

GENERATING HIGHER VALUE AT IBM



Generating Higher Value at IBM

1. Several years ago, we saw change coming.

Value was shifting in the IT industry, driven by the rising tide of global integration, a new computing paradigm and new client needs. These shifts meant the world was becoming not just smaller and “flatter,” but also smarter.

Economies of developing nations were growing rapidly, driven by historic investments in fundamental business infrastructure. Enterprises were looking to tap skills and capabilities available all over the world and to integrate their operations globally.

A new computing architecture enabled pervasive instrumentation, unprecedented computing power and advanced analytics to transform oceans of data into insight and intelligence.

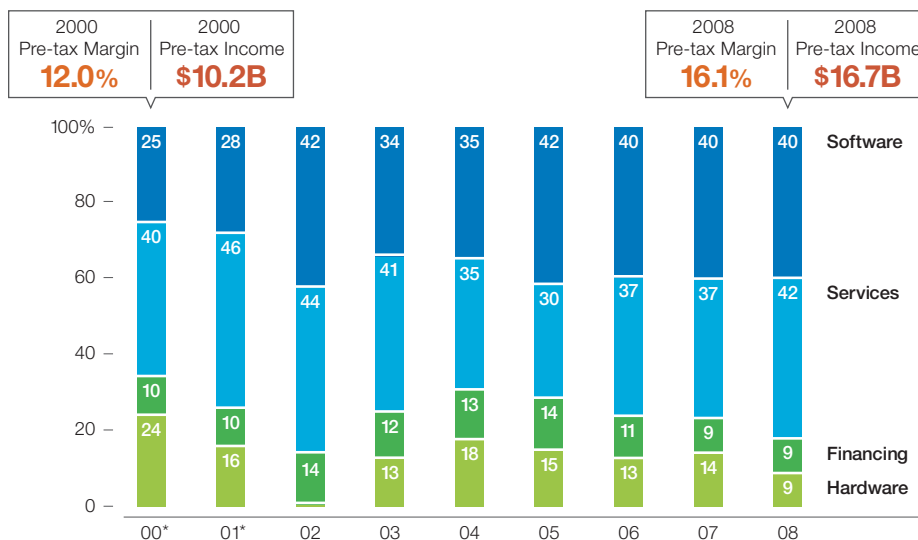
Companies were seeking to integrate advanced technology with their business processes and operations, not only to reduce costs, but to enable innovation and growth.

2. We remixed our businesses in order to move to the emerging higher-value spaces.

IBM has divested commoditizing businesses like personal computers and hard disk drives, and strengthened its position through strategic investments and acquisitions in higher-value segments like business intelligence and analytics, virtualization and green solutions.

From 2000 to 2008 we acquired more than 100 companies to complement and scale our portfolio of products and offerings. This has changed our business mix toward higher-value, more profitable segments of the industry.

SEGMENT PRE-TAX INCOME MIX

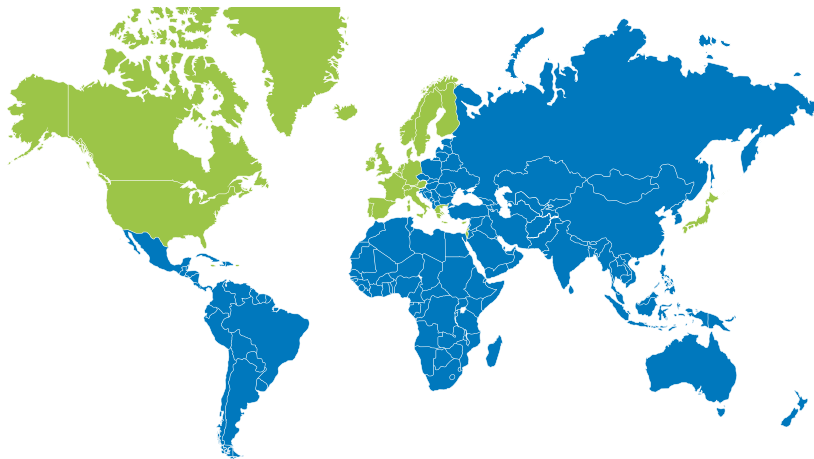


* Segment mix excludes Enterprise Investments and stock-based compensation.

3. We became a globally integrated enterprise in order to capture the best growth opportunities and improve IBM's profitability.

IBM operates in more than 170 countries and enjoys an increasingly broad-based geographic reach. Our non-U.S. operations generated approximately 65 percent of IBM's revenue in 2008. IBM's Growth Markets unit, which was established in 2008,

grew 10 percent last year, and made up 18 percent of our revenues. Revenue increased 18 percent (15 percent in local currency) in Brazil, Russia, India and China.



Major Markets Growth Markets

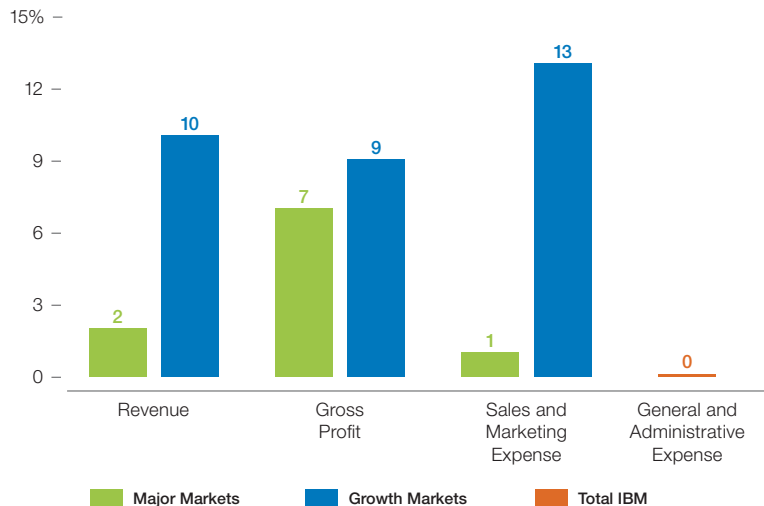
2008 PERFORMANCE

Major Markets	Growth Markets	
82%	18%	Percent of IBM Geographic Revenue
5%	10%	Revenue Growth
2%	10%	Revenue Growth in Local Currency

We are rebalancing our spending to areas of greatest opportunity. As we continue to drive significant productivity in Major Markets, we are increasing investment in Growth Markets, expanding our go-to-market capabilities and skills to capture the infrastructure build-out in these regions. We are leveraging our global reach and integrated model to drive higher profitability across the company.

2008 GROWTH

In local currency (excludes OEM)



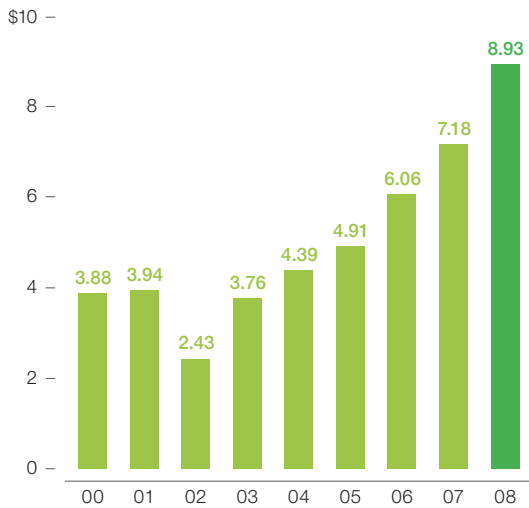
4. As a result, IBM is a higher-performing enterprise today than it was a decade ago.

Our business model is more aligned with our clients' needs and generates better financial results.

We have achieved record earnings per share ...

Diluted earnings per share in 2008 were \$8.93, marking six consecutive years of double-digit growth. Pre-tax earnings from continuing operations were \$16.7 billion, an increase of 15 percent.

EARNINGS PER SHARE

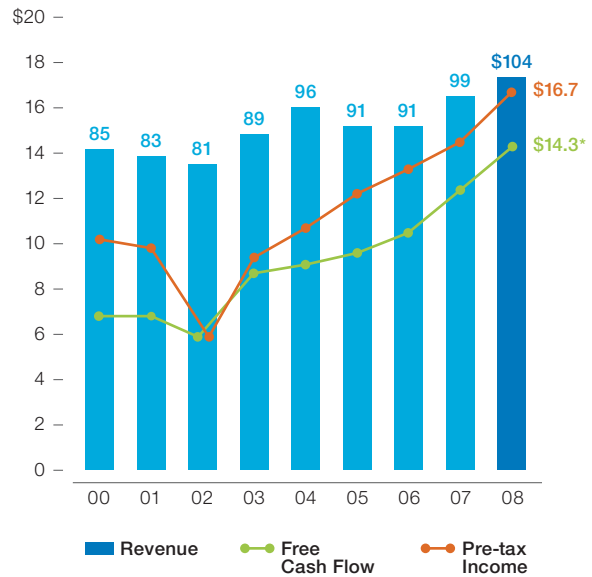


... and record cash performance.

In 2008 our free cash flow, excluding the year-to-year change in Global Financing receivables, was \$14.3 billion—an increase of \$1.9 billion from 2007.

FINANCIAL PERFORMANCE HISTORY

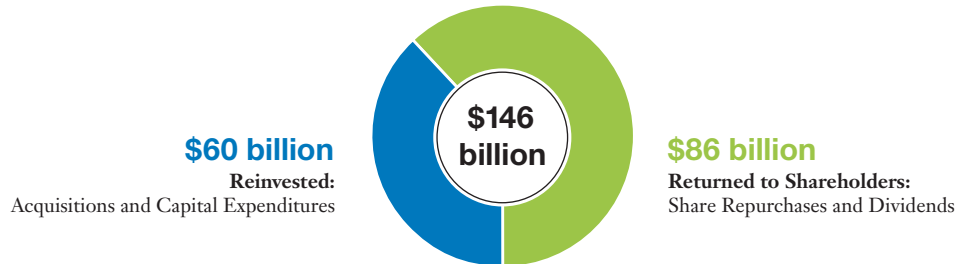
(\$ in billions)



* Excluding Global Financing receivables

5. We have therefore been able to invest in future sources of growth and provide record return to investors ...

PRIMARY USES OF CASH FROM 2000 TO 2008

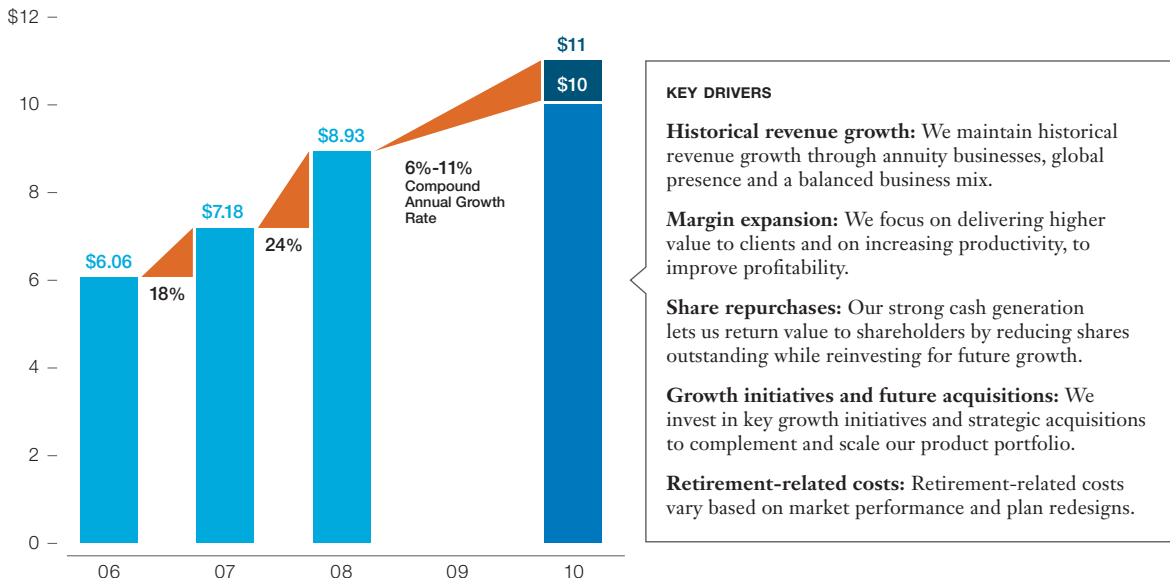


...while continuing to invest in R&D—more than \$50 billion from 2000 to 2008.

6. This gives us confidence that we are entering the current economic environment from a position of strength ...

In 2008 we made progress toward our 2010 objectives by growing earnings per share 24 percent. And with this strong 2008 performance, we are clearly ahead of pace on our road map to \$10–\$11 of earnings per share.

EARNINGS PER SHARE ROAD MAP



7. ...and that we will emerge from it even stronger, thanks to our long-term fundamentals and our agenda for a smarter planet.

All around the world, businesses, governments and institutions are investing to reduce costs, drive innovation and transform their infrastructure. The economic downturn has intensified this trend, as leaders seek not simply to repair what is broken, but to prepare for a 21st Century economy.

Many of their key priorities are in areas where IBM has leading solutions—such as smarter utility grids, traffic, healthcare, financial systems, telecommunications and cities. We are aggressively pursuing this transformational, global opportunity.

Smarter Traffic

Cities are struggling with traffic today—and it's about to get much worse, as the planet urbanizes. By 2010, 59 metropolitan areas will have populations above 5 million. Smart traffic systems encompass tolling, embedded sensors and large-scale simulations to predict traffic flows. Stockholm has seen 20 percent less traffic, 12 percent lower emissions and 40,000 additional users of public transport a day.

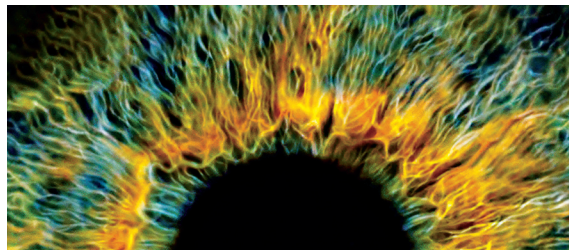


Smarter Grids

With businesses and societies facing often-volatile energy supplies and costs, as well as growing environmental concerns, a smart grid can save electricity and money and protect the planet, by linking smart meters in the home with instrumented power lines and plants. And it even paves the way to integrate renewable sources like wind and solar. IBM today is leading seven of the world's top ten automated meter management projects.

Smarter Healthcare

Our healthcare system isn't a "system" at all. It can't link from diagnosis, to drug discovery, to providers, insurers, employers and patients. But smart healthcare can lower costs, reduce errors and empower patients. One hospital is applying analytics to speed childhood cancer research and improve patient outcomes—while lowering the cost of data acquisition by 75 percent.



Smarter Food

In a world where 820 million people are undernourished, it is a tragedy that grocers and consumers throw away \$48 billion worth of food each year in the U.S. alone. Inefficiencies and quality issues plague the global food supply chain. But with new technologies to trace food from the farm to the market shelf, and more intelligent solutions to track supply and demand, a healthier future is in store.



Smarter Money

The world's financial institutions could spread risk. But the world's financial infrastructure couldn't manage risk, in a world where money moves with the speed of ones and zeroes. However, smart money systems are at hand. Intraday settlement risk for more than \$2 trillion in daily currency exchange has been effectively eliminated. Smart systems can enable a safer and more transparent global economy.

Smarter Telecommunications

Two billion people will soon be online—along with a trillion intelligent phones, cameras, cars, appliances, packages, power lines, roadways and more. By 2012, video will account for nearly 90 percent of consumer IP traffic. To handle this vast data stream, we'll need a smart global network. Fortunately, next-generation digital platforms are already enabling telecom providers to deliver new services, and helping billions of people join the global economy.



Smarter Oil

As we move toward a renewable energy future, we need smarter oil and gas fields today. We can only extract a third of the oil in an existing reserve—but that's changing, thanks to 3-D models of reservoirs, to help decide where to drill; and sensors embedded across an entire field, to optimize well performance and protect the environment.

