IBM 2003 – 2010 BUSINESS PERSPECTIVES

- **E-BUSINESS ON DEMAND: The new IBM Model**

- **An 'On Demand Business' is an Enterprise that has integrated its Processes end-to-end inside the enterprise & across its value chain**

- **Businesses able to respond dynamically to external & internal changes:**
  - e.g. in Demand, Supply, Pricing, Labor, Capital markets and Customer need
  - i.e. Convert fixed costs into variable costs, responding to the needs of Customers, Partners, Employees

- **The IT model support the On Demand operating environment**
  - IT built on Open Standards & Platforms: Linux, Web Services…
  - Use Grid Computing technology: Share huge virtual computer resources
  - 'Autonomic computing' to reduce complexity & cost of IT systems

- **Establish Utility Computing: Customers pay for what they use**
  - SW manage server and storage systems to provide capacity on demand

IBM 2003 – 2010 BUSINESS PERSPECTIVES

- **IBM DIFFERENTIATION STRATEGY**

- **Fusion of business insight & technology leadership**

1. **On Demand means customers integrate their value chains.**

2. **The IT model support the On Demand operating environment**

- IT built on Open Standards & Platforms: Linux, Web Services. . .
- Applications developed for the new IT model: RATIONAL acquisition
- Use Grid Computing technology: Share huge virtual computer resources
- 'Autonomic computing' to reduce complexity & cost of IT systems

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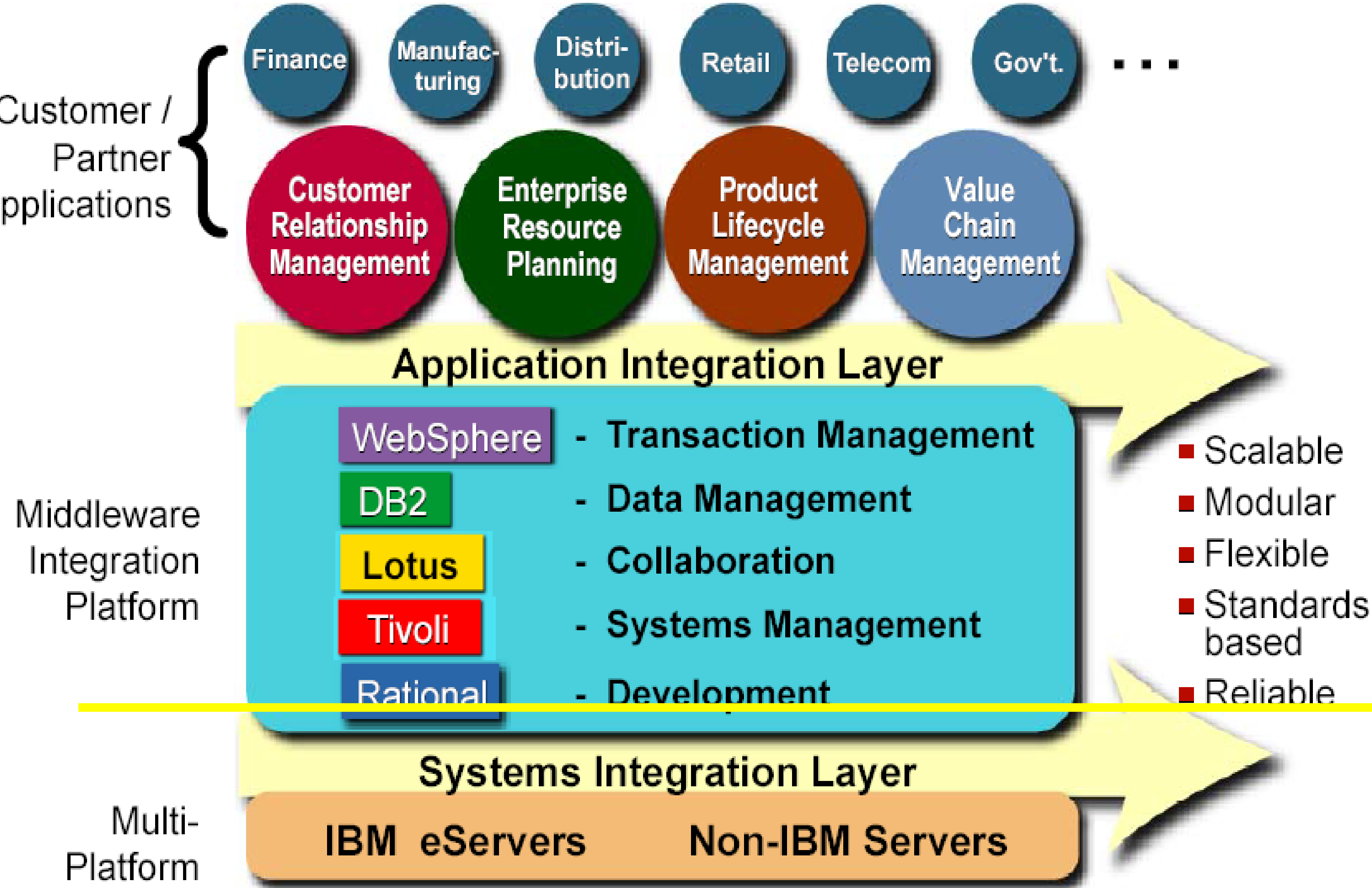
3. **Establish Utility Computing: Customers pay for what they use**
   - SW will manage workloads, server and storage systems to
     Provide additional capacity on demand

M's Software Strategy

iddleware Integrates e-business Applications

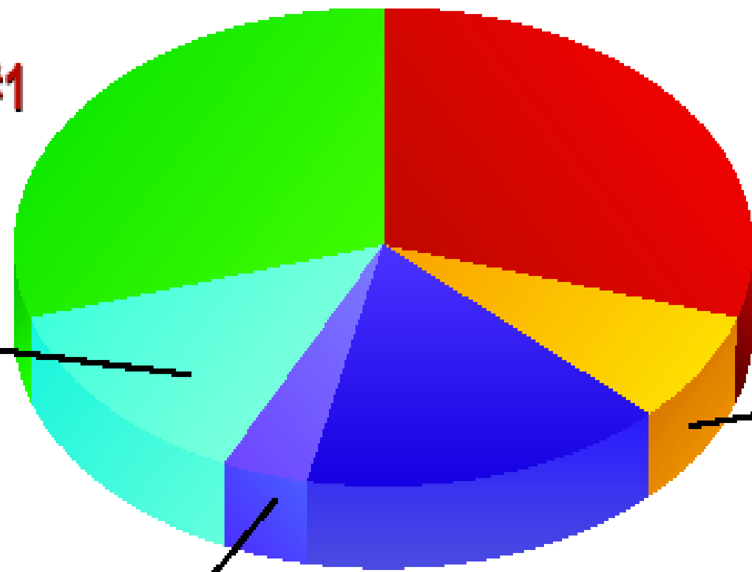


IBM 2003 – 2010 BUSINESS CHALLENGES

- **IT DYNAMICS and TRENDS**
  - **PROTECT PAST INVESTMENTS & Expect huge investments**
  - **PERVASIVE USER ACCESS to APPLICATION SERVERS up to CORPORATE MIS and PARTNERS' MIS**
  - **PARTNERSHIPS: Maintain synergy with 'heavy weights'**
    - **TELCO, Telecom. Equipment, Media & Entertainement**
    - **Major providers: SAP, SIEBEL, PeopleSoft, JD Edwards**

- **IBM CHALLENGES**
  - **EXECUTE 'ON DEMAND' BUSINESS MODEL PERFECTLY**
  - **ATTRACT & RETAIN MOST TALENTED SKILLS**
  - **GROW REVENUE and BALANCE 'INVESTMENTS & PROFIT'**
    - **Reduce Cost of Services & Debt. E/R down to 25%**
    - **Become 'Lowest TCO – Highest Business Value' provider**
    - **Invest in SW to create a $ 20 B. IBM-SW business**

Middleware Opportunity (2006) = $107B
'02 - '06 CGR = 9 -10%



Industry portfolio profit trends

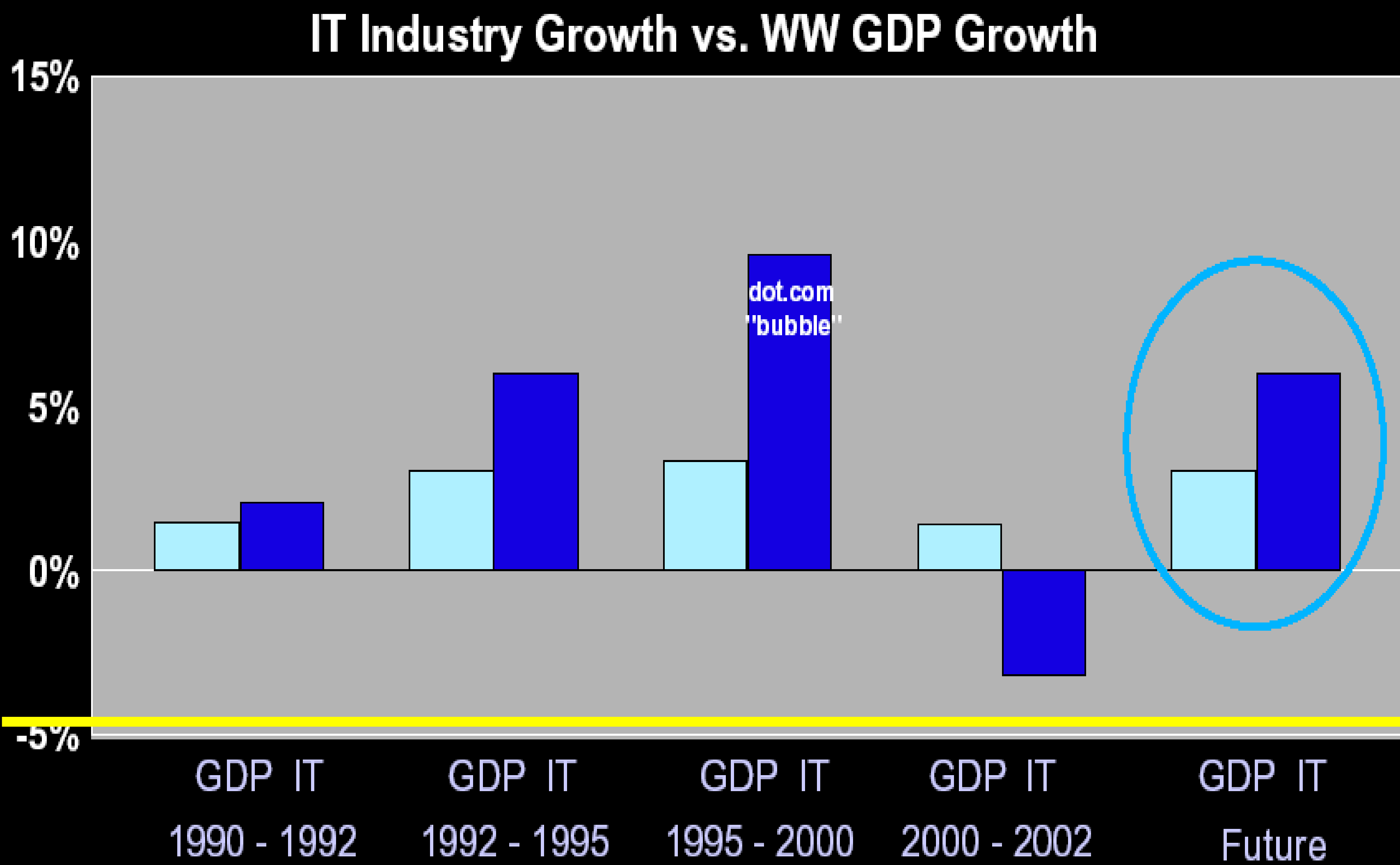
	Operating Profit			
	1995	2000	2005	Trend*
Business Value	14%	21%	30%	↑
Infrastructure Value				
Services	17%	10%	14%	↑
Software	11%	15%	18%	↑
Servers	6%	6%	2%	↓
Storage	7%	7%	4%	↓
PCs	11%	6%	4%	↓
Technology Value	35%	35%	27%	↓

**2000-05 trend shown*

Source: GMV 2H02, IBM Analysis

IBM 2003 – 2010 BUSINESS PERSPECTIVES

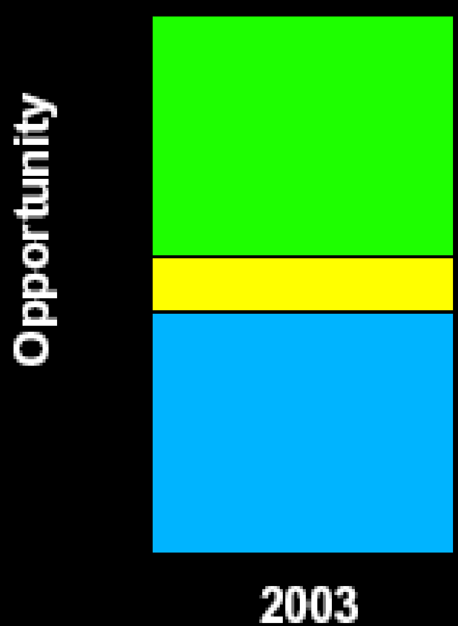
We expect the IT industry to grow at about 2X GDP



Source: IBM / Government Statistics

eBusiness On Demand Opportunity

- $1.1T Enterprise Computing Market
- On Demand opportunity roughly half
- The next driver of IT spending growth



Business Transformation

- Business Transformation is improving business processes through IT integration to improve operational efficiencies

Utility Computing

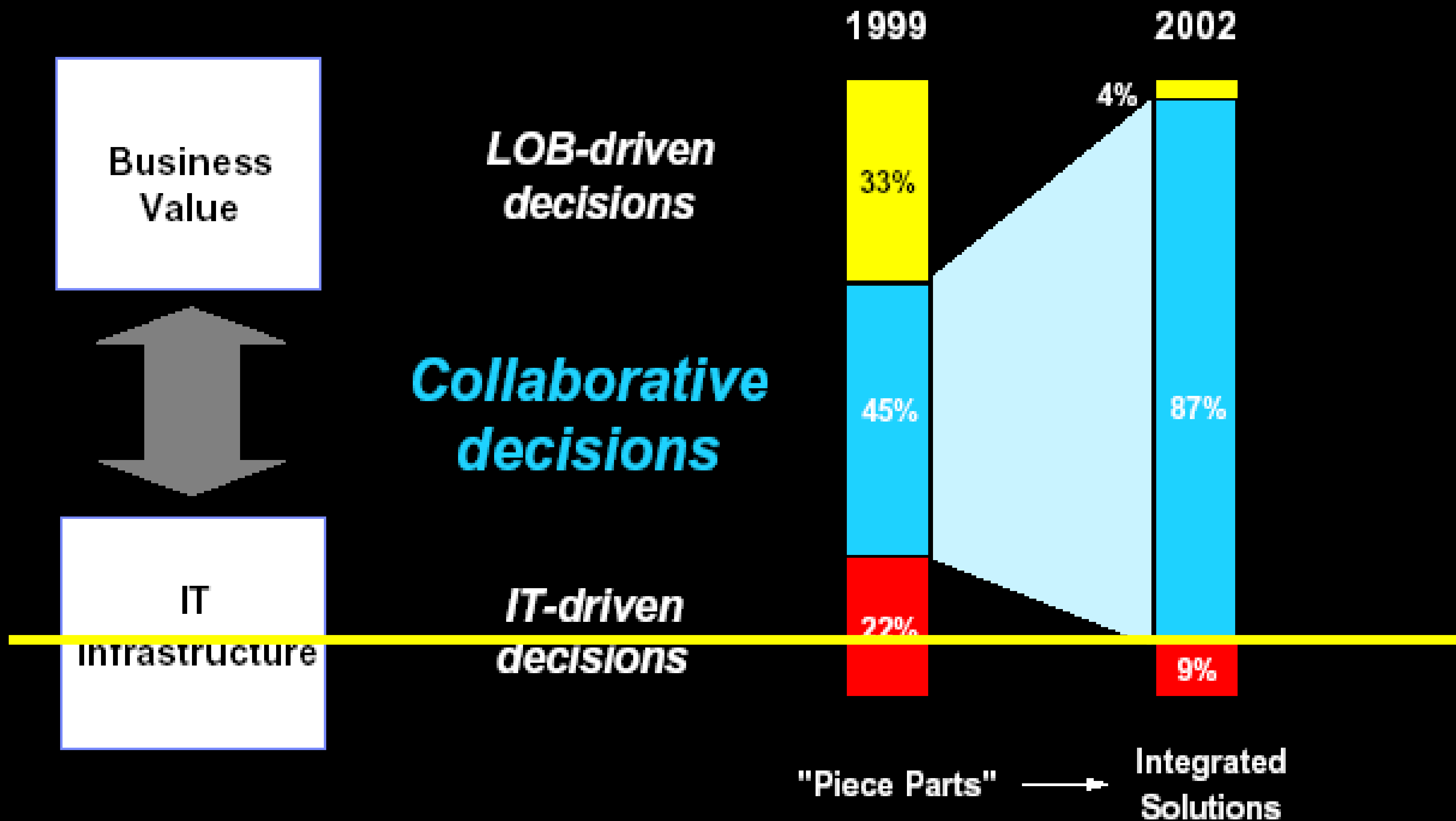
- Variable IT capacity and cost

Operating Environment

- Integrated
- Virtualized
- Open
- Autonomic

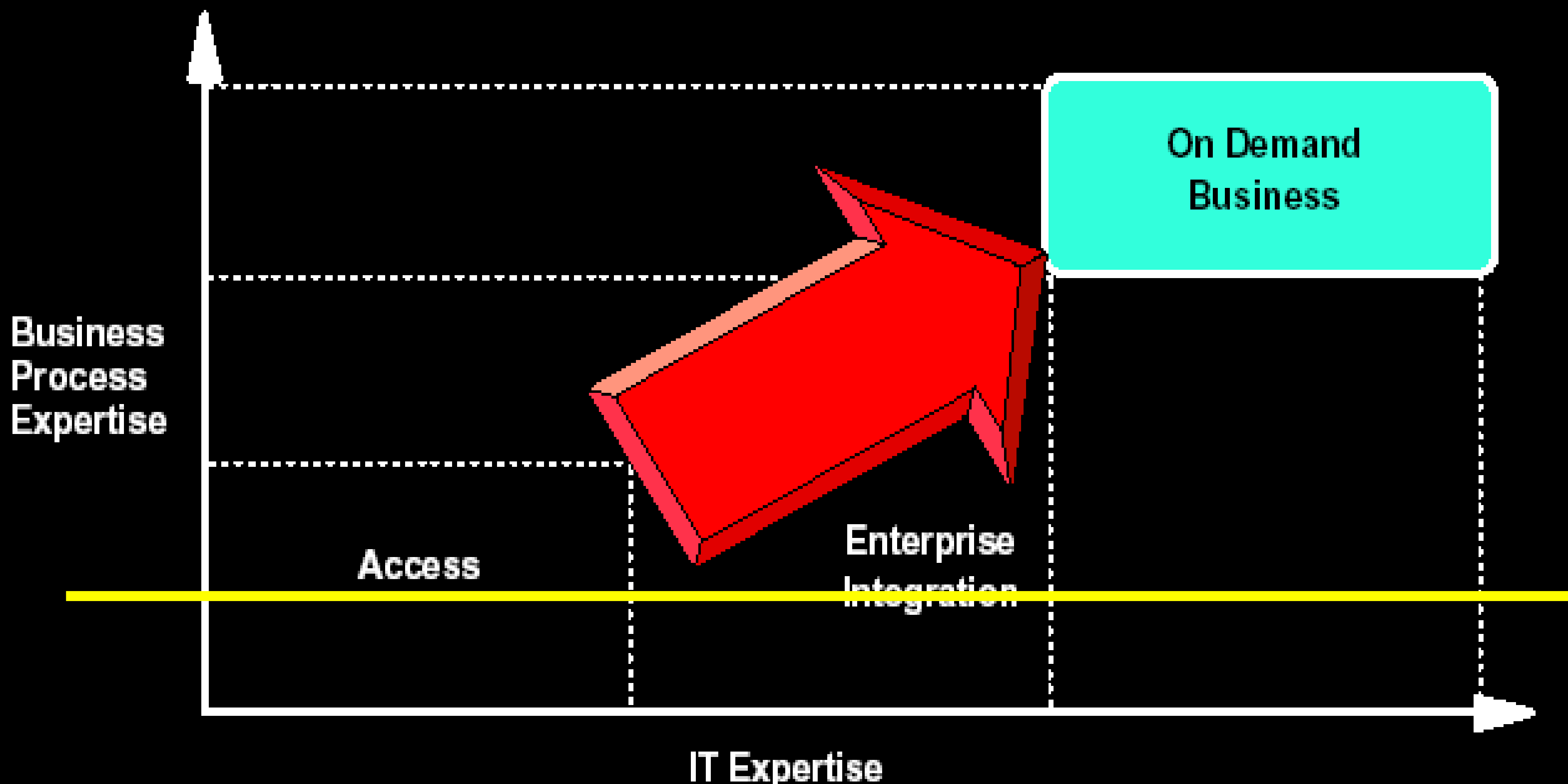
IBM 2003 – 2010 BUSINESS PERSPECTIVES

Customer IT decision makers have changed

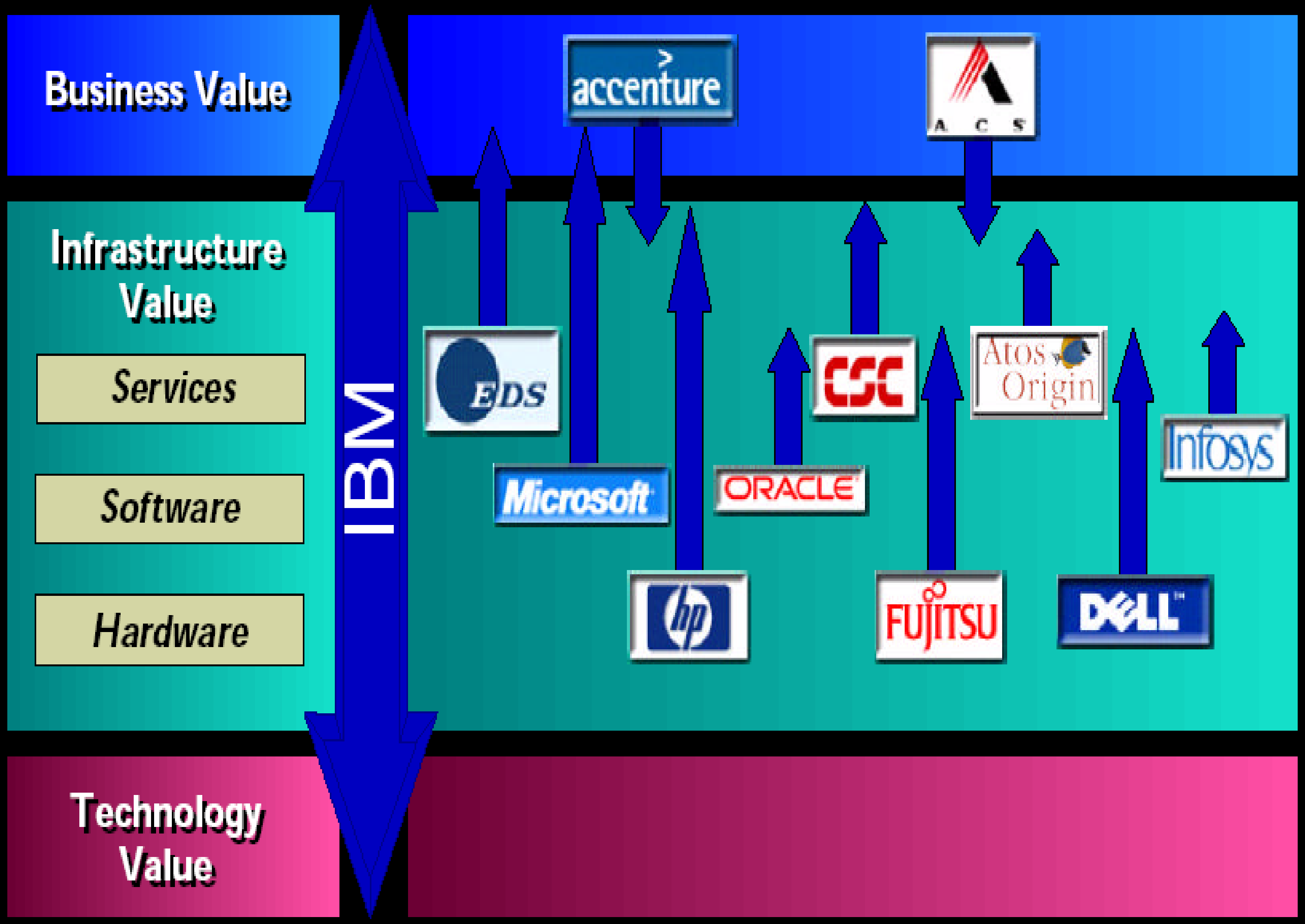


IBM 2003 – 2010 BUSINESS PERSPECTIVES

To take customers beyond simple Access...beyond Enterprise Integration...to On Demand...requires expertise in <u>both</u> business processes and IT



Competitive landscape



Historical Return on Invested Capital