Software Performance

A Decade of Growth
- Grew revenue 1.7X and profit 2.9X expanding margins 13 points
- #1 Middleware Market Leader *
- Increased Key Branded Middleware from 38% to 59% of Software revenues
- Acquired 60+ companies
- Increased number of development labs globally from 15 to 42

2010 Roadmap Performance
- Segment PTI Growth Model 12% - 15%
  - Grew PTI to $8B at a 14% CGR
  - Expanded PTI Margin by 7 points
- Launched high growth initiatives
  - Smarter Planet solutions
  - Business Analytics & Optimization

* Source: IBM Market Insights 04/20/10
Software Will Help Deliver IBM’s 2015 Roadmap

IBM Roadmap to 2015

- **Base Revenue Growth**
  - Continue to drive growth and share gain
  - Capitalize on market opportunity *
    - Middleware opportunity growth of 5% CGR
      - High growth products growing 2X faster than rest of middleware
      - Growth markets growing 2X faster than major markets
      - BAO opportunity growth of 7%
  - Acquisitions to extend capabilities and enhance portfolio
  - Align investments to higher growth areas
    - 70% of investment directed to high growth products

- **Growth Initiatives**
  - Accelerate shift to higher value middleware business
  - Invest for growth
    - Developer population = 33K
  - Extend Global Reach
    - 42 global development labs with skills in 31 countries
    - 1/3rd of middleware sales force in growth markets
  - Leverage broader IBM

- **Future Acquisitions**
  - Capitalize on market opportunity *
  - High growth products growing 2X faster than rest of middleware
  - Growth markets growing 2X faster than major markets
  - BAO opportunity growth of 7%
  - Acquisitions to extend capabilities and enhance portfolio

- **Operating Leverage**
  - Align investments to higher growth areas
  - 70% of investment directed to high growth products

- **Portfolio Mix**
  - Acquire to extend capabilities and enhance portfolio

**Operating pre-tax income long-term growth model: 12% to 15%**

Positioned to contribute 49% of IBM profit in 2015

* Source: IBM Market Insights 04/20/10
IBM Software Strategy

- **DECISION MAKING**
  - Information Agenda
  - Real-time Analytics

- **BUSINESS PROCESS & SOA**
  - Integration
  - Optimization

- **HUMAN CAPITAL MGMT**
  - Collaboration
  - Knowledge Capture

- Service Management
- Software & Systems Lifecycle Management

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Leveraging Our Portfolio to Deliver Solutions

- Software and Systems Delivery Solutions
- Governance and Lifecycle Management
- Productivity and Automation
- Service Management
- Asset Management
- Security Management
- e-mail, Messaging
- Social Software
- Collaboration
- Rational
- WebSphere
- Information Management
- Lotus
- Cognos
- Portal
- Application Infrastructure
- Connectivity Integration
- Business Process Management
- Data Management
- Information Integration
- Content Management
- Business Analytics & Optimization
- Financial Performance Management
- Query, Reporting, Scorecards, Dashboards

Service Oriented Architecture (SOA)
Information On Demand (IOD)
Business Analytics & Optimization
Next Generation Collaboration
Service Management
Software & Systems Lifecycle Mgmt
Leveraging Our Acquisitions to Deliver Solutions

Rational Information Labs
SystemCorp
BuildForge
Watchfire*
Telelogic AB*
Ounce Labs*

Tivoli
Lotus
Cognos

CrossWorlds
Holosofx
Gluecode
DataPower
Webify

AptSoft*
InfoDyne*
ILOG*
Lombardi*
Cast Iron*

Metamerge
TrelliSoft
Access360
Think Dynamics
Candle
Cyanea Systems
Isogon
Collation
CIMS Labs
Micromuse

Rembo
Ubiquity
MRO
Vallent*
Consul*
Encentuate*
FilesX*
Intelliden*

Aprix
PureEdge
Bowstreet
WebDialogs*
Net Integration Tech*
Outblaze Ltd.*

Informix
Tarian
CrossAccess
Green Pastures
Trigo
Alphablox
Venetica
SRD
Solid*
Cognos*
Exeros*

Ascential
DWL
iPhrase
LAS
Unicorn
FileNet
Data Mirror*
Princeton*
Guardium*
Initiate*
SPSS*

Note: Acquisitions since Jan 2001
*Acquisitions since Jan 2007
Increasing Investment in Higher Growth Segments

2010 Middleware Opportunity
$125B, CGR = 5%*

70% of R&D budget invested in higher growth segments

<table>
<thead>
<tr>
<th>Higher Growth Product Segments</th>
<th>’09 – ’15 CGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Process Management</td>
<td>10%</td>
</tr>
<tr>
<td>Information Integration</td>
<td>8%</td>
</tr>
<tr>
<td>Master Data Management</td>
<td>7%</td>
</tr>
<tr>
<td>Business Analytics</td>
<td>7%</td>
</tr>
<tr>
<td>Enterprise Content Management</td>
<td>6%</td>
</tr>
<tr>
<td>Security Management</td>
<td>6%</td>
</tr>
<tr>
<td>Application &amp; Integration Server</td>
<td>5%</td>
</tr>
<tr>
<td>Relational Database</td>
<td>5%</td>
</tr>
<tr>
<td>Systems Management</td>
<td>5%</td>
</tr>
</tbody>
</table>

| Higher Growth Middleware                        | 6% CGR*       |
| Rest of Middleware                              | $77B          |
| $ 48B                                           | 2% CGR*       |
Enablers for Growth

- Smarter Planet Solutions
  *Thinking and acting in new ways*

- Growth Markets
  *Aligning Investments to Match Opportunity*

- **Business Analytics and Optimization**
  *Leveraging Information for Smarter Business Outcomes*

- Cloud Computing & Next Generation Data Center
  *Efficient, scalable workload optimization & service delivery*
IBM BAO revenue projected to grow from $9B in 2009 to $16B in 2015

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*Source: IBM Market Insights 4/20/2010
Making Investments to Meet Demand

- $11B investment acquiring 18 companies since 2005
- Over 5,000 dedicated consultants today
- Optimized hardware and software offering
  - IBM Smarter Analytics System
  - System z versions, Power System, and System x.
- Largest math department in private industry
IBM Business Analytics and Optimization Offerings

- IBM BAO Consulting Services
- IBM BAO IT Services
- IBM Cognos
- IBM InfoSphere Information Server
- IBM InfoSphere MDM Server
- IBM Industry Data & Process Models
- IBM InfoSphere Traceability Server
- IBM Cognos Cross-Industry Solutions
- IBM SPSS
- IBM iLog
- IBM Filenet BPM
- IBM Filenet P8 ECM
- IBM Content Manager
- IBM eDiscovery
- IBM Smart Analytics Systems
- IBM Optim
- IBM InfoSphere Warehouse
- IBM InfoSphere Streams
- IBM InfoSphere Mashup Hub
- IBM Records Management
- IBM DB2
- IBM solidDB
- IBM Cognos Cross-Industry Solutions
- IBM Entity Analytic Solutions
- IBM iLog
Business Analytics Solutions

Alameda County Social Services Agency
County data from six disparate state and county systems integrated into data warehouse within five months providing real time client and family views. Reduced investigators time for one case from 5 months to one minute.

Solution Components
- IBM Cognos 8 BI
- InfoSphere Entity Analytics Solutions
- DB2 Data Warehouse Edition
- InfoSphere Balanced Warehouse

Warabeya Nichiyo Co, Ltd
Consumer food products company engaged IBM to implement a complete production planning and business management system to give a clear picture of day-to-day operations in all its factories. System enables Warabeya to compare daily operations between factories strengthening efficiency and cost management.

Solution Components
- Cognos 8 BI
- WebSphere Application Server
- Lotus Notes
- Tivoli Storage Management
- System p, IBM Disk Storage
- IBM Global Services
Business Analytics Critical to Smarter Planet Solutions

2015 Market Opportunity

Business Analytics & Optimization

2015

$205B
’09 - ’15
CGR = 7%*

Smarter Planet Solutions
Driven by Business Analytics

- New Intelligence
- Smart Work
- Green and Beyond
- Dynamic Infrastructure
- Managing Risk
- Smarter Products

*Source: IBM Market Insights 4/20/2010
New York Police Department

By integrating its siloed crime data systems, NYPD gets a more holistic view of information enabling it to redeploy resources in response to crime patterns and trends helping to resolve crimes and apprehend criminals more quickly.

Solution Components
- Cognos 8 BI
- IBM DB2
- IBM DB2 Warehouse Edition
- WebSphere Application Server
- Tivoli Storage Management
- System p
- IBM Global Services

Endesa S.A. (Spain)

Implemented an energy management system that enables consumers to better control usage. Consumers will be able to establish consumption protocols to minimize electricity use in peak periods. A 20% reduction in overall energy use is anticipated.

Solution Components
- Cognos 8 BI
- DB2, InfoSphere Warehouse
- WebSphere Application Server
- WebSphere Message Broker
- WebSphere Business Events
- Tivoli Netcool, Network Mgr
- IBM BladeCenter
- IBM Global Services
Software - Leveraging Transformation for Growth

**Revenue**
- 2000: $12.6B
- 2006: $18.2B (+ $5.6B)
- 2009: $21.4B (+ $3.2B)
- Pre-Tax Income:
  - 2000: $2.8B (21% Margin)
  - 2006: $5.5B (27% Margin)
  - 2009: $8.1B (34% Margin)

**Pre-Tax Income Growth**
- '06–'09 CGR: 14%
- '00–'06 CGR: 12%

**Leverage**
- Global Reach
- Acquisition Strategy
- R&D Efficiency
- Branded Middleware
- Growth Markets
- Investing in High Growth Businesses
- Annuity Base

GAAP View
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Leveraging Development Efficiencies

- Reusable, flexible, common development components for reuse across software portfolio, e.g.
  - WebSphere Application Server technology has been reused and/or bundled with 126 other product offerings
  - DB2 technology has been reused and/or bundled with 175 other product offerings

- Ongoing relationship between Software Development teams and IBM Research to integrate first-of-a-kind project software into product portfolio
  - Reduced development cycle time

- Software development skills located in 31 countries
  - Expertise globally available for customer onsite assistance
Geographic Coverage Drives Significant Leverage
Software Summary

- Proven track record of profit growth
- Continued investments in high-growth areas
- Positioned to contribute 49% of IBM’s profit by 2015

Operating Pre-tax Income

- $2.6B in 2000
- $5.7B in 2006
- $8.3B in 2009
- ~$17B in 2015e

Non GAAP View

'00–'06 CGR 14%
'06–'09 CGR 13%
'09–'15 CGR 12-15%

+2X

+1.4X

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