

3Q06**IBM Pretax Profitability**

Nov-06

3Q By Business Segments (e)

| | 2006 | | 2005 | | 2004 | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| PRETAX PROFIT | | Margin | | Margin | | Margin |
| TOTAL | 3,174 | | 2,915 | | 2,185 | |
| Hardware* | 413 | 7.4% | 365 | 7.1% | 344 | 4.6% |
| Services | 1,060 | 10.0% | 701 | 6.8% | 891 | 8.9% |
| Maintenance (e) | 159 | 11.1% | 170 | 12.2% | 368 | 27.6% |
| Software | 1,302 | 29.6% | 1,130 | 27.8% | 799 | 22.1% |
| Other | 405 | | 288 | 669.8% | (70) | -25.3% |
| <u>Global Financing</u> | <u>335</u> | <u>56.7%</u> | <u>363</u> | <u>60.5%</u> | <u>218</u> | <u>34.1%</u> |
| Total | 3,580 | 15.8% | 2,916 | 13.5% | 2,404 | 10.3% |

Business Segments

| | Revenue | | | | Pretax Profit | | | |
|-------------------------|--------------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|
| | Customer | Internal | 3Q06 | 3Q05 | 3Q06 | Margins | 3Q05 | Margins |
| Technology PCs | (incl. in Systems) | | | | | | | |
| Systems & Tech | 5,466 | 255 | 5,721 | 5,256 | 413 | 7.6% | 365 | 6.9% |
| Global Tech Services | 8,058 | 428 | 8,486 | 8,313 | 814 | 9.6% | 871 | 10.5% |
| Global Bus Services | 3,959 | 337 | 4,296 | 4,245 | 405 | 9.4% | 288 | 6.8% |
| Software | 4,406 | 559 | 4,965 | 4,545 | 1,302 | 26.2% | 1,130 | 24.9% |
| <u>Global Financing</u> | <u>587</u> | <u>337</u> | <u>924</u> | <u>888</u> | <u>335</u> | 36.3% | <u>363</u> | <u>40.9%</u> |
| Sub-Total | 22,476 | 1,916 | 24,392 | 23,247 | 3,269 | 13.4% | 3,017 | 13.0% |
| Eliminations | | | (1,775) | (1,767) | (94) | | (101) | |
| Total | 22,617 | | 22,617 | 21,480 | 3,175 | 14.0% | 2,916 | 13.6% |

Source: Annex Research

*Includes maintenance