

INFRASTRUCTURE SERVICES

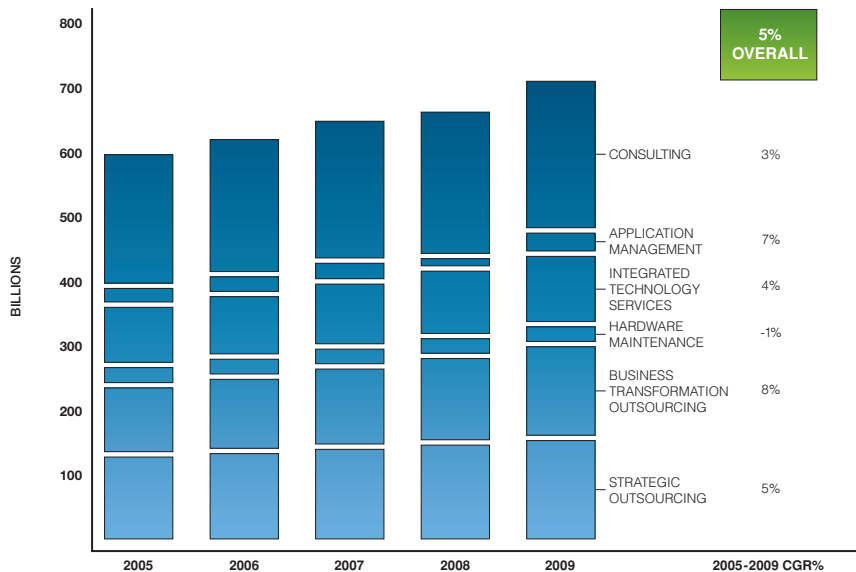
(IBM GLOBAL TECHNOLOGY SERVICES)

IBM Global Technology Services offers a comprehensive portfolio of Infrastructure Services. These services are allocated across four Global Technology Services business lines:

- Strategic Outsourcing, or classic IT outsourcing, IBM's largest services business.
- Integrated Technology Services, which IBM is transforming by remixing its portfolio over high-growth markets.
- Business Transformation Outsourcing (BTO). IBM's portfolio of managed business process services includes, in addition to BTO, Business Process Outsourcing, Applications On Demand and Business Processing Services.
- Hardware maintenance, where IBM is the share leader.

MARKET POSITION (YE2005)	RANK		RANK
STRATEGIC OURSOURCING	#1	CONSULTING	#1 (tie)
HARDWARE MAINTENANCE	#1	APPLICATION MANAGEMENT	#1
INTEGRATED TECHNOLOGY SERVICES	#1		

SERVICES OPPORTUNITY
(2005-2009)



THE MARKETPLACE

The overall services market is expected to grow 5% CAGR for 2005-2009, with continuous growth in key segments on which IBM is focused:

- Strategic outsourcing, where IBM's scale, products, and research and development differentiate it from the competition. IBM continues to be the leader across all deal sizes.

- Integrated Technology Services (ITS), which includes IBM's ability to respond to clients' demands for managed services such as business continuity & resiliency, security & privacy, storage & data including Information Lifecycle, and networking services/IP convergence.
- Small and medium business services.

- Business Transformation Outsourcing, which includes Business Performance Transformation Services and Business Process Outsourcing.

MEETING ITS GROWTH OBJECTIVES

For IBM Global Services, IBM's longer-term revenue growth model is to grow all of its business lines with or better than the market. IBM Global Services' longer-term financial model is to grow its existing businesses 4-6% YTY overall, grow its Application Management business 8-10% YTY, and its Business Transformation Outsourcing business 20-25% YTY, and augment its services business with strategic acquisitions to drive a total of 6-8% YTY growth.

In Strategic Outsourcing, IBM will continue to focus on expanding the business relationship with its existing account base, implement

a globally consistent services delivery model, and drive standardization and labor-to-technology transformation.

IBM is repositioning the Integrated Technology Services business for growth by simplifying the offerings portfolio to 10 service product lines that focus on high growth market segments, such as Business Continuity & Resiliency Services, Managed Security Services, Storage and Data Services including the fast growing Information Lifecycle Management opportunity, and Networking Services / IP Convergence. By closer partnerships with the IBM Systems & Technology Group

and Software Group to provide infrastructure solutions, IBM Global Technology Services is seeing traction in the market.

In the Business Transformation Outsourcing space, IBM seeks to aggressively invest to grow its capabilities in key offerings, and leverage its industry leadership in transformation where clients are seeking dramatic improvements in process operations. IBM continues to invest in its global delivery and process capabilities, and will leverage the BPO capabilities of IBM Daksh.

Finally, IBM continues to look for acquisition candidates to extend its capabilities in strategic markets.

LEVERAGING GLOBAL CAPABILITY AND DRIVING PRODUCTIVITY

IBM has built significant capabilities in India, China, Brazil and other emerging markets to support its primary business lines: Strategic Outsourcing, Integrated Technology Services, Business Transformation Outsourcing, and Maintenance. IBM's presence in these emerging markets is key to its strategy to standardize, reengineer, and automate its delivery processes to be more


cost-effective and improve customer satisfaction.

IBM has 41 global delivery centers in 16 countries, plus more than 800 major operations centers around the world, serving local and international clients. Of the emerging markets:

In India, where IBM has the second most employees of any country in the world, IBM has

14 city operations and a network of 2,500 business partners and 200 ISVs in 40 cities. Major operations include:

- Six Application Services Delivery centers.
- Global Service Delivery Center in Bangalore, which supports remote infrastructure management services for global clients.
- IBM Daksh Business Process Services, which is expanding from three to six centers.

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- India Research Lab, one of eight such IBM research labs in the world.
 - Services Innovation Research Center in Bangalore.
 - Network Solutions Ltd., a recently acquired infrastructure services company, which augments IBM's networking and managed services offerings and broadens its reach in India.
 - High Performance On Demand Lab in India, a software and services lab that drives automation and virtualization into IT infrastructures supporting the emerging economy of India.

- Global Business Solution Center, which allows IBM's more than 60,000 consultants to collaborate and deploy reusable tools in 55 key business areas. Similar centers are being launched this year in Brazil and China.

In China, IBM Global Services has 9,000 employees in 16 offices, plus nine joint ventures and wholly-owned subsidiaries. IBM Global Delivery, a wholly owned subsidiary of IBM China, has three major global delivery centers – in Dalian, Shenzhen and

Shanghai – which enable global delivery of business transformation and technology management services.

In Brazil, IBM has 12,300 employees. The Global Delivery Center in Hortolandia supports outsourcing, application maintenance and development, and Business Transformation Outsourcing.