

3Q06

IBM Income Statement

Nov-06

- FORECAST/ACTUAL -

Currency impact: -1%

| | (Forecast) | 3Q06 (\$ mill) | % of Total | Annual Change | 3Q05 (\$ mill) | % of Total | 3Q04 (\$ mill) | % of Total |
|-----------------------------------|------------------|-------------------|---------------|------------------|-------------------|---------------|-------------------|---------------|
| Revenue (Gross Income): | | | | | | | | |
| | <i>Fcst</i> | | | | | | | |
| Hardware* | 5,531 | 5,583 | 24.7% | 9% | 5,130 | 23.8% | 7,501 | 32.1% |
| Services | 10,711 | 10,578 | 46.8% | 3% | 10,299 | 47.8% | 9,978 | 42.7% |
| Maintenance | 1,442 | 1,440 | 6.4% | 3% | 1,398 | 6.5% | 1,334 | 5.7% |
| Software | 4,029 | 4,406 | 19.5% | 9% | 4,059 | 18.9% | 3,621 | 15.5% |
| Other | 308 | 20 | 0.1% | -55% | 43 | 0.2% | 277 | 1.2% |
| Global Financing | 564 | 591 | 2.6% | -2% | 600 | 2.8% | 638 | 2.7% |
| Total | 22,585 | 22,617 | 100.0% | 5% | 21,529 | 100.0% | 23,349 | 100.0% |
| <i>Currency adjusted</i> | | 22,843 | | 6.1% | | | | |
| Costs | | | | | | | | |
| | <i>GP Margin</i> | | | | | | | |
| Cost of Hardware | 37.7% | 3,478 | 15.4% | 8.1% | 3,218 | 14.9% | 5,371 | 23.0% |
| Cost of Services | 26.4% | 7,784 | 34.4% | -0.1% | 7,793 | 36.2% | 7,718 | 33.1% |
| Cost of Maintenance | 38.0% | 893 | 3.9% | 4.4% | 855 | 4.0% | 787 | 3.4% |
| Cost of Software | 85.3% | 648 | 2.9% | 35.0% | 480 | 2.2% | 460 | 2.0% |
| Other | 8.1% | 18 | 0.1% | -89.4% | 173 | 0.8% | 154 | 0.7% |
| Global Financing | 48.6% | 304 | 1.3% | 11.4% | 273 | 1.3% | 255 | 1.1% |
| Total Cost of Rev. | | 13,125 | 58.0% | 2.6% | 12,791 | 59.4% | 14,744 | 63.1% |
| Gross Profit | 9,858 | 9,492 | 42.0% | 8.6% | 8,738 | 40.6% | 8,533 | 36.5% |
| SG&A Expenses | | 5,121 | 22.6% | 10.6% | 4,632 | 21.5% | 5,162 | 22.1% |
| One-time Charges | | | | | | | | |
| RD&E Expenses | | 1,543 | 6.8% | 6.6% | 1,447 | 6.7% | 1,468 | 6.3% |
| Total Costs & Exp. | | 19,788 | 87.5% | 4.9% | 18,870 | 87.7% | 21,374 | 91.5% |
| Operating Income | 4,275 | 2,829 | 12.5% | 6.4% | 2,659 | 12.3% | 1,903 | 8.2% |
| Intellectual Property Income | | (242) | -1.1% | 13.6% | (213) | -1.0% | (259) | -1.1% |
| Other Income | | (174) | -0.8% | 75.8% | (99) | -0.5% | (55) | -0.2% |
| Interest Expense | | 70 | 0.3% | 25.0% | 56 | 0.3% | 32 | 0.1% |
| Earnings (Loss) Before Tax | | 3,174 | 14.0% | 8.9% | 2,915 | 13.5% | 2,185 | 9.4% |
| Tax/Rate | | 952 | 30.0% | -31.9% | 1,399 | 48.0% | 631 | 28.9% |
| Net Earnings (Loss) | | 2,222 | 375.8% | 46.6% | 1,516 | 252.6% | 1,554 | 243.4% |
| Disco'd Operations (loss) | | | | | | | | |
| Net Earnings | 2,356 | 2,222 | 9.8% | 46.6% | 1,516 | 7.0% | 1,554 | 6.7% |
| Shares # (basic) | | 1,513.2 | | -4.9% | 1,591.1 | | 1,669.6 | |
| Net Earnings/Share | 1.18 | 1.47 | | 55.6% | 0.94 | | 0.93 | |
| Gross Profit: | | | | | | | | |
| | | GP | GM | | GP | GM | GP | GM |
| Hardware* | | 2,105 | 37.7% | 10.1% | 1,912 | 37.3% | 2,130 | 28.4% |
| Services | | 2,794 | 26.4% | 11.5% | 2,506 | 24.3% | 2,260 | 22.7% |
| Software | | 3,758 | 85.3% | 5.0% | 3,579 | 88.2% | 3,161 | 87.3% |
| Maintenance | | 547 | 38.0% | 0.8% | 543 | 38.8% | 547 | 41.0% |
| Other | | 2 | 8.1% | -101.2% | (130) | -301.4% | 123 | 44.4% |
| Global Financing | | 287 | 48.6% | -12.2% | 327 | 54.5% | 383 | 60.1% |

Source: Annex Research

*PC/Lenovo results removed