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.

- Economies of developing nations were growing rapidly, driven by historic investments in fundamental business infrastructure. Enterprises were looking to tap skills and expertise available all over the world and to integrate their operations globally.
- Change in computing architecture was rippling across the data center and the network, along with a proliferation of technology infused into all aspects of work and life.
- 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.
We exited commoditizing businesses like PCs and hard disk drives, and strengthened our position in areas like service-oriented architecture (SOA), information on demand, virtualization and open, modular systems for businesses of all sizes.

- **2003**
  - IBM pretax income $9.4 billion
  - IBM pretax margin 10.6%

- **2007**
  - IBM pretax income $14.5 billion
  - IBM pretax margin 14.7%

3 And we decided to become a globally integrated enterprise in order to participate in the world’s growth markets and improve IBM’s productivity.
IBM operates in 170 countries and enjoys an increasingly broad-based geographic distribution of revenue. Our non-U.S. operations generated 63 percent of IBM’s revenue in 2007.

Last year our revenue increased 26 percent (18 percent in local currency) in the BRIC countries—Brazil, Russia, India and China. But our global footprint extends much farther. Consider more than 50 countries—including Czech Republic, Poland, Malaysia, Singapore, South Africa, Venezuela and Mexico—in each of which we grew more than 10 percent in local currency in 2007. In aggregate, IBM’s business in this group grew at a rate of more than 20 percent in local currency last year, and comprised 15 percent of our geographic revenues.

Strong Geographic Growth

2007 Revenue by Geographic Region (excludes OEM)

- **21%**
  - Asia Pacific

- **36%**
  - Europe, Middle East and Africa

- **43%**
  - Americas
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.

**Key Drivers**

**Revenue growth:** We maintain historical revenue growth through annuity businesses, global presence and a balanced business mix.

**Margin expansion:** We focus on delivering higher value to clients and on increasing productivity, to improve profitability.

**Share repurchases:** Our strong cash generation lets us return value to shareholders by reducing shares outstanding while reinvesting for future growth.

In 2007 our net cash from operations, excluding the year-to-year change in Global Financing receivables, was $17.4 billion—an increase of $2.1 billion from last year.

In May 2007 we shared with investors our 2010 Earnings Per Share Roadmap—which explains how we expect to achieve EPS growth of 14 to 16 percent and $10 to $11 in earnings per share by 2010. We did so to give our shareholders a clear understanding of the key factors driving IBM's long-term financial objectives. In 2007 we made progress toward our 2010 objectives by growing earnings per share 18 percent.

That has enabled us to invest in future sources of growth and provide record return to investors ...

**Primary Uses of Cash over the Past Five Years**

- Reinvested $30 billion Acquisitions and Capital Expenditures
- Returned to Shareholders $53 billion Share Repurchases and Dividends

- More than $83 billion since 2003

... while continuing to invest in R&D—more than $29 billion over the past five years.

**2010 Earnings Per Share Roadmap**

- Net Cash from Operations, Excluding Global Financing Receivables ($ in billions)

- Earnings Per Share (from continuing operations)

This gives us confidence that we can achieve our long-term financial objectives.

In May 2007 we shared with investors our 2010 Earnings Per Share Roadmap—which explains how we expect to achieve EPS growth of 14 to 16 percent and $10 to $11 in earnings per share by 2010. We did so to give our shareholders a clear understanding of the key factors driving IBM's long-term financial objectives. In 2007 we made progress toward our 2010 objectives by growing earnings per share 18 percent.

**Key Drivers**

**Revenue growth:** We maintain historical revenue growth through annuity businesses, global presence and a balanced business mix.

**Margin expansion:** We focus on delivering higher value to clients and on increasing productivity, to improve profitability.

**Share repurchases:** Our strong cash generation lets us return value to shareholders by reducing shares outstanding while reinvesting for future growth.

**Growth initiatives and future acquisitions:** We invest in key growth initiatives and strategic acquisitions to complement and scale our product portfolio.

**Retirement-related savings:** We expect to achieve retirement-related cost savings over the next several years, driven in part by Plan redesigns.