I will now share with you the report on your company.

My remarks will communicate three critical aspects of our work:

- Our performance in 2018 and our improved long-term competitive positioning
- The state of the market and the IT needs of our clients
- The importance of trust and responsible stewardship to our continued success

First, our financial performance.

For the last several years, we have been reinventing your company – investing in the future, while maintaining our revenues net of currency and divestitures. We have completely transformed our portfolio, investing more than $55 billion in new products and services – and that doesn’t yet count the $34 billion invested in Red Hat, which we expect to become part of IBM in the second half of this year. Today, 50 percent of our portfolio has been remixed to new products and services – including analytics, AI, cloud, security, blockchain and quantum computing – and 60 percent of our revenue is now recurring.

We reached several important financial milestones toward this in 2018:

- For the full year, we returned to revenue growth, grew earnings, and stabilized margins.
- We saw $79.6 billion in revenue and operating earnings per share of $13.81, up from $13.66 the year prior.
- We stabilized our margins by focusing on the key high-value growth sectors, including cloud, artificial intelligence and security. They now represent more than half our revenue – $40 billion – up from a quarter just four years ago.
- In total, we returned more than $10 billion to you, our stockholders, including dividends of $5.7 billion and gross share repurchases of $4.4 billion.

We accomplished this by advancing our leadership positions in key competitive sectors:
• We are #1 in AI, for business, with more than 20,000 Watson engagements across 20 different industries.
• We are #1 in hybrid cloud, with more than $19 billion in cloud revenue; 47 of the Fortune 50 rely on the IBM Cloud.
• We are #1 in enterprise services, enterprise security, enterprise systems, and blockchain.
• And we developed the two fastest and smartest supercomputers in the world.

Our intention is to build on our progress throughout 2019. Which is why we invested more than $5 billion in research and development in 2018, securing IBM’s 26th consecutive year of U.S. patent leadership. Of the 9,100 patents granted to IBM in 2018, more than 1,600 were related to AI and 1,400 to cybersecurity – more than any other company in either area.

Also, last year, as you know, we made a critically important investment decision in the future of your company in our planned acquisition of Red Hat, the industry leader in open source software. We expect the transaction to close in the second half of this year.

We’ve partnered with Red Hat for more than 20 years. And now, together, Red Hat and IBM will accelerate our clients’ efforts to unlock the full transformational potential of their data through the hybrid cloud.

Which brings me to my second point: our clients are entering a critical new chapter in their digital reinventions. And IBM is uniquely suited to help them complete it.

Chapter 1 of this journey has consisted of consumer-oriented apps, experimenting with AI and moving simple workloads to the cloud. But this was only the beginning.

Chapter 2 is defined by building AI models that can be trusted and that can scale across an enterprise. And moving core systems – mission-critical systems – into hybrid cloud environments.

Chapter 2 is about moving from AI experimentation to AI transformation. Like at DeKalb Medical Center in Atlanta. Sepsis is one of the most difficult diseases to detect and treat. It is the third leading cause of death in this country. So, DeKalb is using Watson Health and AI to identify the complex conditions that result in cases of sepsis in hospital patients, so doctors can intervene early.

Another example is Sugar Creek Brewing. We brought Sugar Creek and Bosch together at our Industrial Internet of Things Lab on the University of South Carolina campus to
solve a problem the brewery was having with foam during the bottling process. With our help, they installed sensors along their manufacturing line to monitor fill time, temperature, pH, gravity, pressure, carbonation and level of the beer. All that data now is continually fed to the IBM Watson IoT Platform on the IBM Cloud for analysis. The result? The problem was solved, and we’re now saving the brewery $10,000 a month in operating costs.

Like Sugar Creek, clients today are ready to take the next step in their journey to the cloud. The first 20 percent of cloud work was focused on consumer-oriented apps and low-cost computing. But the next 80 percent is more ambitious and more strategic. It’s about moving core workloads to the cloud, and allowing businesses to position themselves for speed and flexibility. But, because each of these workloads are unique, they require a combination of on-premise, private and public clouds.

And that’s the heart of our hybrid cloud strategy. We are helping clients by co-creating their cloud strategies in our IBM Garages – physical locations where we work side-by-side with clients, architecting hybrid cloud models that move data and work seamlessly between multiple clouds. All while protecting the security and confidentiality of our clients’ data.

Which brings me to my third and final point: the importance of responsible stewardship. And I would like to show you a short video that frames the role we see IBM playing in our industry and in the world – as a trusted company and partner.

[DEAR TECH 60-SECOND VIDEO]

What this ad tells the world is that IBM develops technology to address substantive challenges and drive meaningful change. We are developing AI to improve the way the world works – at our banks, our hospitals and our transportation networks.

Yet we know it is not enough to only deliver ground-breaking innovation. Clients want to work with a technology partner that brings technologies to market responsibly. A technology partner that protects and secures their data. A technology partner that commits to addressing the biggest societal challenges of the digital age.

We know the world expects IBM to set the example. And this is a responsibility we readily accept.

That is why we published the IBM Principles for Trust and Transparency last year as a way of offering the industry a simple guide for the responsible development and deployment of next-generation technology. These principles include our belief that:
The purpose of new technologies is to augment – not replace – human intelligence;
Data and insights derived from technology belong to the businesses who own them; and
That all new technologies brought into the world should be open, transparent, explainable and free of bias.

We also are setting the example for how to prepare society for the changes our technology brings. And nowhere are those changes more profound than in the workforce, where AI will change 100 percent of all jobs. To that end, we last year significantly expanded our efforts to develop the skills needed for “new collar” jobs.

In particular, our Pathways in Technology Early College High Schools are now operating in 11 states and 13 countries, serving a population of 125,000 students this next school year. These schools offer students a high school diploma and an industry-recognized associate’s degree in just 6 years. And they integrate mentorships, worksite visits, and paid internships into the curriculum, producing graduates that have 21st Century academic, technical and professional skills, ready to begin their careers.

Another milestone for us last year was the example we continued to set in building a diverse and inclusive workforce. In 2018, we achieved our greatest progress in a decade on diversity representation of global executive women and underrepresented minorities. And we advocated for similar policies with governments around the world.

Finally, one last point on responsible stewardship. We believe strongly in giving back at IBM. And one of the most powerful ways we do that is by offering our technology and expertise to the communities in which we live and work. In fact, in South Carolina alone, IBM employees and retirees donated more than 125,000 volunteer hours to local charities and schools through the IBM Volunteer program.

So, let me close by expressing my gratitude to the hundreds of thousands of IBMers around the world. They are our greatest competitive advantage.

And I express my deep gratitude to you, our investors, for your continued confidence in IBM. I know you care as much about our future as we do – and I am confident that you will continue to be rewarded as our progress continues.

I am glad to have this opportunity to share with you our progress, and I know we are well-positioned to continue to lead in the future. Thank you.
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), this material contains a non-GAAP financial measure on a continuing operations basis, specifically operating earnings per share. The rationale for management’s use of this non-GAAP information is included on pages 18 and 19 of the company’s 2018 Annual Report, which is Exhibit 13 to the Form 10-K filed with the SEC on February 26, 2019. For reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, and other information, please refer to page 41 of the company’s 2018 Annual Report.