

3Q07

## IBM Income Statement

Apr-07

## Forecast

Currency impact: -1%

|                                   |                          | 3Q07<br>(\$ mill) | % of<br>Total | Annual<br>Change | 3Q06<br>(\$ mill) | % of<br>Total | 3Q05<br>(\$ mill) | % of<br>Total |
|-----------------------------------|--------------------------|-------------------|---------------|------------------|-------------------|---------------|-------------------|---------------|
|                                   | (Forecast)               |                   |               |                  |                   |               |                   |               |
| <b>Revenue (Gross Income):</b>    |                          |                   |               |                  |                   |               |                   |               |
| Hardware*                         |                          | 5,739             | 24.1%         | 5%               | 5,466             | 24.2%         | 4,988             | 23.2%         |
| Global Bus Services               |                          | 4,197             | 17.6%         | 6.0%             | 3,959             | 17.5%         | 3,910             | 18.2%         |
| Global Tech Services              |                          | 8,380             | 35.2%         | 4.0%             | 6,635             | 29.3%         | 6,389             | 29.7%         |
| Maintenance                       |                          |                   |               |                  | 1,423             | 6.3%          | 1,398             | 6.5%          |
| Software                          |                          | 4,758             | 20.0%         | 8%               | 4,406             | 19.5%         | 4,059             | 18.9%         |
| Other                             |                          | 141               | 0.6%          | 0%               | 141               | 0.6%          | 186               | 0.9%          |
| Global Financing                  |                          | 587               | 2.5%          | 0%               | 587               | 2.6%          | 599               | 2.8%          |
| <b>Total</b>                      | 23,803                   | <b>23,803</b>     | <b>100.0%</b> | <b>5%</b>        | <b>22,617</b>     | <b>100.0%</b> | <b>21,529</b>     | <b>100.0%</b> |
|                                   | <i>Currency adjusted</i> | <b>24,041</b>     |               | <b>6.3%</b>      |                   |               |                   |               |
| <b>Costs</b>                      |                          |                   |               |                  |                   |               |                   |               |
| Cost of Hardware                  | GP Margin 37.0%          | 3,616             | 15.2%         | 7.0%             | 3,379             | 14.9%         | 3,218             | 14.9%         |
| Cost of Bus Services              | 23.5%                    | 3,210             | 13.5%         | 5.0%             | 3,056             | 13.5%         | 3,171             | 14.7%         |
| Cost of Tech Services             | 29.5%                    | 5,908             | 24.8%         | 22.7%            | 4,813             | 21.3%         | 4,672             | 21.7%         |
| Cost of Maintenance               | 38.0%                    |                   |               |                  | 806               | 3.6%          | 806               | 3.7%          |
| Cost of Software                  | 85.0%                    | 714               | 3.0%          | 10.5%            | 646               | 2.9%          | 480               | 2.2%          |
| Other                             | 10.0%                    | 127               | 0.5%          | 4.0%             | 122               | 0.5%          | 173               | 0.8%          |
| Global Financing                  | 48.0%                    | 305               | 1.3%          | 1.1%             | 302               | 1.3%          | 273               | 1.3%          |
| <b>Total Cost of Rev.</b>         |                          | <b>13,880</b>     | <b>58.3%</b>  | <b>5.8%</b>      | <b>13,125</b>     | <b>58.0%</b>  | <b>12,791</b>     | <b>59.4%</b>  |
| <b>Gross Profit</b>               | 9,922                    | <b>9,922</b>      | <b>41.7%</b>  | <b>4.5%</b>      | <b>9,492</b>      | <b>42.0%</b>  | <b>8,738</b>      | <b>40.6%</b>  |
| SG&A Expenses                     |                          | 5,223             | 21.9%         | 2.0%             | 5,121             | 22.6%         | 4,632             | 21.5%         |
| One-time Charges                  |                          |                   |               |                  |                   |               |                   |               |
| RD&E Expenses                     |                          | 1,620             | 6.8%          | 5.0%             | 1,543             | 6.8%          | 1,447             | 6.7%          |
| <b>Total Costs &amp; Exp.</b>     |                          | <b>20,724</b>     | <b>87.1%</b>  | <b>4.7%</b>      | <b>19,789</b>     | <b>87.5%</b>  | <b>18,871</b>     | <b>87.7%</b>  |
| <b>Operating Income</b>           | 3,079                    | <b>3,079</b>      | <b>12.9%</b>  | <b>8.9%</b>      | <b>2,828</b>      | <b>12.5%</b>  | <b>2,658</b>      | <b>12.3%</b>  |
| Intellectual Property Income      |                          | -242              | -1.0%         | 0.0%             | -242              | -1.1%         | -213              | -1.0%         |
| Other Income                      |                          | -174              | -0.7%         | 0.0%             | -174              | -0.8%         | -99               | -0.5%         |
| Interest Expense                  |                          | 70                | 0.3%          | 0.0%             | 70                | 0.3%          | 56                | 0.3%          |
| <b>Earnings (Loss) Before Tax</b> |                          | <b>3,424</b>      | <b>14.4%</b>  | <b>7.9%</b>      | <b>3,174</b>      | <b>14.0%</b>  | <b>2,914</b>      | <b>13.5%</b>  |
| Tax/Rate                          |                          | 1,027             | 30.0%         | 7.9%             | 952               | 30.0%         | 1,399             | 48.0%         |
| <b>Net Earnings (Loss)</b>        |                          | <b>2,397</b>      | <b>408.3%</b> | <b>7.9%</b>      | <b>2,222</b>      | <b>378.6%</b> | <b>1,515</b>      | <b>253.0%</b> |
| Disco'd Operations (loss)         |                          |                   |               |                  |                   |               |                   |               |
| <b>Net Earnings</b>               | 2,397                    | <b>2,397</b>      | <b>10.1%</b>  | <b>7.9%</b>      | <b>2,222</b>      | <b>9.8%</b>   | <b>1,515</b>      | <b>7.0%</b>   |
| Shares # (basic)                  |                          | 1,439.1           |               | -4.9%            | 1,513.2           |               | 1,591.1           |               |
| EPS (basic)                       | 1.67                     | 1.67              |               | 13.4%            | 1.47              |               | 0.95              |               |

Source: Annex Research