

Executive Compensation Pay for Performance Strategy



2014: Continuing to move to higher value:

- \$1 billion to accelerate the commercialization of IBM Watson
- \$1.2 billion to expand our Softlayer cloud centers around the world
- \$1 billion to create IBM Bluemix, our cloud platform-as-a-service
- Partnerships with SAP, Tencent, Apple and Twitter

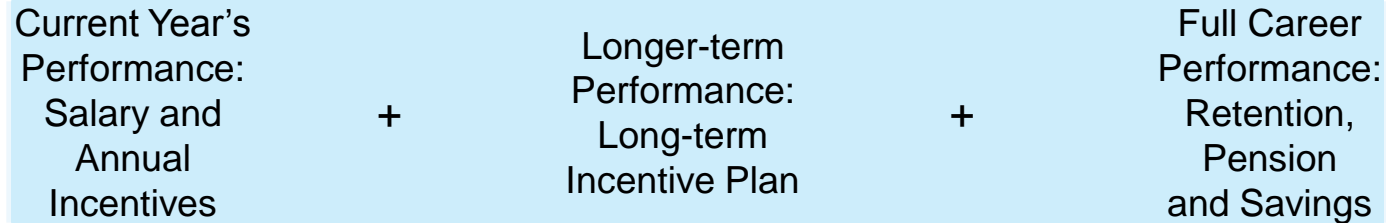
2014: Financial Performance:

- **Revenue of \$92.8 billion**
- **Operating pre-tax income of \$21 billion**
- **Operating EPS of \$16.53**

2015: Our transformation continues:

- Shift an additional \$4 billion of spending to data, cloud and engagement
- Continue to bring innovation to our core franchises
- Open ecosystems and partnerships are key to our future innovation

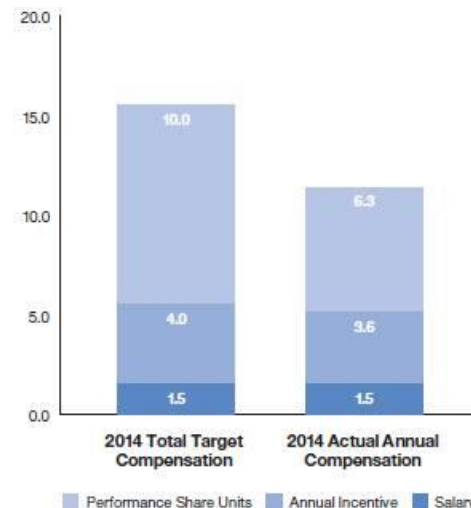
IBM executives earn their compensation based on performance over three time frames:



1. Current Year — Salary and annual incentives that reflect actions and results over 12 months;
2. Longer-term — A long-term incentive plan that reflects results over a minimum of three years, helping to ensure that current results remain sustainable; and
3. Full Career — Deferrals, retention payments and retirement accumulations help ensure today's leaders stay with IBM until their working careers end.

- Annual compensation for the named executive officers varies year to year based on business results and individual performance. For 2014, 90% of the compensation of the named executive officers was performance based.
 - For Mrs. Rometty, the annual incentive payout level considered a balanced view of performance, including financial results that were lower than target, substantial actions taken to reposition the Company in higher value businesses, and market-leading client satisfaction levels. Taking into consideration the actual salary, actual annual incentive payout and actual long-term incentive award for the period 2012 – 2014, Mrs. Rometty earned 74% of her annual total target compensation in 2014.

For 2014, Mrs. Rometty earned 74% of her total target compensation
Values in Millions (\$)



- As for the other named executive officers, actual total compensation for 2014 ranged from 68% to 91% of annual total target compensation.
- Compensation of our named executive officers is linked with Company performance against core business metrics. Targets are set for both the annual and long-term incentive programs at aggressive levels each year. These targets are designed to be challenging to attain and are set within the parameters of our financial model shared with investors each year.
- Our long-term incentive, which is 100% performance based, is delivered through Performance Share Units (PSUs).