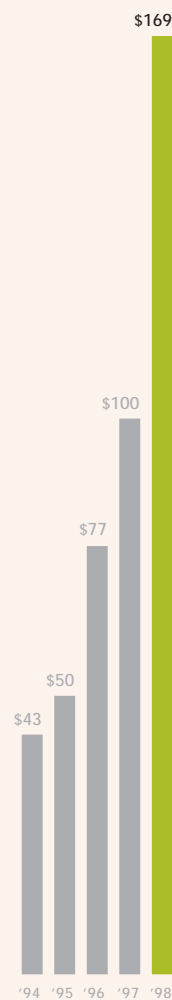# Five years at IBM. Of course, IBM is no startup, and we had our initial public offering more than 80 years ago. But in many ways our story over the last five years testifies to the transformational nature of our times.
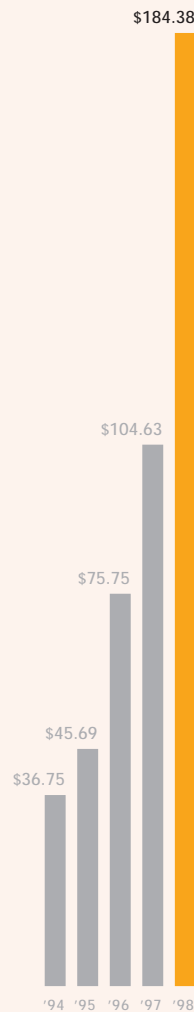
creating

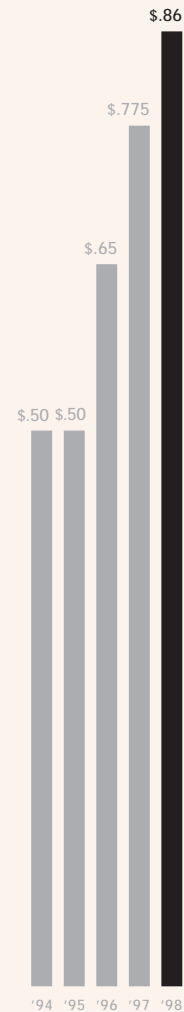## shareholder value

IBM MARKET VALUE
($ in billions)

$169
$100
$77
$50
$43

'94 '95 '96 '97 '98

STOCK PERFORMANCE
Year-end closing prices adjusted to reflect a two-for-one split of the common stock effective May 9, 1997

$184.38
$104.63
$75.75
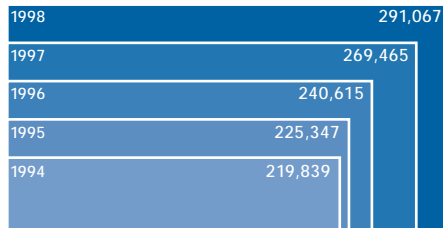$45.69
$36.75

'94 '95 '96 '97 '98

DIVIDENDS
Adjusted to reflect a two-for-one split of the common stock effective May 9, 1997 ($ per share)

$.86
$.775
$.65
$.50 $.50

'94 '95 '96 '97 '98

NUMBER OF EMPLOYEES

1998	291,067
1997	269,465
1996	240,615
1995	225,347
1994	219,839

WOMEN AND MINORITY EXECUTIVES AT IBM

Since 1994, the number of women executives worldwide has increased 128 percent. And the number of minority executives in the United States has increased by 84 percent.

EMPLOYEE GIVING

Individual employees in the United States contributed more than $190 million from 1994-1998 through matching grants and donations to nonprofit organizations and educational institutions.
($ in millions)

$35.6	$35.9	$36.7	$39.2	$43.9
'94	'95	'96	'97	'98

PERFORMANCE-BASED PAY

In order to attract and retain the best professionals, IBM has increased its investments in performance-based pay programs.

Variable Pay

IBM employees share in the company's success through IBM's variable pay program. Variable pay is a pool of cash distributed to employees, based on the performance of the company, each business unit and each individual employee. Since 1994, the variable pay pool has grown by more than 60 percent, to $1.6 billion in 1998.

Stock Options

The number of employees receiving stock options has grown substantially from 1994 to 1998. IBM nearly doubled the number of employees who were granted stock options in 1996, doubled that number again in 1997, and then tripled it in 1998. Options give a significant financial incentive to employees whose skills and expertise are critical to IBM's business.
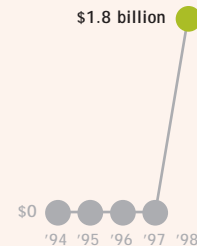
FROM A STANDING START in 1997, IBM turned itself into a multibillion dollar e-business during 1998, taking core business processes – like the way we sell and the way we buy – to the Net.

IBM E-COMMERCE REVENUES

$3.3 billion

$0

'94 '95 '96 '97 '98

IBM E-PROCUREMENT WEB PURCHASES

$1.8 billion

$0

'94 '95 '96 '97 '98

**IN DECEMBER 1998 ALONE,** IBM bought more than $600 million in goods and services over the Internet.

By streamlining procurement processes and taking them to the Web, IBM will save $240 million this year.

In 1998, more than 14 million customer questions and problems were resolved via online support systems, avoiding more than $300 million in call-center and field-specialist support costs.

investing in
innovation

TOTAL IBM U.S. PATENTS
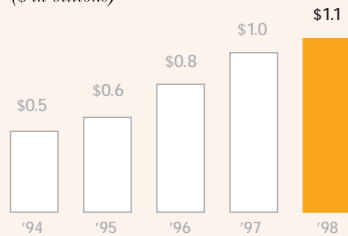● *Software* ● *Network Computing* ● *Other*

2,658

1,867

1,724

1,383

1,298

'94 '95 '96 '97 '98
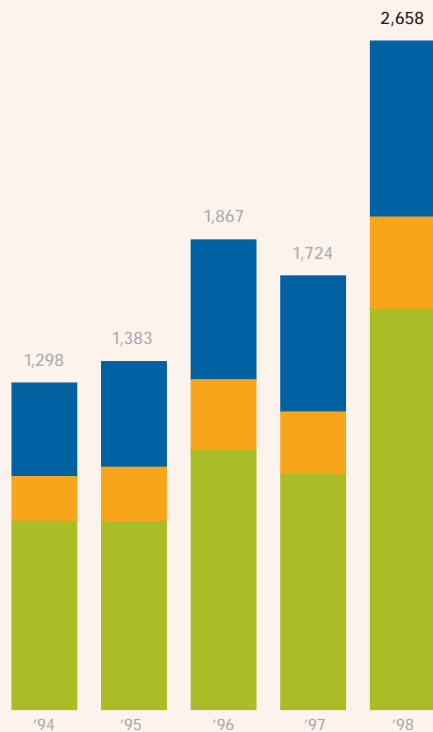
RESEARCH AND DEVELOPMENT INVESTMENTS
($ in billions)

$6.1

$5.3 $5.2

$5.5 **$5.6**

'94 '95 '96 '97 '98

INTELLECTUAL PROPERTY AND LICENSING ROYALTIES
($ in billions)

$0.5 $0.6 $0.8 $1.0 **$1.1**

'94 '95 '96 '97 '98

RESEARCH LABORATORIES
Three new laboratories were opened in the past five years.

San Jose
Yorktown
● Austin (1995)
Zurich
Haifa
Beijing (1995)
● Delhi (1997)
Tokyo

reengineering
IBM

$9.5 BILLION
IN SAVINGS

Since 1993, IBM's reengineering efforts have generated $9.5 billion in overall savings.
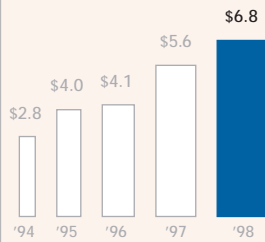
FROM 4 YEARS
TO 16 MONTHS

Hardware development cycle time has been reduced from 4 years to 16 months, and for some products, it's as fast as 6 months.
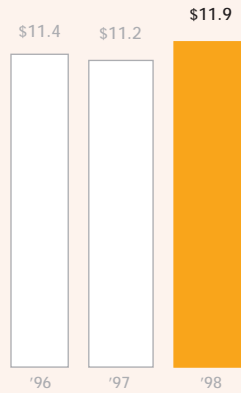
1/3
NEARLY LESS

Since 1993, IBM's internal information technology expenses have been reduced by nearly a third.

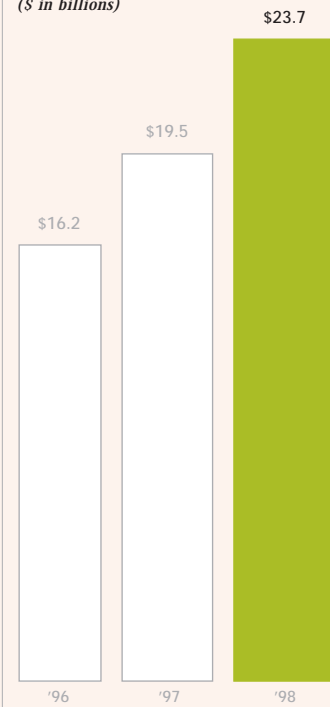# engines of
growth

TOTAL OEM HARDWARE REVENUE
($ in billions)

$2.8 '94
$4.0 '95
$4.1 '96
$5.6 '97
$6.8 '98

SOFTWARE REVENUE
($ in billions)

$11.4 '96
$11.2 '97
$11.9 '98

SERVICES REVENUE
Excluding maintenance.
($ in billions)

$16.2 '96
$19.5 '97
$23.7 '98

OEM STORAGE REVENUE
($ in billions)

$1.1 '94
$1.5 '95
$1.9 '96
$2.7 '97
$4.1 '98
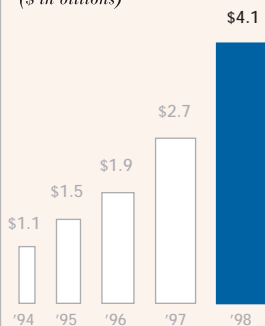
WORLDWIDE LOTUS NOTES SEATS
(in millions)

1.35 '94
4.5 '95
9.3 '96
20 '97
34 '98
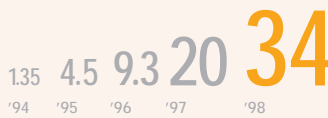
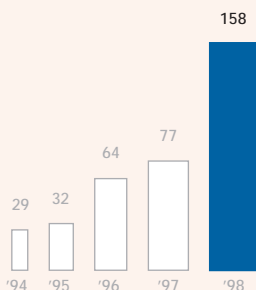## SERVICES BACKLOG
End of year, excluding maintenance.
Backlog represents the total amount
of revenue remaining on signed contracts.
($ in billions)
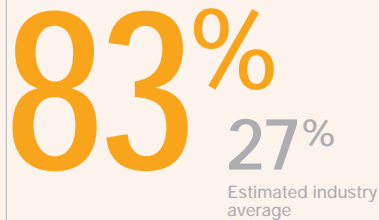
$38 '96
$43 '97
$51 '98
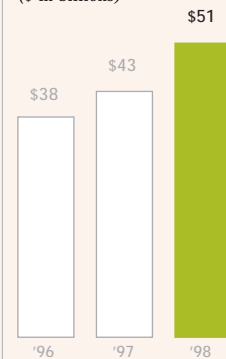
NUMBER OF OEM CUSTOMER DESIGNS IN ASICs
Since 1994, the number of customer designs in ASICs (Application-Specific Integrated Circuits) has grown at an annual rate of 52 percent.
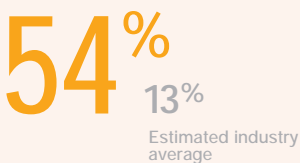
29 '94
32 '95
64 '96
77 '97
158 '98

TIVOLI DISTRIBUTED SYSTEMS MANAGEMENT PERCENTAGE REVENUE GROWTH (1996-1998)
compound growth rate

83%

27% Estimated industry average

DISTRIBUTED DATABASE MANAGEMENT REVENUE GROWTH (1997-1998)

54%

13% Estimated industry average

NUMBER OF SIGNED STRATEGIC OUTSOURCING DEALS VALUED AT MORE THAN $100 MILLION
Excluding maintenance.

26 '96
24 '97
38 '98
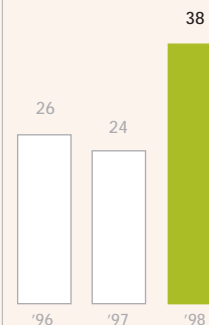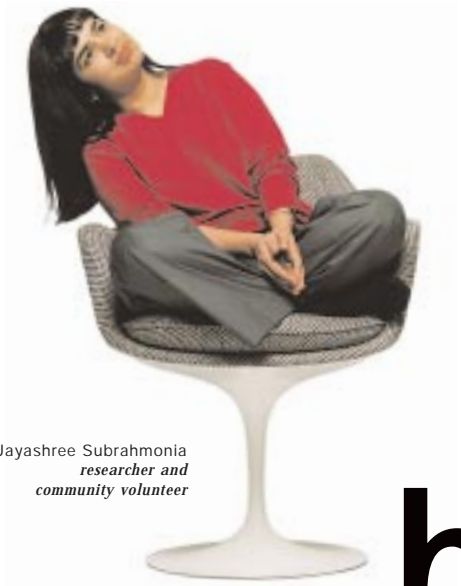
Jayashree Subrahmonia
researcher and
community volunteer

because
we CAN

Chieko Asakawa
member of the team behind Home Page Reader
technology for the blind

AT IBM, we believe leadership is earned in multiple dimensions – marketplace performance, customer satisfaction, innovation, growth. But we also know that being a company that matters in the world means stepping up to the truly important problems we face as people.

For 16-year-old Nathaniel Marquez, the problem was how to solve thousands of painful puzzles he encountered every day in the form of written words. Extremely bright but severely dyslexic, Nathaniel struggled through elementary and middle school. Frustration turned to embarrassment and then resignation – until an elegant little speech recognition program called IBM ViaVoice created an outlet for his ideas, and allowed Nathaniel's creative thinking to become stories, essays and term papers.

Today, IBM technologies are at work meeting many special needs – of the blind and visually impaired, and the deaf and hard of hearing – for people inside our company and far beyond its borders. This belief – that our technologies can help all people contribute to their fullest potential – is one dimension of our definition of leadership. There are others.

In 1998, we increased the number of women executives in IBM by 18 percent; we increased the number of minority executives by more than 15 percent in the United States. Our commitment to workforce diversity was recognized last year when U.S. President Clinton presented Lou Gerstner with the first annual Ron Brown Award for Corporate Leadership.

IBM is perennially one of the world's most generous corporations. We dedicated $116 million last year to benefit people in need. Individual employees contributed nearly $44 million through matching grants, and donations to nonprofit organizations and educational institutions.

Our most visible commitment to the communities where we live and work is IBM's Reinventing Education initiative – which was recognized last year in a Harvard Business School case study as a model for corporate philanthropy in education. The program contributes $35 million to 15 school districts and six states in the United States alone, and was expanded in 1998 to include projects in Brazil, British Columbia, India, Ireland, Italy and Vietnam. Last year, IBM and the United Way of America launched the KidSmart Early Learning Program, a project to install computer learning centers in more than 1,000 nonprofit preschool sites across the United States.

At the heart of IBM's philanthropic activities are IBM people, who last year volunteered 4 million hours of service to local causes – from tutoring youngsters in math and science to teaching PC skills to single parents. Our people understand that, in a world still beset by timeless and intractable problems, we are in a position to help. In fact, we are products of a corporate culture that was built to do just that.

At IBM, we strive to lead in the creation, development and manufacture of the industry's most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions and services businesses worldwide.