-type: none"> 70% - Operating Earnings Per Share 30% - Free Cash Flow Stock price Relative Return on Invested Capital (ROIC) modifier 	Beginning with the 2018 to 2020 performance period, Relative ROIC Modifier has been added to the program
	Restricted Stock Units <i>(Typically 4-year vest)</i>	<ul style="list-style-type: none"> Stock price 	
Annual Incentive Plan	At-Risk Cash	<ul style="list-style-type: none"> 40% - Operating Cash Flow 40% - Operating Net Income 20% - Strategic Imperatives Revenue 	For the Chairman & CEO, no increase in target bonus since 2015, and beginning in 2018, reduced maximum payout opportunity from 3X to 2X salary
Salary	Cash	<ul style="list-style-type: none"> Market competitive 	No change to Chairman & CEO salary since 2015

69% of CEO target pay at risk and subject to attainment of specific performance goals for 2017 and 2018



Compensation is Linked to Performance Against Core Business Metrics

2017 compensation metrics support our strategy and emergence
as the cognitive solutions and cloud platform company

Metrics	Links to Transformation Drivers
Strategic Imperatives Revenue	✓ Important measure of our ability to reinvest and return value to stockholders
Operating Net Income	✓ Measures our profit and operational success
Operating Cash Flow*	✓ Supports portfolio shift into a cognitive solutions and cloud platform company that will increase margins and deliver highest value opportunities for our clients and stockholders
Operating Earnings Per Share	✓ Measures operating profitability on a per share basis
Free Cash Flow	✓ Important measure of our ability to reinvest and return value to stockholders over multiple years

New for 2018: A relative Return on Invested Capital (ROIC) modifier has been added to the long term incentive plan starting with the 2018-2020 performance period, reflecting our high value business model against industry peers



Executive Compensation Practices

IBM embraces numerous compensation best practices in support of its pay-for-performance culture

What We Do

- ✓ Tie a significant portion of pay to company performance
- ✓ Mitigate risk taking by emphasizing long-term equity incentives, placing caps on potential payments, and maintaining robust clawback provisions
- ✓ Require significant share ownership by the Chairman & CEO and Senior Vice Presidents
- ✓ Utilize noncompetition and nonsolicitation agreements

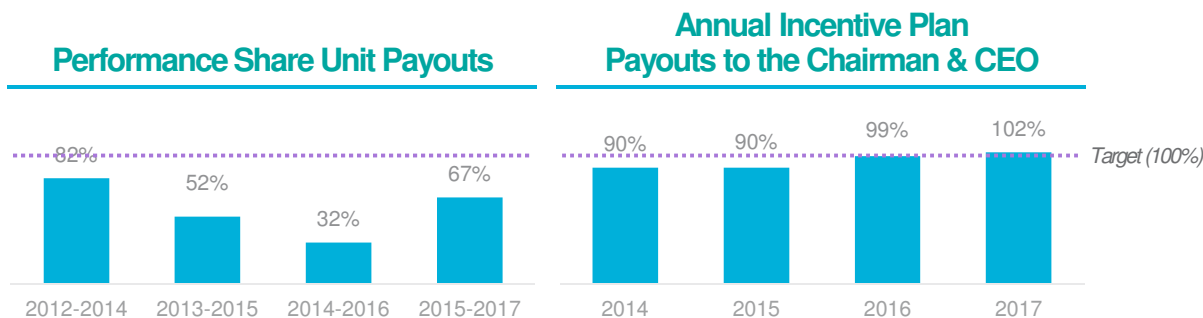
What We Don't Do

- × No individual severance or change-in-control agreements for executive officers
- × No excise tax gross-ups
- × No dividend equivalents on unearned RSUs/PSUs
- × No hedging/pledging of IBM stock
- × No stock option repricing, exchanges or options granted below market value
- × No guaranteed incentive payouts
- × No accelerated vesting of equity awards for executive officers
- × No above-market returns on deferred compensation plans



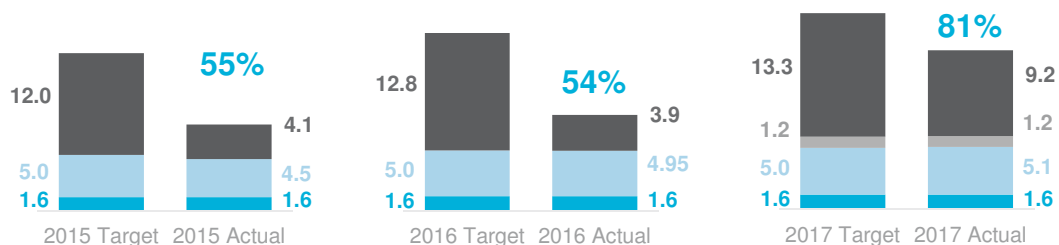
Incentive Plan Targets and Payouts

Annual and long-term incentive program targets are set at rigorous levels, with pay-at-risk designed to balance short- and long-term business objectives



CEO Total Actual vs. Target Compensation 2015-2017

Values in Millions (\$)



■ Salary
■ Annual Incentive
■ Performance Share Units
■ Restricted Stock Units

- The long-term incentive plan paid out at 67% for the 2015-2017 period due to lower operating EPS and free cash flow performance in the 3-year period as we continued to transform the business
- As a result of the Chairman & CEO's effective leadership and significant progress made in a multi-year transformation with a return to revenue growth in 4Q 2017, the Chairman & CEO's annual incentive was 102% of target



Effective Board Leadership & Governance Best Practices

Our Board is committed to ensuring it has the appropriate leadership, qualifications, and perspectives to oversee the company

Independent Oversight



Michael Eskew

Independent Presiding Director with robust and well-defined responsibilities (*see page 14*)

Key Features of the Board

- ✓ Highly independent
 - 92% of director nominees are independent (only CEO is not independent)
 - 100% of Committee members are independent
- ✓ Full Board met 9 times in 2017, with overall attendance at Board and committee meetings over 96%; committees met a total of 16 times in 2017
- ✓ Strong approach to risk oversight on a variety of risks, including cybersecurity

Governance Best Practices






- ✓ Annual election of all Directors
- ✓ Majority voting for Directors in uncontested elections
- ✓ Stockholder special meeting right
- ✓ No stockholder rights plan
- ✓ One share, one vote
- ✓ Robust stockholder engagement process
- ✓ No supermajority requirements applicable to charter/bylaw amendments or merger approvals
- ✓ Regular evaluation of Board performance in executive sessions led by Independent Presiding Director
- ✓ Proxy access **NEW**



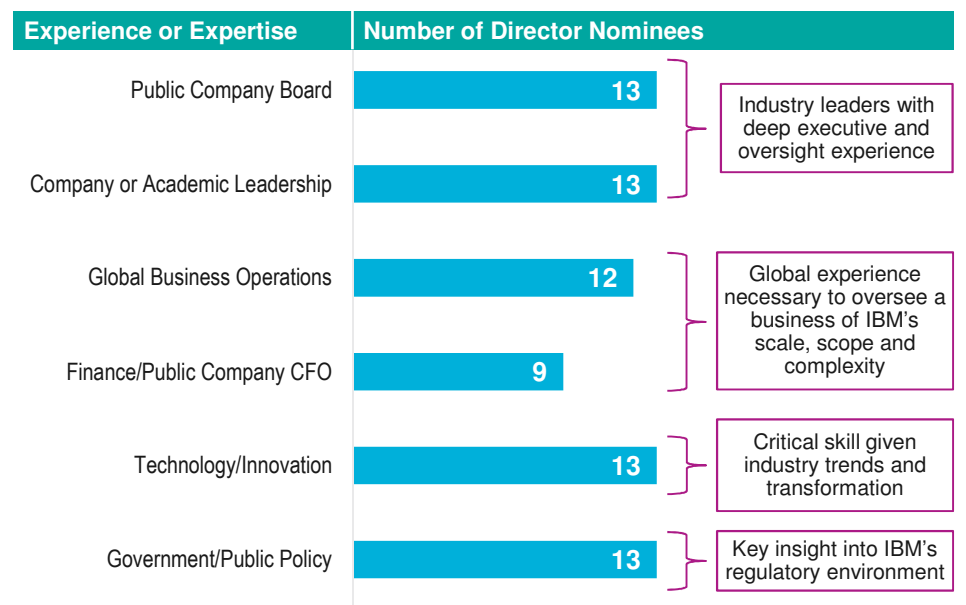
Active Board Refreshment and Strong Oversight

Commitment to Thoughtful Board Refreshment

5 new independent directors since 2014

ALEX GORSKY	
	<ul style="list-style-type: none"> Chairman & CEO, Johnson & Johnson Global business and technology experience Member of the Business Roundtable and The Business Council
HUTHAM S. OLAYAN	
	<ul style="list-style-type: none"> Vice Chairman, Olayan Group Global business experience Member of the Council of Foreign Relations and the Peterson Institute for International Economics
JOSEPH R. SWEDISH	
	<ul style="list-style-type: none"> Executive Chairman and Past President and CEO, Anthem Global business, technology and health care experience Graduate member of The Business Council
PETER R. VOSER	
	<ul style="list-style-type: none"> Chairman, ABB Global business and technology experience Public company CFO experience
FREDERICK H. WADDELL	
	<ul style="list-style-type: none"> Chairman and Retired CEO, Northern Trust Corporation Global business and technology experience Financial services expertise

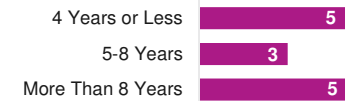
Highly Qualified Board with Diverse Experience



Gender/Ethnic Diversity

>30%

Tenure of Director Nominees



Voting Item 4: Stockholder Proposal on Lobbying Disclosure

The Board urges stockholders to vote **AGAINST** this proposal given our existing disclosures on lobbying activities and expenditures, including expenditures made through trade associations, as required by law

- IBM has established **clear oversight over such activities and expenditures** through numerous written corporate policies, instructions and guidelines
- IBM's policy on lobbying is set forth in the **IBM Business Conduct Guidelines**
- IBM discloses **key public policy positions** as well as its **policies and practices with regard to public policy matters**, including trade and industry associations and lobbying activities and expenditures
- IBM's U.S. federal lobbying reports disclose in extensive detail **all issues lobbied and total U.S. federal lobbying expenditures made by IBM**
- IBM also **complies fully with U.S. state and local lobbying disclosure laws**, which in most cases require lobbyists to register and disclose their lobbying activities
- The Company also periodically **reports to the Board of Directors about its policies and practices** in connection with governmental relations, public policy and related expenditures



Voting Item 5: Stockholder Proposal on Special Shareholder Meeting

The Board urges stockholders to vote **AGAINST** this proposal and believes adoption is unnecessary because of the existing and meaningful special meeting right

Current **25% threshold is consistent with market practices** and accurately reflects the preference of IBM's stockholders

- The **same proposal was reviewed and rejected** by a majority of the votes cast at the 2010 and 2017 annual meetings
- Lowering the threshold to 10% would allow special interest groups with small minority ownership interests to **potentially cause disruption and substantial costs to be incurred** by the other 90% of stockholders
- IBM has a **history of strong governance policies and practices**, including a robust stockholder engagement program where investor perspectives are heard and discussed among the full Board



Voting Item 6: Stockholder Proposal on Independent Chairman

The Board recommends a vote **AGAINST** this proposal because the current board leadership structure with our strong, Independent Presiding Director complementing our Chairman and CEO, has proven effective

IBM's Independent Presiding Director has robust and meaningful responsibilities:

The Board believes the Company's leadership structure is in the **best interests of IBM stockholders:**

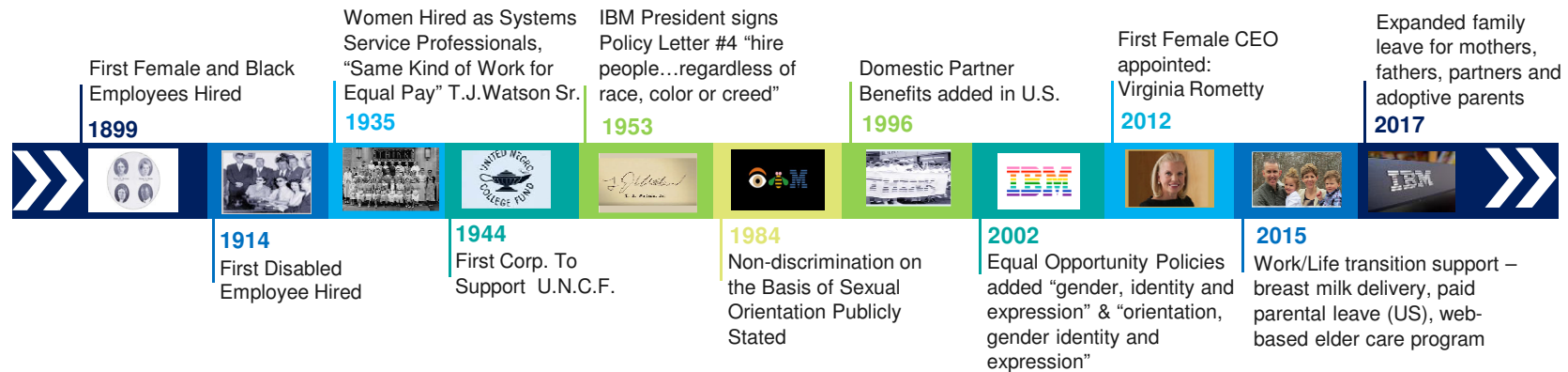
MICHAEL L. ESKEW	
	<ul style="list-style-type: none">Retired Chairman & CEO, UPSGlobal business and technology experienceChairman of charitable organization (Annie E. Casey Foundation)
Core Responsibilities as Presiding Director:	
<ul style="list-style-type: none">✓ Presides at all Board meetings at which the Chairman is not present✓ Serves as liaison between Chairman and independent directors✓ Approves information sent to the Board✓ Approves meeting agendas and meeting schedules✓ Has authority to call meetings of independent directors✓ Available for consultation and direct communication	
Additional Responsibilities:	
<ul style="list-style-type: none">✓ One-on-one debriefs with Chairman after meetings✓ Spends time with senior management to ensure deep understanding of business and strategy✓ Attends additional committee meetings	

- Determining the leadership structure of the Board and the Company is one of the Board's most important functions
- In 2018, following the Board self-evaluation, the Board determined that the leadership structure of a combined Chairman and CEO and a strong, independent Presiding Director ensures both the Board and management are aligned in successfully executing IBM's strategy
- Approval of the shareholder proposal would limit the Board's ability to determine the optimal leadership structure for IBM in the future
- **No** conclusive evidence to show that a separate, independent Chairman leads to better financial performance or stockholder returns
- IBM stockholders have continuously supported the leadership structure as a majority of stockholders have voted against this proposal multiple times



Rich History of Diversity and Inclusion

- Since inception, we have been committed to diversity and inclusion efforts across the organization



Programs that Support, Protect and Empower IBM Employees

- An in-house platform using cognitive computing to meet IBMers' professional education needs
- Expansive family leave provides new birth mothers up to 20 weeks of paid leave, 12 weeks for fathers, partners and adoptive parents
- An exemplary well-being management system

Awards

- 2018 Catalyst Award for leadership in building a workplace that values diversity and inclusion
- U.S. Business Leadership Network 2017 Employer of the Year for People with Disabilities
- Working Mother Media 2017 Top Ten Company for Working Mothers
- Victory Media 2018 Military Friendly Employer of the Year
- Perfect score on the Human Rights Campaign's Corporate Equality Index for 15 consecutive years



Corporate Social Responsibility

IBM has a longstanding commitment to corporate social responsibility in all of its business activities

Environment

Demonstrably committed to environmental leadership for over four decades

- **40%+ of electricity consumed during 2016 came from renewable sources**
- **38%+ reduction in CO2 emissions since 2005**
- **IBM's Green Horizon initiative:** harnesses the power of cognitive computing and the Internet of Things to help fight air pollution in China

Supply Chain

Recognized leader with ~50 years of growing the diversity of our supply chain

- Upstream focus on social and environmental responsibility has far reaching positive impacts, with **~11,000 supplier locations worldwide**
- Endorses the Responsible Business Alliance Code of Conduct and **requires direct suppliers to comply with this code**
- **Collaborates to drive supply chain improvements** in areas such as worker well-being and responsible sourcing of minerals

Corporate Citizenship

IBM Volunteers

- Resources to **engage with community organizations** and schools
- **295,000+** IBM volunteers
- **130 countries**
- **~21M hours of service**
- **\$60M in local community grants**

Corporate Service Corps

- Employees partner with leaders to **address high priority issues**
- **4,000+ IBMers**, delivering **\$70M of expertise** to communities in **40 countries**
- **320+ teams** deployed
- **1,300+ completed projects**

P-TECH

- Public school model for students to graduate with **no-cost degrees**
- **120 schools** around the world anticipated by the fall of 2018
- **400+ business partners**
- First cohort graduated at **4x national rate for on-time graduation**

Teacher Advisor with Watson

- **Instructional planning and support tool** for math teachers
- Developed in partnership with teachers and **education experts**
- **Thousands of high-quality instructional resources**
- **~10,000 teachers** registered within first 6 months of public availability



We request your support at the 2018 Annual Shareholder Meeting

- **Our Board is composed of a diverse and experienced group of leaders** who are uniquely positioned to effectively oversee IBM's business and strategy. We have been particularly focused on adding fresh perspectives into the boardroom and are proud of our progress
- We design our executive compensation program and make decisions to incentivize our executives to execute on our transformation objectives while maintaining our long-standing commitment to **pay for performance**
- **We ask for your support at our 2018 annual shareholder meeting** on the following management proposals:



FOR election of directors proposed by IBM's Board of Directors



FOR ratification of the appointment of PricewaterhouseCoopers LLP as IBM's independent registered public accounting firm



FOR advisory vote on executive compensation

- **Please vote AGAINST all three shareholder proposals** in support of management and the Board





Appendix A



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), these materials contain certain non-GAAP financial measures on a continuing operations basis, including free cash flow. The rationale for management's use of this non-GAAP information and its reconciliation is included on page 68 of the company's 2017 Annual Report, which is Exhibit 13 to the Form 10-K filed with the SEC on February 27, 2018.

Note: ROIC is based on GAAP from continuing operations and equals Net Operating Profits after Tax (adjusted for one-time tax reform charge) divided by the average sum of total debt and total stockholders' equity. S&P 500 excludes financial services companies due to lack of comparability.

