3. MANAGEMENT PROPOSAL ON ADVISORY VOTE ON EXECUTIVE COMPENSATION

IBM is asking that you APPROVE the compensation of the named executive officers as disclosed in this Proxy Statement.

In 2016, IBM emerged as the recognized cognitive solutions and cloud platform company — the result of a multi-year transformation of the business portfolio. IBM reinvented its core hardware, software, and services franchises, while investing to create new ones such as IBM Cloud, IBM Analytics, IBM Security, and the Watson businesses. A strong foundation is now in place.

Specific highlights of performance include:

- Generated revenue of $79.9 billion and GAAP net income from continuing operations of $11.9 billion (operating non-GAAP net income of $13.0 billion).
- Delivered GAAP gross margin of 48%, reflecting the investments made in acquisitions and our as-a-Service business.
- Achieved GAAP diluted earnings per share from continuing operations of $12.39 (operating non-GAAP diluted earnings per share of $13.59).
- Generated $17.0 billion in cash from operations and $11.6 billion in free cash flow, with a strong realization rate of 97% of GAAP net income, while continuing our investment in research & development and capital expenditures.
- Executed 15 acquisitions with total spend of nearly $6 billion to strengthen our cognitive, cloud and industry capabilities.
- Maintained IBM's industry-leading position in cloud with revenue of $13.7 billion, up 35% year over year. We exited the year with a cloud as-a-Service run rate of $8.6 billion, up 61%.
- Scaled Strategic Imperatives — cloud, analytics, mobile, security and social — up 13% year over year and contributing 41% of IBM's revenue. Revenue from analytics increased 9% and mobile, security and social collectively increased 19%.
- Continued momentum in our high-value businesses, providing world-class innovation to our clients. Software Solutions grew 5%, Technology Services and Cloud Platforms grew 1% and our total Software revenue was flat at actual rates, returning to growth at constant currency.
- Launched the Watson Financial Services unit and entered the global regulatory compliance market, enabled by the acquisition of Promontory Financial Group. The newly launched unit brings our clients an industry-specific combination of Watson, IBM Cloud, IBM Systems, blockchain, deep domain expertise and ecosystems of partners and developers.

As discussed in the 2016 Compensation Discussion and Analysis, IBM's executive compensation programs are designed to:

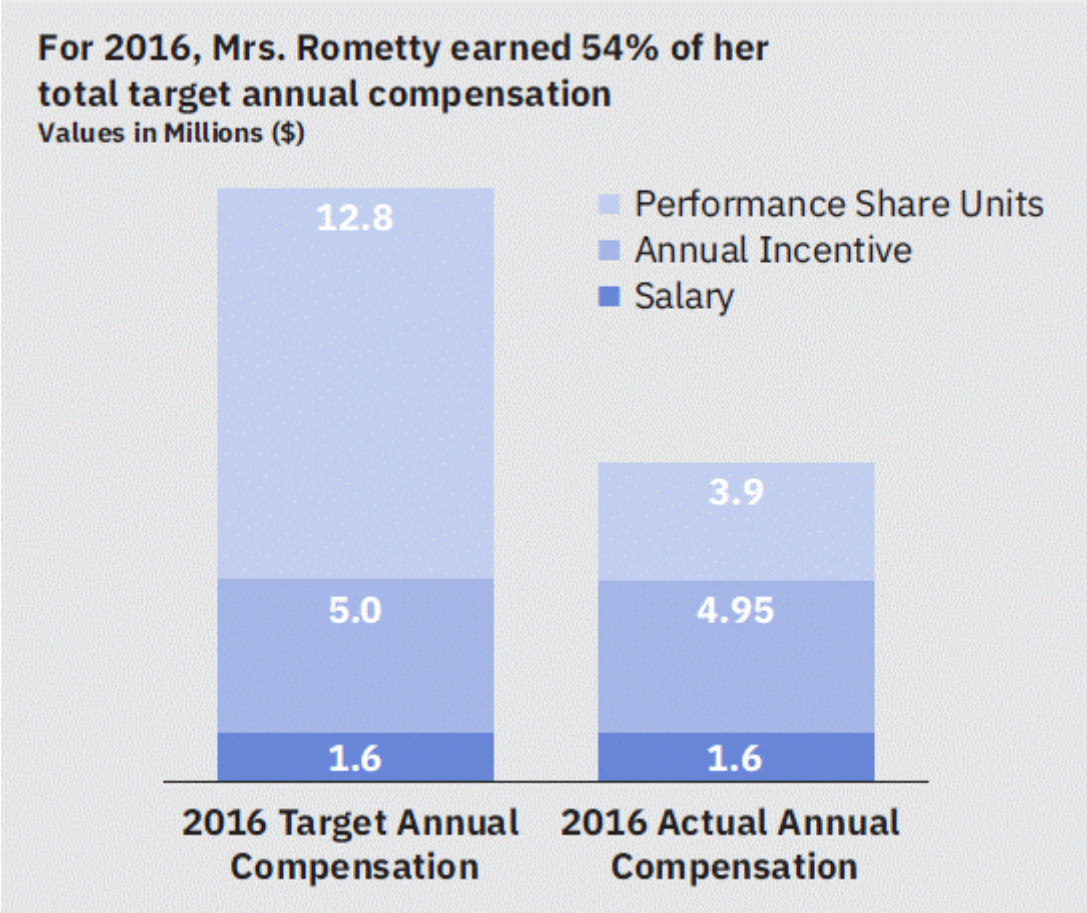
- Ensure that the interests of IBM's leaders are closely aligned with those of our investors by varying compensation based on both long-term and annual business results and delivering a large portion of the total pay opportunity in IBM stock;
- Balance rewards for both short-term results and the long-term strategic decisions needed to ensure sustained business performance over time;
- Attract and retain the highly qualified senior leaders needed to drive a global enterprise to succeed in today's highly competitive marketplace;
- Motivate our leaders to deliver a high degree of business performance without encouraging excessive risk taking; and
- Differentiate rewards to reflect individual and team performance.

Compensation of our named executive officers is linked with IBM's performance against core business metrics. These metrics and their weightings are aligned with IBM's financial and strategic objectives and are designed to appropriately balance short- and long-term goals. Targets are set for both the annual and long-term incentive programs at aggressive levels each year. These targets, individually and together, are designed to be challenging to attain and are consistent with our financial model shared with investors each year. The difficulty and rigor of our

targets is apparent in the payouts. Since becoming CEO, Mrs. Rometty's annual incentive payout has ranged from 0% to 108% and Performance Share Unit payouts have ranged from 32% to 113% during the same period. As part of IBM's ongoing management system, targets are evaluated to ensure they do not include an inappropriate amount of risk taking.

IBM's named executive officers are identified in the 2016 Summary Compensation Table, and the compensation of the named executive officers is described on pages 20 through 56. Our compensation strategy supports IBM's emergence as the cognitive solutions and cloud platform company. It is designed to ensure that executives balance short-term objectives against long-term priorities, to align executive and stockholder interests, and to attract and retain the leadership needed to deliver strong results. Pay decisions were made in the context of our financial performance relative to our goals, while taking into account the transformation made in the Company's portfolio and the steps taken to strengthen IBM's position for the future.

For 2016 performance, the Board approved an annual incentive payment of $4.95 million for Mrs. Rometty, which represented 99% of target. The payout level considered her outstanding personal leadership through a landmark transformation, significant progress in the implementation of IBM's strategy, with continued growth in Strategic Imperatives, momentum in cognitive, and the creation of new businesses in health care, Internet of Things, and financial regulatory compliance, including several sizeable acquisitions, balanced against underperformance in some other areas. In addition, the Committee noted significant continued increases in employee engagement, and major steps taken to realign workforce skills and strengthen senior management. Taking into consideration the actual salary, annual incentive payout and long-term incentive award for the period 2014-2016, Mrs. Rometty earned 54% of her annual total target compensation in 2016.



As disclosed last year in the 2016 Proxy Statement, the Board granted Mrs. Rometty a one-time award of 1.5 million nonqualified stock options that vest three years from the date of grant, are exercisable in four equal tranches at premium prices of 105%, 110%, 115% and 125% of the fair market value of IBM common stock on the date of grant, and expire 10 years from the date of grant.

This premium-priced stock option award demonstrates the Board's strong confidence in Mrs. Rometty's leadership of IBM and the momentum of its strategic direction as well as the Board's desire to ensure her continued service through a critical period in IBM's multi-year transformation, align her compensation closely with increases in shareholder value over the long-term, and, when combined with her ongoing compensation, deliver a market-competitive performance-based total compensation opportunity.

While one-time stock grants are prevalent in our industry for leaders navigating companies through extraordinary periods of transformation, this grant is unique in several ways. First, it is an option grant with value being derived only when incremental value is created for shareholders. Second, its premium-priced mechanism serves to increase even further the incremental value shareholders must receive relative to a typical option grant in which the exercise price is set at fair market value on the date of grant. This performance-sensitive design ensures that Mrs. Rometty is only compensated if there has been significant appreciation in shareholder value after the time of vesting. Each of the four tranches will expire valueless if the IBM stock price fails to appreciate to the levels described above, thereby ensuring that realized compensation, if any, is tied to the successful business transformation being led by Mrs. Rometty. The Board believes that the transformation is a defining moment not only for IBM, but also for the industry, and this grant reflects that significance and delivers value if, and only if, successful.

For 2016, for the named executive officers (other than the Chairman and CEO) actual total compensation ranged from 50%—67% of annual total target compensation. 73% of the actual annual compensation was performance-based. Our annual incentive is a cash payment that is designed to reward executives for the most recent year's strategic imperatives revenue, operating net income and operating cash flow. For 2016, this incentive comprised 35% of the group's compensation. For 2016, 38% of compensation for this group was in the form of long-term incentive, which is 100% performance-based and delivered through Performance Share Units (PSUs). The payout of PSUs is based on IBM's three-year cumulative performance against operating EPS and free cash flow targets. PSUs will pay out nothing if the threshold performance level is not reached. Because it is paid in shares, the value of the award is also impacted by the share price. The 2016 payout for the period 2014—2016 was approximately 32% of its original award value.

Our overall executive compensation philosophy remains the same. We continue to align pay with the interests of our investors, while at the same time attracting and retaining top leadership talent.

For the reasons expressed above, the Executive Compensation and Management Resources Committee and the IBM Board of Directors believe that these policies and practices are aligned with the interests of our stockholders and reward for performance.

We are therefore requesting your nonbinding vote on the following resolution:

"Resolved, that the compensation of the Company's named executive officers as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the executive compensation tables and the narrative discussion, is approved."

VOTING RECOMMENDATION

The IBM Board of Directors recommends a vote **FOR** this proposal.

Note: The Company is providing this advisory vote as required pursuant to Section 14A of the Securities Exchange Act (15 U.S.C. 78n-1). The stockholder vote will not be binding on the Company or the Board, and it will not be construed as overruling any decision by the Company or the Board or creating or implying any change to, or additional, fiduciary duties for the Company or the Board.