UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT
pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934
FOR THE YEAR ENDED DECEMBER 31, 2012

1-2360
(Commission file number)

INTERNATIONAL BUSINESS MACHINES CORPORATION
(Exact name of registrant as specified in its charter)

NEW YORK (State of Incorporation)	**13-0871985** (IRS Employer Identification Number)
ARMONK, NEW YORK (Address of principal executive offices)	**10504** (Zip Code)

914-499-1900
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Voting shares outstanding at February 8, 2013	Name of each exchange on which registered
Capital stock, par value $.20 per share	1,114,509,771	New York Stock Exchange Chicago Stock Exchange
6.625% Notes due 2014		New York Stock Exchange
1.375% Notes due 2019		New York Stock Exchange
7.50% Debentures due 2013		New York Stock Exchange
8.375% Debentures due 2019		New York Stock Exchange
7.00% Debentures due 2025		New York Stock Exchange
6.22% Debentures due 2027		New York Stock Exchange
6.50% Debentures due 2028		New York Stock Exchange
7.00% Debentures due 2045		New York Stock Exchange
7.125% Debentures due 2096		New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-Accelerated filer ☐
Smaller reporting company ☐		(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was $223.4 billion.

Documents incorporated by reference:

Portions of IBM's Annual Report to Stockholders for the year ended December 31, 2012 into Parts I, II and IV of Form 10-K.

Portions of IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 30, 2013 are incorporated by reference into Part III of Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Stockholders and Board of Directors of
International Business Machines Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 26, 2013 appearing in the 2012 Annual Report to Shareholders of International Business Machines Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
New York, New York
February 26, 2013

Note R.
Stock-Based Compensation

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized over the employee requisite service period. See note A, "Significant Accounting Policies," on page 82 for additional information.

The following table presents total stock-based compensation cost included in the Consolidated Statement of Earnings.

($ in millions)

For the year ended December 31:	2012	2011	2010
Cost	$ 132	$ 120	$ 94
Selling, general and administrative	498	514	488
Research, development and engineering	59	62	48
Other (income) and expense	(1)	—	(1)
Pre-tax stock-based compensation cost	688	697	629
Income tax benefits	(240)	(246)	(240)
Total stock-based compensation cost	**$ 448**	$ 450	$ 389

Total unrecognized compensation cost related to non-vested awards at December 31, 2012 and 2011 was $1,101 million and $1,169 million, respectively, and is expected to be recognized over a weighted-average period of approximately three years.

There was no significant capitalized stock-based compensation cost at December 31, 2012, 2011 and 2010.

Incentive Awards

Stock-based incentive awards are provided to employees under the terms of the company's long-term performance plans (the "Plans"). The Plans are administered by the Executive Compensation and Management Resources Committee of the Board of Directors (the "Committee"). Awards available under the Plans principally include stock options, restricted stock units, performance share units or any combination thereof.

The amount of shares originally authorized to be issued under the company's existing Plans was 274.1 million at December 31, 2012. In addition, certain incentive awards granted under previous plans, if and when those awards were canceled, could be reissued under the company's existing Plans. As such, 66.2 million additional awards were considered authorized to be issued under the company's existing Plans as of December 31, 2012. There were 121.2 million unused shares available to be granted under the Plans as of December 31, 2012.

Under the company's long-standing practices and policies, all awards are approved prior to or on the date of grant. The awards approval process specifies the individual receiving the grant, the number of options or the value of the award, the exercise price or formula for determining the exercise price and the date of grant. All awards for senior management are approved by the Committee. All awards for employees other than senior management are approved by senior management pursuant to a series of delegations that were approved by the Committee, and the grants made pursuant to these delegations are reviewed periodically with the Committee. Awards that are given as part of annual total compensation for senior management and other employees are made on specific cycle dates scheduled in advance. With respect to awards given in connection with promotions or new hires, the company's policy requires approval of such awards prior to the grant date, which is typically the date of the promotion or the date of hire.

Stock Options

Stock options are awards which allow the employee to purchase shares of the company's stock at a fixed price. Stock options are granted at an exercise price equal to the company's average high and low stock price on the date of grant. These awards, which generally vest 25 percent per year, are fully vested four years from the date of grant and have a contractual term of 10 years.

The company estimates the fair value of stock options at the date of grant using the Black-Scholes valuation model. Key inputs and assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the company's stock, the risk-free rate and the company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the company.

During the years ended December 31, 2012, 2011 and 2010, the company did not grant stock options.

The following table summarizes option activity under the Plans during the years ended December 31, 2012, 2011 and 2010.

	2012		2011		2010	
	Weighted-Average Exercise Price	Number of Shares Under Option	Weighted-Average Exercise Price	Number of Shares Under Option	Weighted-Average Exercise Price	Number of Shares Under Option
Balance at January 1	**$ 90**	**20,662,322**	$ 94	39,197,728	$ 98	73,210,457
Options exercised	**86**	**(9,080,170)**	98	(18,144,309)	101	(33,078,316)
Options canceled/expired	**75**	**(192,431)**	107	(391,097)	108	(934,413)
Balance at December 31	**$ 94**	**11,389,721**	$ 90	20,662,322	$ 94	39,197,728
Exercisable at December 31	**$ 94**	**11,389,721**	$ 90	20,662,322	$ 94	39,197,728

The shares under option at December 31, 2012 were in the following exercise price ranges:

	Options Outstanding and Exercisable			
Exercise Price Range	Weighted-Average Exercise Price	Number of Shares Under Option	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life (in Years)
$85 and under	**$ 83**	**3,222,177**	**$ 350,989,003**	**0.9**
$86–$105	**97**	**7,532,868**	**709,980,689**	**1.9**
$106 and over	**106**	**634,676**	**54,314,359**	**1.1**
	$ 94	**11,389,721**	**$1,115,284,051**	**1.6**

In connection with various acquisition transactions, there was an additional 0.9 million stock-based awards, consisting of stock options and restricted stock units, outstanding at December 31, 2012, as a result of the company's assumption of stock-based awards previously granted by the acquired entities. The weighted-average exercise price of these awards was $68 per share.

Exercises of Employee Stock Options

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was $1,005 million, $1,269 million and $1,072 million, respectively. The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2012, 2011 and 2010 was approximately $785 million, $1,786 million and $3,347 million, respectively. In connection with these exercises, the tax benefits realized by the company for the years ended December 31, 2012, 2011 and 2010 were $341 million, $412 million and $351 million, respectively.

The company settles employee stock option exercises primarily with newly issued common shares and, occasionally, with treasury shares. Total treasury shares held at December 31, 2012 and 2011 were approximately 1,080 million and 1,019 million shares, respectively.

Stock Awards

In lieu of stock options, the company currently grants its employees stock awards. These awards are made in the form of Restricted Stock Units (RSUs), including Retention Restricted Stock Units (RRSUs), or Performance Share Units (PSUs).

The tables below summarize RSU and PSU activity under the Plans during the years ended December 31, 2012, 2011 and 2010.

RSUs

	2012		2011		2010	
	Weighted-Average Grant Price	Number of Units	Weighted-Average Grant Price	Number of Units	Weighted-Average Grant Price	Number of Units
Balance at January 1	$129	12,218,601	$110	11,196,446	$102	13,405,654
RSUs granted	184	2,635,772	154	5,196,802	122	3,459,303
RSUs released	117	(4,338,787)	106	(3,508,700)	98	(5,102,951)
RSUs canceled/forfeited	139	(674,125)	122	(665,947)	105	(565,560)
Balance at December 31	$148	9,841,461	$129	12,218,601	$110	11,196,446

PSUs

	2012		2011		2010	
	Weighted-Average Grant Price	Number of Units	Weighted-Average Grant Price	Number of Units	Weighted-Average Grant Price	Number of Units
Balance at January 1	$122	3,686,991	$111	3,649,288	$107	3,476,737
PSUs granted at target	185	1,004,003	154	1,055,687	117	1,239,468
Additional shares earned above target*	102	550,399	118	230,524	103	463,913
PSUs released	102	(1,998,746)	118	(1,189,765)	103	(1,486,484)
PSUs canceled/forfeited	131	(70,446)	118	(58,743)	108	(44,346)
Balance at December 31**	$151	3,172,201	$122	3,686,991	$111	3,649,288

* Represents additional shares issued to employees after vesting of PSUs because final performance metrics exceeded specified targets.

** Represents the number of shares expected to be issued based on achievement of grant date performance targets. The actual number of shares issued depends on the company's performance against specified targets over the vesting period.

RSUs are stock awards granted to employees that entitle the holder to shares of common stock as the award vests, typically over a one- to five-year period. For RSUs awarded on or after January 1, 2008, dividend equivalents are not paid. The fair value of such RSUs is determined and fixed on the grant date based on the company's stock price adjusted for the exclusion of dividend equivalents.

The remaining weighted-average contractual term of RSUs at December 31, 2012, 2011 and 2010 is the same as the period over which the remaining cost of the awards will be recognized, which is approximately three years. The fair value of RSUs granted during the years ended December 31, 2012, 2011 and 2010 was $486 million, $803 million and $421 million, respectively. The total fair value of RSUs vested and released during the years ended December 31, 2012, 2011 and 2010 was $509 million, $373 million and $503 million, respectively. As of December 31, 2012, 2011 and 2010, there was $938 million, $1,021 million and $865 million, respectively, of unrecognized compensation cost related to non-vested RSUs. The company received no cash from employees as a result of employee vesting and release of RSUs for the years ended December 31, 2012, 2011 and 2010. In the second quarter of 2011, the company granted equity awards valued at approximately $1 thousand each to about 400,000 non-executive employees. These awards were made under the Plans and vest in December 2015.

PSUs are stock awards where the number of shares ultimately received by the employee depends on the company's performance against specified targets and typically vest over a three-year period. For PSUs, dividend equivalents are not paid. The fair value of each PSU is determined on the grant date, based on the company's stock price, adjusted for the exclusion of dividend equivalents, and assumes that performance targets will be achieved. Over the performance period, the number of shares of stock that will be issued is adjusted upward or downward based upon the probability of achievement of performance targets. The ultimate number of shares issued and the related compensation cost recognized as expense will be based on a comparison of the final performance metrics to the specified targets. The fair value of PSUs granted at target during the years ended December 31, 2012, 2011 and 2010 was $186 million, $165 million and $145 million, respectively. Total fair value of PSUs vested and released during the years ended December 31, 2012, 2011 and 2010 was $203 million, $141 million and $153 million, respectively.

In connection with vesting and release of RSUs and PSUs, the tax benefits realized by the company for the years ended December 31, 2012, 2011 and 2010 were $454 million, $283 million and $293 million, respectively.

IBM Employees Stock Purchase Plan

The company maintains a non-compensatory Employees Stock Purchase Plan (ESPP). The ESPP enables eligible participants to purchase full or fractional shares of IBM common stock at a 5 percent discount off the average market price on the day of purchase through payroll deductions of up to 10 percent of eligible compensation. Eligible compensation includes any compensation received by the employee during the year. The ESPP provides for offering periods during which shares may be purchased and continues as long as shares remain available under the ESPP, unless terminated earlier at the discretion of the Board of Directors. Individual ESPP participants are restricted from purchasing more than $25,000 of common stock in one calendar year or 1,000 shares in an offering period.

Employees purchased 1.6 million, 1.9 million and 2.4 million shares under the ESPP during the years ended December 31, 2012, 2011 and 2010, respectively. Cash dividends declared and paid by the company on its common stock also include cash dividends on the company stock purchased through the ESPP. Dividends are paid on full and fractional shares and can be reinvested in the ESPP. The company stock purchased through the ESPP is considered outstanding and is included in the weighted-average outstanding shares for purposes of computing basic and diluted earnings per share.

Approximately 3.8 million, 5.4 million and 7.2 million shares were available for purchase under the ESPP at December 31, 2012, 2011 and 2010, respectively.

Note S.
Retirement-Related Benefits

Description of Plans

IBM sponsors defined benefit pension plans and defined contribution plans that cover substantially all regular employees, a supplemental retention plan that covers certain U.S. executives and nonpension postretirement benefit plans primarily consisting of retiree medical and dental benefits for eligible retirees and dependents.

U.S. Plans

Defined Benefit Pension Plans

IBM Personal Pension Plan

IBM provides U.S. regular, full-time and part-time employees hired prior to January 1, 2005 with noncontributory defined benefit pension benefits via the IBM Personal Pension Plan. Prior to 2008, the IBM Personal Pension Plan consisted of a tax qualified (qualified) plan and a non-tax qualified (nonqualified) plan. Effective January 1, 2008, the nonqualified plan was renamed the Excess Personal Pension Plan (Excess PPP) and the qualified plan is now referred to as the Qualified PPP. The combined plan is now referred to as the PPP. The Qualified PPP is funded by company contributions to an irrevocable trust fund, which is held for the sole benefit of participants and beneficiaries. The Excess PPP, which is unfunded, provides benefits in excess of IRS limitations for qualified plans.

Benefits provided to the PPP participants are calculated using benefit formulas that vary based on the participant. The first method uses a five-year, final pay formula that determines benefits based on salary, years of service, mortality and other participant-specific factors. The second method is a cash balance formula that calculates benefits using a percentage of employees' annual salary, as well as an interest crediting rate.

Benefit accruals under the IBM Personal Pension Plan ceased December 31, 2007 for all participants.

U.S. Supplemental Executive Retention Plan

The company also sponsors a nonqualified U.S. Supplemental Executive Retention Plan (Retention Plan). The Retention Plan, which is unfunded, provides benefits to eligible U.S. executives based on average earnings, years of service and age at termination of employment.

Benefit accruals under the Retention Plan ceased December 31, 2007 for all participants.

Defined Contribution Plans

IBM 401(k) Plus Plan

U.S. regular, full-time and part-time employees are eligible to participate in the IBM 401(k) Plus Plan, which is a qualified defined-contribution plan under section 401(k) of the Internal Revenue Code. Effective January 1, 2008, under the IBM 401(k) Plus Plan, eligible employees receive a dollar-for-dollar match of their contributions up to 6 percent of eligible compensation for those hired prior to January 1, 2005, and up to 5 percent of eligible compensation for those hired on or after January 1, 2005. In addition, eligible employees receive automatic contributions from the company equal to 1, 2 or 4 percent of eligible compensation based on their eligibility to participate in the PPP as of December 31, 2007. Employees receive automatic contributions and matching contributions after the completion of one year of service. Further, through June 30, 2009, IBM contributed transition credits to eligible participants' 401(k) Plus Plan accounts. The amount of the transition credits was based on a participant's age and service as of June 30, 1999.

The company's matching contributions vest immediately and participants are always fully vested in their own contributions. All contributions, including the company match, are made in cash and invested in accordance with participants' investment elections. There are no minimum amounts that must be invested in company stock, and there are no restrictions on transferring amounts out of company stock to another investment choice, other than excessive trading rules applicable to such investments. Effective January 1, 2013, matching and automatic contributions are made once annually at the end of the year. In order to receive such contributions each year, a participant must be employed on December 15 of the plan year. However, if a participant separates from service prior to December 15, and has completed certain service and/or age requirements, then the participant will be eligible to receive such matching and automatic contributions following separation from service.

(10) Voting and investment power are shared.

(11) Includes 264,128 shares in which voting and investment power are shared.

(12) The total of these three columns represents less than 1% of IBM's outstanding shares, and no individual's beneficial holdings totaled more than 1/5 of 1% of IBM's outstanding shares.

Executive Compensation

2012 Report of the Executive Compensation and Management Resources Committee of the Board of Directors

Set out below is the Compensation Discussion and Analysis, which is a discussion of the Company's executive compensation programs and policies written from the perspective of how we and management view and use such programs and policies. Given the Committee's role in providing oversight to the design of those programs and policies, and in making specific compensation decisions for senior executives using those policies and programs, the Committee participated in the preparation of the Compensation Discussion and Analysis, reviewing successive drafts of the document and discussing those with management. The Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement. We join with management in welcoming readers to examine our pay practices and in affirming the commitment of these pay practices to the long-term interests of stockholders.

Sidney Taurel (chair)
Alain J. P. Belda
Andrew N. Liveris
W. James McNerney, Jr.

2012 Compensation Discussion and Analysis

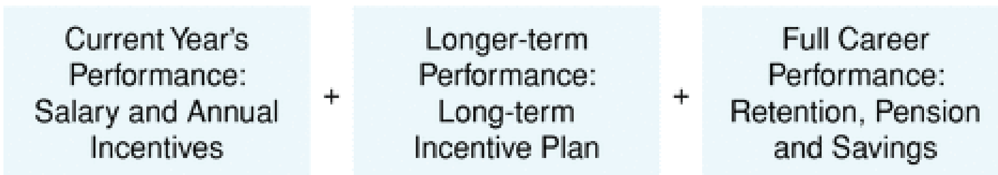
Section 1: Executive Compensation Summary

Trust and personal responsibility in *all* relationships—relationships with clients, partners, communities, fellow IBMers, and investors—is a core value at IBM. Investors should have as much trust in the integrity of a company's executive compensation process as clients do in the quality of its products. A breach of this trust is unacceptable. As a part of maintaining this trust, we well understand the need for our investors—not only professional fund managers and institutional investor groups, but also millions of individual investors—to know how and why compensation decisions are made. We have put tremendous effort and rigor into our own executive compensation processes over many years, continually assessing and updating them to meet new voluntary criteria as well as requirements from the SEC. Investors—IBM's owners—want senior leaders to run the Company in a way that protects and grows their investment over the long term while appropriately managing risk. This is no simple task at any company, and at a company as large and complex as IBM, it is a particularly exciting leadership challenge. IBM holds a unique identity, based on talent, brand, global operating footprint, the size and scope of our business overall, and the size of each of our individual lines of business. Unlike those few other companies of comparable size and scale that tend to operate as holding companies of component businesses, we operate as an integrated entity across a number of significant business lines, most large enough to be among the Fortune 150 biggest companies if they were stand-alone businesses. Our unique, integrated model delivers great value to our investors and our clients, and demands a senior leadership team of unusual depth, agility and experience.

To that end, IBM's executive compensation practices are designed specifically to meet five key objectives:

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

With these goals in mind, 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.

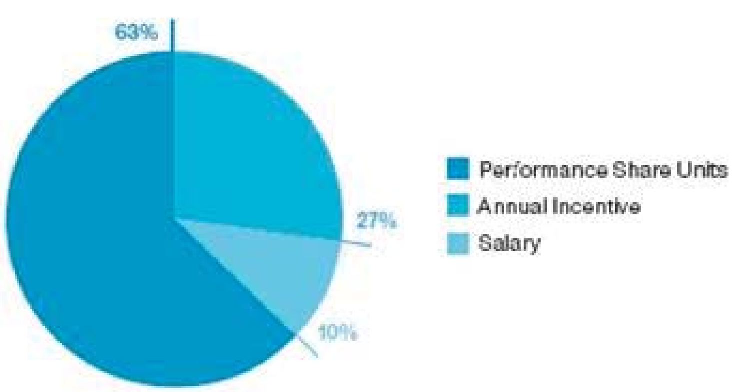
The Company considered the results of the management Say on Pay proposal presented to the stockholders for approval in 2012. In light of the support the proposal received, the Company's compensation policies and decisions, explained in detail in this CD&A, continue to be focused on long-term financial performance to drive stockholder value. The Company has indicated that it will provide an advisory vote on executive compensation (Say on Pay) on an annual basis.

Compensation information is disclosed in this proxy statement for both Mrs. Rometty and Mr. Palmisano. Mrs. Rometty succeeded Mr. Palmisano as President and CEO effective January 1, 2012; she assumed the Chairman's role on October 1, 2012. Mr. Palmisano was Chairman until October 1, 2012 and retired from the Company on December 1, 2012.

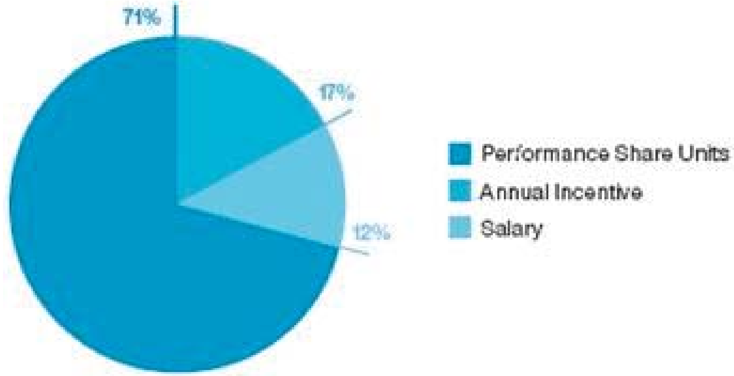
Compensation Elements for Senior Leaders— Focused on Performance

The annual compensation for IBM's Senior Executives (comprised of the Chairman, the CEO and the Senior Vice Presidents (SVPs)) varies year to year based on business results and individual performance. As reflected in the charts below, for 2012, 90% of Mrs. Rometty's total compensation was performance based, with 27% in annual performance based incentive and 63% in long-term elements; similarly, 88% of the SVPs' total compensation was performance based using the same elements. This ensures that the interests of Senior Executives are aligned with the long-term interests of stockholders.

2012 Chairman and CEO Rometty Compensation Mix*



2012 SVP Compensation Mix**



* Mrs. Rometty's compensation mix includes nine months as CEO and three months as Chairman & CEO.

** Mr. Palmisano is excluded from this chart. 92% of his compensation was in the form of long-term incentive, which is 100% performance based and delivered through Performance Share Units; 8% was base salary.

Current Year's Performance: Salary and Annual Incentives

Salary. Senior Executives at IBM receive a small percentage of their overall compensation in salary. In 2012, for example, as CEO, Mrs. Rometty earned 10% of her compensation in salary, and the SVPs earned an average of 12% of their compensation in salary.

Annual Incentive. The CEO and SVPs are incented through a program that sets performance targets based on their role and scope. Actual payments are driven by business performance against revenue growth, operating net income, and free cash flow targets and individual performance, as reflected in the Personal Business Commitment review process described under "How and Why Compensation Decisions Are Made." Top performers earn the greatest payouts; median performers earn much smaller amounts; and the lowest performers earn no incentive payments at all. In 2012, the annual incentive earned by the CEO represented 27% of her total compensation; incentives achieved by the SVPs averaged 17% of their total compensation. Additional information about the Annual Incentive Program is outlined in Section 2 of this CD&A, "Setting Performance Targets for Incentive Compensation."

Other Compensation. The SEC disclosure rules require that companies include certain items in the Summary Compensation Table column entitled "All Other Compensation." At IBM, many of these items are available to all employees. In fact, on average, additional programs that are restricted to Senior Executive participation amount to less than 1.7% of their total compensation. IBM's security practices provide that all air travel by the Chairman and the CEO, including personal travel, be on Company aircraft. IBM does not provide any tax assistance to the Chairman or the CEO in connection with taxes incurred for personal travel by these officers on the corporate aircraft. While the cost of corporate aircraft usage varies year to year based on several external factors such as fuel costs, using corporate aircraft for all travel is a prudent step to ensure the safety of the Chairman and the CEO given the breadth of IBM's operations in over 170 countries and the realities of security risks throughout the world. Given the personal travel security practice for the Chairman and the CEO, family members periodically accompany such officers on the corporate aircraft. In accordance with tax requirements, income was imputed to Mrs. Rometty and Mr. Palmisano for personal travel by their family members on the corporate aircraft in 2012.

Longer-Term Performance: Long-Term Incentive Plan

Long-term incentive plans (LTIP) have been a focal point for much of the discussion over executive compensation in the past several years. Well-designed LTIPs ensure that senior leaders hold a competitive stake in their company's financial future. At the same time, the size of the awards reflects the value that the company places on the individual executive at the time. Any gain the executives realize in the long run from the program depends on what they and their colleagues do to drive the financial performance of the company.

IBM has two senior leadership teams: the Performance Team and the Integration & Values Team (I&VT). The Performance Team, consisting of approximately 60 senior leaders including the Chairman, the CEO and each SVP, is accountable for business performance and results and the development of cross-unit strategies. The I&VT, which includes all members of the Performance Team, consists of a select group of approximately 330 executives charged with working to drive growth through integration across IBM's enterprise-wide capabilities, and align and communicate IBM's strategies and values. Under IBM's LTIP, members of the I&VT may receive certain grants of IBM equity, as explained below.

Performance Share Unit (PSU) Grants. This portion of the LTIP focuses the I&VT on delivering business performance over three years against two key financial metrics which drive long-term stockholder value — operating earnings per share and free cash flow. Through this program, members of the I&VT are eligible to earn a target number of shares of IBM stock at the end of a three-year performance period. The award pays out at the end of the three years depending on how well the Company performed against targets set at the beginning of the three-year period. The payouts are made in shares of stock, so the value goes up or down based on stock price performance from the beginning of the grant. Additional information about PSUs is set forth in Section 2 of this CD&A, "Setting Performance Targets for Incentive Compensation."

In 2012, the long-term incentive grants to the Chairman, the CEO and the other members of the Performance Team were comprised entirely of PSUs. For Mrs. Rometty, this represents 63% of her total compensation and for Mr. Palmisano, this represents 92% of his total compensation, in each case assuming future performance at target. PSUs were, on average, 71% of the SVPs' total compensation in 2012. In 2013, the annual long-term incentive grant for this group will again be entirely PSUs.

The CEO may grant members of the I&VT additional performance shares (Performance Uplift) for delivering extraordinary results. Senior Executives are not eligible for the Performance Uplift.

Other Stock-Based Grants. Our LTIP also provides for grants of other stock-based awards in addition to PSUs to focus senior leaders on delivering performance that increases the value of the Company through the growth of IBM's stock price over the long term. Although Senior Executives primarily receive only PSUs, other stock-based grants are occasionally made to this group and other executives. Other stock-based grants may include stock options, restricted stock, restricted stock units or any combination. These grants vest over time, typically over one to four years. Until vested, the grants have no cash value, except that dividend equivalents are paid on restricted stock units granted prior to January 1, 2008. For restricted stock units awarded on or after January 1, 2008, dividend equivalents are not paid. As explained below in the "2012 and 2013 Compensation Decisions for Messrs. Loughridge, Mills, Daniels and MacDonald," certain named executive officers received retention restricted stock unit awards in 2012. The outstanding stock-based grants for the named executive officers are shown in the 2012 Outstanding Equity Awards at Fiscal Year-End Table in this Proxy Statement.

Full Career Performance: Retention, Pension and Savings

Retention of our key leaders for a full career is an important element of our total compensation strategy. This is accomplished through a combination of retention payments and retirement plans.

Retention Stock-Based Grants & Cash Awards. Periodically, the CEO reviews outstanding stock-based awards for the members of the I&VT and other key executives. Depending on individual performance and the competitive environment for senior executive leadership talent, the CEO may recommend that the Compensation Committee approve individual retention awards in the form of restricted stock units or cash, for certain executives. The retention restricted stock unit (RRSU) grants typically vest at the end of five years, and the cash awards have a clawback (i.e., repayment clause) if an executive leaves IBM before a specified date. These awards make it more difficult for other companies to recruit IBM's top talent.

Closed Retention Plan. In 1995, IBM created a new plan to help retain, for their full careers, the caliber of senior leaders needed to turn the Company around, preserve its long-term viability, and position it for growth in the future. To discourage these leaders from joining competitors, their benefits under this retention plan would be forfeited if they left IBM prior to age 60. The approach worked, as evidenced by the Company's historic turnaround in the late 1990s, and its current position of market leadership. Because its original purpose had been met, the plan was closed to new participants in 2004. Future accruals under the plan stopped on December 31, 2007, and the Retention Plan will not be replaced by any other plan.

Pension Plans. Prior to 2008, IBM's Senior Executives and other IBM employees in the U.S. participated in pension plans. Future accruals under the pension plans stopped on December 31, 2007. The amount of the pension benefit under these plans is based on pay and service and is determined by the same formulas for executives and non-executives.

Savings Plan. IBM's Senior Executives are eligible to participate in the Company's savings plan just like any other IBM employee. Company contributions to the defined contribution plan comprise a significant portion of the "All Other Compensation" found in the Summary Compensation Table for the CEO and other named executive officers. The money that U.S. executives save through the IBM 401(k) Plus Plan, as for all U.S. employees, is eligible for a Company match. Effective January 1, 2008, the 401(k) Plus Plan became the only tax-qualified retirement program available to IBM's U.S. employees for future deferrals and employer contributions. Under the provisions of the plan, provided that all eligibility requirements are met, IBM matches a participant's own contributions dollar-for-dollar up to 6% of eligible pay for those hired before January 1, 2005, and up to 5% for those hired on or after that date. In addition, provided that all eligibility requirements are met, IBM makes automatic contributions to a participant's 401(k) Plus Plan account — equal to 1%, 2% or 4% of a participant's eligible pay — depending on the participant's pension plan eligibility on December 31, 2007.

Effective January 1, 2013, Company contributions will be made once annually at the end of the year for all participants employed on December 15 of each year. If a participant retires during the year, the individual will receive Company contributions upon retirement. Matching contributions and automatic contributions are made once a participant has completed one year of service.

Deferred Savings Plan. In the U.S., the Department of Labor and Internal Revenue Service also permit employees who exceed certain income thresholds to defer, on a nonqualified basis, receipt of compensation they earn. This also allows IBM to delay paying these obligations and, until they come due and are paid, to retain the cash for operating purposes. In simple terms, this deferred compensation is money earned in the past but not yet paid out. IBM does not pay guaranteed, above-market or preferential earnings on deferred compensation. For executives with long and successful careers at IBM, the deferrals can accumulate to sizeable amounts over time. Amounts deferred into IBM's nonqualified plan, the IBM Excess 401(k) Plus Plan, are recordkeeping (notional) accounts and are not held in trust for the participants. Participants in the Excess 401(k) Plus Plan may invest their notional accounts in the primary investment options available to all employees through the 401(k) Plus Plan. Effective January 1, 2013, Company contributions will be made once annually at the end of the year for all participants employed on December 15 of each year. If a participant retires during the year, the individual will receive Company contributions upon retirement. Once participants in the Excess 401(k) Plus Plan have completed one year of service, they are also eligible to receive Company matching and automatic contributions on eligible pay deferred into the Excess 401(k) Plus Plan and on money earned in excess of the Internal Revenue Code compensation limits. On an exceptional basis, the Company may agree to make a discretionary award to an executive that is credited to the executive's Excess 401(k) Plus Plan account.

How and Why Compensation Decisions Are Made

At any level, compensation reflects an employee's value to the business — market value of skills, individual contribution and business results. To be sure we appropriately assess the value of Senior Executives, IBM follows an evaluation process, described here in some detail:

1. Making Commitments

At the beginning of each year, all IBM employees, including the CEO and SVPs, make a Personal Business Commitment (PBC) of the goals, both qualitative and quantitative, they seek to achieve that year in support of the business. These commitments are reviewed and approved by each individual's manager. The CEO's commitments are reviewed directly by the Board of Directors. As part of this process, many factors are considered, including an understanding of the business risks associated with the commitments.

2. Determining Senior Vice Presidents (SVPs) Compensation

Evaluation of Results by the CEO

Throughout the year, employees assess their progress against their PBCs. At year end, employees at all levels, including executives, work with their managers to evaluate their own results — not only with regard to their stated goals, but in relation to how well their peers and the entire Company performed.

The self-assessments of the SVPs are reviewed by the Senior Vice President of Human Resources (SVP HR) and the CEO, who evaluate the information, along with the following:

- Comparisons to market compensation levels for cash compensation and total direct compensation;
- Potential for future roles within IBM; and
- Total compensation levels relative to internal peers before and after any recommendations.

Following this in-depth review and in consultation with the SVP HR, the CEO makes compensation recommendations to the Compensation Committee based on an evaluation of each SVP's performance and expectations for the coming year.

Evaluation of Results by the Compensation Committee

The Compensation Committee decides whether to approve or adjust the CEO's recommendations for the SVPs.

The Committee evaluates all of the factors considered by the CEO and reviews compensation summaries that tally the dollar value of all compensation and related programs, including salary, annual incentive, long-term compensation, deferred compensation, retention payments and pension benefits. These summaries provide the Committee an understanding of how their decisions affect other compensation elements and the impact that separation of employment or retirement will have.

3. Determining Compensation for the Chairman and the CEO—Research, Recommendations and Review

The chair of the Compensation Committee works directly with the Committee's compensation consultant to provide a decision-making framework for use in making a recommendation for total compensation for the Chairman and the CEO. For each officer, this framework includes a self-evaluation of performance against commitments in the year, with a self-assessment of performance against the Company's stated strategic objectives. In addition to the above, the Committee also reviews an analysis of IBM's total performance over a multi-year period and a competitive benchmark analysis provided by the Committee's outside consultant, Semler Brossy.

The Compensation Committee separately reviews all relevant information and arrives at its recommendation for total compensation for the Chairman and the CEO. In this work, the Committee is assisted by Semler Brossy.

The final pay recommendations for the Chairman and the CEO are presented to the independent directors on IBM's Board for further review, discussion and final approval.

4. Ensuring Competitive Pay—Approach to Benchmarking

IBM participates in several executive compensation surveys that provide general trend information and details on levels of salary, target annual incentives and long-term incentives, the relative mix of short- and long-term incentives, and mix of cash and stock-based pay. Given the battle for talent that exists in our industry, the benchmark companies that are used by the Compensation Committee to guide its decision making have included a broad range of key information technology companies, to help us identify trends in the industry. We also include companies outside our industry, with stature, size and complexity that approximate our own, in recognition of the fact that competition for senior management talent is not limited to our industry. The surveys and benchmark data are supplemented by input from the Compensation Committee's outside consultant on factors such as recent market trends. The Committee reviews and approves this list annually.

The Compensation Committee re-examined the benchmark group for 2012. After reviewing the selection criteria for the benchmark group, the Committee determined that companies from the survey participants that meet the following criteria should be included in the 2012 benchmark group:

- All companies in the technology industry with revenue that exceeds $15 billion, plus
- Additional companies (up to two per industry) in industries other than technology, with revenue that exceeds $40 billion and that have a global complexity similar to IBM.

This group does not include companies that have participated in the U.S Government’s Troubled Asset Relief Program (TARP).

2012 Benchmark Group:

Accenture	Dow Chemical	Microsoft
AT&T	EMC	Motorola Solutions
Boeing	Ford	PepsiCo
Bunge	General Electric	Pfizer
Caterpillar	Google	Procter & Gamble
Chevron	Hewlett-Packard	United Technologies
Cisco Systems	Intel	Verizon
ConocoPhillips	Johnson & Johnson	Xerox
Dell	Lockheed Martin	

For the 2013 benchmark group, the Committee approved the same list of companies as above except Lockheed Martin, Procter & Gamble, and Motorola Solutions were not included, and Archer Daniels Midland and UPS were included. Compensation data for Lockheed Martin and Procter & Gamble was not available through the survey used, and Motorola Solutions was not included because divestiture activity in 2011 resulted in revenue below the selection criteria. Archer Daniels Midland and UPS were previously included in the 2011 benchmark group but not in the 2012 benchmark group because data was not available through the survey used at that time.

2013 Benchmark Group:

Accenture	ConocoPhillips	Johnson & Johnson
Archer Daniels Midland	Dell	Microsoft
AT&T	Dow Chemical	PepsiCo
Boeing	EMC	Pfizer
Bunge	Ford	United Technologies
Caterpillar	General Electric	UPS
Chevron	Google	Verizon
Cisco Systems	Hewlett-Packard	Xerox
	Intel	

The data from this survey and related sources form the primary external view of the market, and the Company’s philosophy is to generally consider a range from the 50th to the 75th percentile of the market for cash and total compensation for IBM job roles compared to jobs of similar size and complexity at companies within our benchmark group. Data from companies at the 50th percentile of our benchmark group serves as the reference point for job roles in our lines of business. Most of our lines of business are large enough to compare to the size of stand-alone companies within this group. Data at the 75th percentile of our benchmark group serves as the reference point for our enterprise-wide job roles. Revenue for companies in this group is similar to revenue for IBM as a whole. For individual compensation decisions, the benchmark information is used together with an internal view of longer-term potential and individual performance relative to other executives. For the Company’s Senior Executives, the Compensation Committee also takes into account long-term retention objectives, recognizing that their skills and experience are highly sought after by other companies and, in particular, by the Company’s competitors. Because factors such as performance and retention, as well as size and complexity of the job role, are considered when compensation decisions are made, the cash and total compensation for an individual named executive officer may be higher or lower than the median of the total benchmark group.

5. Compensation Committee Consultant

The Committee enters into a consulting agreement with its outside compensation consultant on an annual basis. The Committee has retained Semler Brossy as its compensation consultant to advise the Committee on market practices and specific IBM policies and programs. Semler Brossy reports directly to the Compensation Committee Chairman, and takes direction from the Committee. The consultant's work for the Committee includes data analyses, market assessments, and preparation of related reports. The work done by Semler Brossy for the Committee is documented in a formal agreement which is executed by the consultant and the Committee. Semler Brossy does not perform any other work for the Company. The Committee determined that Semler Brossy is free of conflicts of interest.

Compensation Decisions for Mrs. Rometty as Chairman and CEO

The Compensation Committee made recommendations for Mrs. Rometty's 2012 compensation following the process and using the pay components that were previously described. In October 2012, the Compensation Committee recommended that Mrs. Rometty's base salary remain \$1.5 million and that her 2012 annual incentive target be increased from \$3.5 million to \$4 million, prorated effective October 1, 2012, the date Mrs. Rometty became Chairman of the IBM Board.

With regard to her annual incentive payout for 2012, the Compensation Committee noted the following as key points regarding Mrs. Rometty's performance against her Personal Business Commitments as Chairman and CEO:

- Achieved very strong financial performance including record Operating Profit, Free Cash Flow and Operating Earnings Per Share (Operating EPS)
- Delivered \$15.25 Operating EPS, well on track to achieve our 2015 roadmap objective of at least \$20 Operating EPS
- Returned significant value to shareholders, as reflected by the dividend increase from \$3.5 billion in 2011 to \$3.8 billion in 2012, \$12 billion in share buybacks and 6% Total Shareholder Return
- Continued IBM's leadership position as the premier globally integrated enterprise
- Invested in workforce and leadership programs for employees worldwide to motivate high performance and drive business objectives and enhance culture
- Capitalized on growth market strategy by increasing Growth Market Unit's share of IBM revenue from 22% to 24%; continued shifting resources and investing in Geo expansion
- Delivered double digit revenue growth from the Smarter Planet strategy and solutions that allow companies, industries and cities to innovate and work better, enabled by smarter technologies and systems. Established IBM as the thought leader with Chief Marketing Officers (CMOs) through innovative client programs (CMO-Chief Information Officer (CIO) Leadership Exchange, CMO Ambassador Program, CMO Advisory Council, CMO Advertising)
- Established market categories of Big Data and Analytics, Cloud, Smarter Commerce, Smarter Cities, Social Business and Mobile
- Extended our Cloud portfolio with the introduction of SmartCloud Enterprise+ as a platform to manage enterprise level Cloud production workloads and delivered Pure Systems
- Commercialized the Watson platform, including five referenceable pilots in the healthcare, financial services and public sector domains

- Maintained #1 market position in middleware, services and hardware
- Successfully integrated 11 acquisitions for $4 billion to strengthen our portfolio of offerings in Big Data, Analytics, Smarter Commerce, and Smarter Workforce while creating strategic platforms for Mobile and Social Business
- Continued leadership in technology and innovation, earning more U.S. patents than any other company for the 20th consecutive year, ranked #1

The Committee considered these results and recommended that Mrs. Rometty receive $3,915,000 in annual incentive for her 2012 performance.

Note*: Operating Earnings Per Share (Operating EPS), Operating Profit, Free Cash Flow, and Operating Net Income referenced above, and elsewhere in this Compensation Discussion and Analysis, are non-GAAP financial measures. For reconciliation and other information concerning these items, see Non-GAAP Supplemental Materials and related information in the Form 10-K submitted to the SEC on February 26, 2013.*

The Committee also recommended a 2013 long-term incentive award comprised entirely of 2013-2015 Performance Share Units valued at $12 million. The Committee chose the long-term incentive value for Mrs. Rometty in light of competitive benchmarks, the personal skill set she brings to the job, and the Committee's desire to ensure that she has a long-term focus.

The Committee's recommendations were approved by the independent directors on IBM's Board. The PSU award was made on January 2, 2013. The number of shares (63,830) was determined by dividing the value shown above by a predetermined, formulaic planning price for the first quarter 2013. The performance period for the PSUs ends December 31, 2015, and the award will pay out in February 2016.

2012 and 2013 Compensation Decisions for Messrs. Loughridge, Mills, Daniels and MacDonald

The Compensation Committee also made decisions for the following named executive officers, noting the key points below:

Mark Loughridge, Senior Vice President and Chief Financial Officer, Finance and Enterprise Transformation

- Achieved record Operating Profit, Operating EPS and Free Cash Flow
- Overachieved full-year targets including at least double digit growth for three of IBM's key growth initiatives
- Continued strong focus on IBM control posture and all commitments made to the Audit Committee achieved
- Managed IBM portfolio, including 11 new acquisitions
- Grew Client Financing volumes by double digits and overachieved or met all Enterprise Transformation objectives
- Showcased IBM's strategic and financial strength by articulating IBM's transformation and Roadmap to clients, analysts and investors

In accordance with IBM's practice, the Compensation Committee approved Mr. Loughridge's compensation, which was ratified by the independent directors on IBM's Board.

Steven A. Mills, Senior Vice President and Group Executive, Software and Systems

- Grew revenue by double digits for almost all Software Group and Systems & Technology Group's growth initiatives

- Maintained #1 market share leadership position in systems and middleware
- Successfully integrated 27 software and 4 hardware acquisitions since the beginning of 2010
- Improved sales team productivity through territory optimization and skills enablement

Michael E. Daniels, Senior Vice President and Group Executive, Services

- Strong operating profit growth contribution led by portfolio actions and productivity
- Extended our Cloud portfolio with the introduction of SmartCloud Enterprise+ as a platform to manage enterprise level production workloads
- Achieved controllable expense-to-revenue objectives, maintaining appropriate financial balance across Services
- Continued strong Services control posture
- Strengthened IBM's governance, risk, and compliance model to manage material risks, including cloud security
- Leveraged acquisitions and divestitures that complement Services business strategies and long-term growth goals

J. Randall MacDonald, Senior Vice President Human Resources

- Improved seller capability and reinvigorated key sales roles across all business units
- Effectively worked with CEO on all transition leadership changes
- Successfully launched Transition to Retirement program across IBM in the U.S.
- Built IBM's technical skills capability by growing GMU technical headcount in Key Job Roles
- Led Capability Development Programs to train technical professionals in growth market countries
- Conducted key predictive analytics studies to develop insights into workforce trends which influence business decisions
- Continued to build a premier HR business partner organization through investment in skill, capability development and select external hiring

Based on these results and following the process outlined above, the Compensation Committee approved the following 2012 annual incentive payouts for these named executive officers:

Name	2012 Annual Incentive Payouts
M. Loughridge	$ 1,202,900
S.A. Mills	987,360
M.E. Daniels	1,342,920
J.R. MacDonald	827,400

In addition, the Committee approved Retention Restricted Stock Unit Awards for Mr. Mills and Mr. MacDonald, each of which was granted on November 1, 2012. Mr. Mills's award, valued at $4.5 million, vests on December 31, 2015, provided that he is an employee of the Company as of that date. Mr. MacDonald's award, valued at $1.5 million, vests on December 31, 2013, provided that he is an employee of, or advisor to, the Company as of that date.

As previously disclosed by the Company, Mr. Daniels will retire on March 31, 2013, after a distinguished 36-year career with IBM. At such time, Mr. Daniels will be eligible to receive a reduced Retention Plan benefit because pursuant to the terms of the Retention Plan (i) he will be at least age 55 with at least 15 years of service, and (ii) the Compensation Committee and the Chairman and Chief Executive Officer have approved payment of a Retention Plan Benefit to him.

The Committee also approved the following compensation elements for 2013: base salary, annual incentive target and

Performance Share Unit (PSU) grants under the Long-Term Performance Plan.

	2013 Cash(1)		2013 Long-Term Incentive Awards
Name	Salary Rate	Annual Incentive Target	Performance Share Units (2)
M. Loughridge	$ 775,000	$ 1,046,000	$ 5,750,000
S.A. Mills	716,000	968,000	5,000,000
J.R. MacDonald	582,000	788,000	N/A

(1) The salary rate and annual incentive target for each of these officers has not changed since July 1, 2011.

(2) The PSUs will be granted to Messrs. Loughridge and Mills on June 7, 2013. The actual number of PSUs granted on this date will be determined by dividing the value shown above by a predetermined, formulaic planning price for the second quarter 2013. The performance period for the PSUs ends December 31, 2015, and the award will pay out in February 2016.

2012 Decisions for Mr. Palmisano

Mr. Palmisano's base salary for 2012 remained at $1.8 million, and his variable compensation was delivered in long-term elements. His annual incentive target was reduced to zero because Mr. Palmisano no longer had operational responsibility in 2012. Mr. Palmisano received a 2012-2014 Performance Share Unit award in June 2012 valued at $20 million. His principal focus was to ensure an orderly transition and to work with the CEO to deliver the long-term results as detailed in the roadmap for 2015.

As disclosed by the Company in September 2012, the Board approved certain arrangements in connection with Mr. Palmisano's retirement from the Company effective December 1, 2012. Mr. Palmisano ceased to be Chairman effective October 1, 2012, and he was a Senior Advisor to the Company from October 1, 2012 through November 30, 2012. As a Senior Advisor, his compensation, benefits eligibility under the Company's programs, and the Company's security practices related to Mr. Palmisano, remained the same. The arrangements approved by the Board also included the continued vesting of previously granted Performance Share Unit awards, office space with administrative support for Mr. Palmisano's use after retirement (until such time that he notifies the Company that he no longer wishes to maintain the office), a post-retirement consulting arrangement, and approval for the Company to make a $4 million tax deductible contribution to a not-for-profit corporation that Mr. Palmisano leads.

With respect to the continued vesting of Performance Share Unit awards noted above, as explained in the Potential Payments Upon Termination Narrative, members of the Performance Team, including Mr. Palmisano, may be eligible to receive payouts of their full unvested PSU awards after departure from the Company if certain criteria are met, including membership on the Performance Team and completion of at least one year of service during the PSU performance period. As of December 31, 2012, Mr. Palmisano had three outstanding Performance Share Unit awards, granted in 2010, 2011 and 2012.

With regard to the PSU awards granted to Mr. Palmisano in 2010 and 2011, the Board has deemed satisfied the Performance Team requirement, and Mr. Palmisano has met the other criteria. With regard to the PSU award granted to Mr. Palmisano in 2012, the Board has deemed satisfied the Performance Team and one-year service requirements, and Mr. Palmisano has met the other criteria. Therefore, his 2010, 2011 and 2012 PSU awards will continue to vest after his retirement. The payout for each award (delivered in IBM shares) will occur only if the performance goals are met, with the number of shares determined based on actual performance relative to pre-established targets.

With regard to the post-retirement consulting arrangement with Mr. Palmisano noted above, after Mr. Palmisano's retirement from the Company, he may be asked, from time to time, to provide services to the Company as an independent contractor. The fee for such services would be $20,000 per day for each day he provides four or more hours of services and $10,000 per day for each day that he provides less than four hours. As of December 31, 2012, no consulting fees have been paid to Mr. Palmisano.

Senior Leadership Team—Personal Stake in IBM's Future through Stock Ownership Requirements

Investors want the leaders of their companies to act like owners. That alignment, we have found, works best when senior leaders have meaningful portions of their personal holdings invested in the stock of their company. This is why IBM sets significant stock ownership requirements for the Company's Performance Team. The following table illustrates which equity holdings count towards stock ownership requirements:

Included

- IBM shares owned personally or by members of the immediate family sharing the same household
- Holdings in the IBM Stock Fund of the 401(k) Plus Plan and the Excess 401(k) Plus Plan
- Shares if IBM stock deferred under the Excess 401(k) Plus Plan

Not Included

- Unvested equity awards, including PSUs, RSUs, and RRSUs
- Unexercised stock options

The Chairman, the CEO and SVPs are all required to own IBM shares or equivalents worth three times their individual target cash compensation (their base salary plus the incentive payment they would earn if they achieved their performance targets) within five years of hire or promotion. As of December 31, 2012, as a group, the CEO and SVPs owned approximately 1.1 million shares or equivalents valued at over $208 million; in fact, as of that date, this group held, on average, almost two times the amount of IBM shares or equivalents above what the Company requires. IBM shares or equivalents owned by Mr. Palmisano are not included in these amounts as he retired December 1, 2012.

The remaining members of the Performance Team are required to hold IBM shares or equivalents worth one time their target cash compensation within five years of hire or promotion. Those who have been in place for at least five years have met or exceeded their personal IBM ownership requirements.

IBM Meeting Market Standards for Executive Compensation

We recognize that the issue of executive pay is critical to stockholders and to members of the public whose hopes for the future rest substantially on trust in the conduct of those who lead our corporations. Simply put, those who profit disproportionately to the value they create for stockholders and society, or the value they provide to clients, are breaking faith with all who would do business with them, and all who would risk their hard-earned savings in the future of an enterprise.

We have provided the information in these pages precisely because IBM works to preserve that faith. We know that striking a balance between stockholders' concepts of fairness and the incentives needed to attract and retain a stellar executive team will always require sound judgment and careful thought. Business, markets, and people are too dynamic for mere formulaic solutions. The numbers can best be understood when the process behind them is transparent.

IBM's business has always been to help our clients succeed through innovative solutions. Our stockholders deserve no less. We welcome this discussion.

Section 2: Additional Information

Compensation Program as it Relates to Risk

IBM management, the Compensation Committee and the Committee's outside consultant review IBM's compensation policies and practices, with a focus on incentive programs, to ensure that they do not encourage excessive risk taking. This review includes the cash incentive programs and the LTIP that cover all executives and employees. Based on this comprehensive review, we concluded that our compensation program does not encourage excessive risk taking for the following reasons:

- Our programs appropriately balance short- and long-term incentives, with approximately 70% of 2013 total target compensation for the CEO and SVPs as a group (other than Mr. Daniels, who is retiring from the Company on March 31, 2013) provided in equity and focused on long-term performance.

- Our executive compensation program pays for performance against financial targets that are set to be challenging to motivate a high degree of business performance, with an emphasis on longer-term financial success and prudent risk management.
- Our incentive plans include a profit metric as a significant component of performance to promote disciplined progress toward financial goals. None of IBM's incentive plans are based solely on signings or revenue targets, which mitigates the risk of employees focusing exclusively on the short term.
- Qualitative factors beyond the quantitative financial metrics are a key consideration in the determination of individual executive compensation payments. How our executives achieve their financial results, integrate across lines of business, and demonstrate leadership consistent with the IBM values are key to individual compensation decisions.
- As explained in the 2012 Potential Payments Upon Termination Narrative, we further strengthened our retirement policies on equity grants for our senior leaders beginning in 2009 to ensure that the long-term interests of the Company continue to be the focus even as these executives approach retirement.
- Our stock ownership guidelines require that members of the Performance Team hold a significant amount of IBM equity to further align their interests with stockholders over the long term.
- IBM has a policy for "clawback" of cash incentive payments in the event that an executive officer's conduct leads to a restatement of the Company's financial results. Likewise, the Company's equity plan has a clawback provision which states that awards may be cancelled and certain gains repaid if an employee engages in detrimental activity. To further reinforce our commitment to ethical conduct, the IBM Excess 401(k) Plus Plan allows the clawback of Company contributions made after March 2010 if a participant engages in detrimental activity.

We are confident that our compensation program is aligned with the interests of our stockholders, rewards for performance, and is an example of the strong pay practice emphasized by expert commentators on this topic.

Elements of Compensation Programs and Linkage to Objectives

To supplement the discussion in Section 1 and as required by the SEC, the following is a description of the Company's compensation elements and the objectives they are designed to support. As noted in Section 1: Executive Compensation Summary, IBM's compensation practices are designed to meet five key objectives.

In total, these elements support the objective to balance rewards between short-term results and the long-term strategic decisions needed to ensure sustained business performance over time.

Compensation Element/Eligibility	Description	Linkage to Compensation Objectives
Current Year Performance		
Salary *All executives including those executives listed in the proxy statement tables (Named Executive Officers or NEOs)*	Salary is a market-competitive, fixed level of compensation.	Attract and retain highly qualified leaders Motivate high business performance
Annual Incentive *All executives, including NEOs other than Mr. Palmisano*	Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. Actual annual incentive payout depends on individual and Company performance.	Attract and retain highly qualified leaders Motivate high business performance Vary compensation based on individual and team performance

	Lowest performers receive no incentive payment.	
Long-Term Incentive Plan		
Performance Share Units (PSUs) *Approximately 500 executives based on job scope including NEOs*	Equity grant value based on individual performance and retention objectives for each executive. Grant value is converted to the number of shares granted by dividing the planned value by the predetermined, formulaic planning price* in effect for the quarter. Number of shares granted is adjusted up or down at the end of the three-year performance period based on Company performance against operating earnings per share and free cash flow targets. Encourages sustained, long-term growth by linking a portion of compensation to the long-term Company performance. Paid in IBM shares upon completion of the three-year performance period, linking the compensation value further to the long-term performance of IBM.	Align executive and stockholder interests Attract and retain highly qualified leaders Motivate high business performance

* IBM's planning price is computed each quarter using a consistent statistical forecasting procedure based on historical IBM stock price data. IBM uses the quarterly planning price to aid in establishing the overall size of the equity plan and to give more consistency across equity grants made at different points in the quarter.

Compensation Element/Eligibility	Description	Linkage to Compensation Objectives
Long-Term Incentive Plan (continued)		
Performance Uplift *Select members of the I&VT (excluding the Chairman, the CEO and SVPs)*	Equity award decided annually by the CEO and delivered to select executives in PSUs. Selective recognition of those members of the I&VT who have demonstrated extraordinary results in driving growth through integration and demonstrating the IBM values. Receiving an uplift award one year does not guarantee awards in	Motivate high business performance Vary compensation based on individual and team performance

	subsequent years.	
Annual Stock-Based Grant *All executives*	Annual equity grants may be made in the form of restricted stock units (RSUs) or stock options, or some combination. The amount of an annual grant is dependent on the level of the executive and individual performance, with lowest performers receiving no grant. Planned grant value is converted to the number of shares granted by dividing the planned value by the predetermined, formulaic planning price* in effect for the quarter and, for stock option grants, the respective Black-Scholes valuation factor. Awards generally vest over a 1 to 4 year period.	Align executive and stockholder interests Attract and retain highly qualified leaders Motivate high business performance Vary compensation based on individual and team performance

* IBM's planning price is computed each quarter using a consistent statistical forecasting procedure based on historical IBM stock price data. IBM uses the quarterly planning price to aid in establishing the overall size of the equity plan and to give more consistency across equity grants made at different points in the quarter.

Compensation Element/Eligibility	Description	Linkage to Compensation Objectives
Retention, Pension & Savings		
Retention Stock-Based Grants & Cash Awards *Select executives determined each year, including some NEOs*	Periodically, management reviews the retention strategy for high-performing executives and may make retention equity grants with a vesting provision or cash payments with a clawback to select executives.	Align executive and stockholder interests Retain highly qualified leaders
Pension and Savings Plans *All executives, including NEOs*	Like all IBM employees, executives participate in the local pension plans and savings plans sponsored by IBM in their country under the same terms and conditions as all employees.	Attract and retain highly qualified leaders
Other Executive Retention Programs *Select executives, including NEOs and some other executive officers*	Separate plans established more than 12 years ago in some countries (including the U.S.) to encourage full-career retention of key executives. Important during a time of significant business transformation for IBM; the programs are now closed.	Attract and retain highly qualified leaders

	Accrual of future benefits under the retention plan stopped in the U.S. on December 31, 2007.	
Excess 401(k) Plus Plan *U.S. employees with compensation expected to exceed applicable IRS limits, including NEOs*	Established in accordance with U.S. Department of Labor and Internal Revenue Service guidelines to provide employees with the ability to save for use after their career by deferring compensation in excess of limits applicable to 401(k) plans. Prior to January 1, 2008, cash and equity could be deferred under the plan. Effective January 1, 2008, equity deferral elections can no longer be made under the plan.	Align executive and stockholder interests Attract and retain highly qualified leaders

Setting Performance Targets for Incentive Compensation

Compensation of our senior leaders is highly linked with Company performance against four key metrics, consistent with our overall financial model:

1. Revenue Growth
2. Operating Net Income
3. Operating EPS
4. Free Cash Flow

These metrics and their weightings align with IBM's financial model and are designed to appropriately balance both short-and long-term objectives. Targets are set for both the annual and long-term incentive programs at aggressive levels each year to motivate a high degree of business performance with emphasis on longer-term financial objectives. These targets, individually and together, are designed to be challenging to attain and are set within the parameters of our long-term financial model with profit expansion and growth objectives aligned with our disclosed financial roadmap to 2015. As part of IBM's ongoing management system, targets are evaluated to ensure they do not include an inappropriate amount of risk.

Apart from the linkage to its long-term financial model, IBM is not disclosing specific targets under the annual and long-term plans because it would signal IBM's strategic focus areas and impair IBM's ability to leverage these areas for competitive advantage. For example, disclosure of our free cash flow targets would provide insight into timing of large capital investments or acquisitions. Knowledge of the targets could also be used by competitors to take advantage of insight into specific areas to target the recruitment of key skills from IBM. Disclosing the specific targets and metrics used in the qualitative assessment made by the CEO would give our competitors our insight to key market dynamics and areas that could be used against IBM competitively by industry consultants or competitors targeting existing customers.

Our financial model is well communicated to investors, and our performance targets are based on this model. We also describe the performance relative to the pre-set objectives in our discussion of named executive officer compensation decisions. Finally, outlined below is a description of the specific metrics and weightings for the Annual Incentive and the Performance Share Unit Programs.

Annual Incentive Program

The Company sets business objectives at the beginning of each year that are reviewed by the Board of Directors. These objectives translate to targets for the Company and for each business unit for purposes of determining the target funding of the Annual Incentive Program. Performance against business objectives determines the actual total funding pool for the year which can vary from 0% to 200% of total target incentives for all executives. At the end of the year, management assesses the financial performance for the Company based on performance against financial metrics. Each year the Compensation Committee and the Board of Directors review IBM's annual business objectives and set the metrics and weightings for the annual program reflecting current business priorities. The metrics and weightings for 2012 and 2013 are listed in the following table.

Financial Metric	2012 and 2013 Weighting in Overall Score
Operating Net Income	60%
Revenue Growth	20%
Free Cash Flow	20%

Overall funding for the Annual Incentive Program, which covers approximately 5,200 executives, is based on the performance results against these targets and may be adjusted for extraordinary events if deemed appropriate by the CEO and Compensation Committee. This adjustment can be either up or down. For example, adjustments are usually made for large divestitures and acquisitions. In 2012, no adjustments for extraordinary events were made. In addition, the CEO can recommend an adjustment, up or down, to the overall funding of the program based on factors beyond IBM's financial performance, such as client satisfaction, market share growth and workforce development, among others. For 2012, no such adjustment was made. The Compensation Committee reviews the financial scoring and qualitative adjustments and approves the Annual Incentive Program funding level. Once the total pool funding level has been approved, a lower-performing executive will receive as little as zero payout and the most exceptional performers are capped at three times their individual target incentive (payouts at that level are rare and only possible when IBM's performance has also been exceptional).

Performance Share Unit Program

Operating EPS and free cash flow targets for the Performance Share Unit program are set at the beginning of each three-year performance period, taking into account the Company's financial model shared with investors, including the impact our share buyback program has on operating EPS. At the end of the three years, the score is calculated based on results against the predetermined targets, with the following weights:

Financial Metric	2012 and 2013 Weighting in Overall Score
Operating Earnings Per Share	80%
Free Cash Flow	20%

Adjustments can be made for extraordinary events if deemed appropriate by the CEO and the Compensation Committee—for example, large divestitures. In 2012, no adjustments were made.

The Compensation Committee approves the determination of actual performance relative to pre-established targets, and the number of Performance Share Units is adjusted up or down based on the approved actual performance from 0% to 150%. There is no discretionary adjustment to the Performance Share Unit program score.

Equity Award Practices

Under IBM's long-standing practices and policies, all equity awards are approved before or on the date of grant. The exercise price of at-the-money stock options is the average of the high and low market price on the date of grant or, in the case of premium-priced stock options, 10% above that average.

The approval process specifies the individual receiving the grant, the number of units or the value of the award, the exercise price or formula for determining the exercise price, and the date of grant. All equity awards for Senior Executives are approved by the Compensation Committee. All equity awards for employees other than Senior Executives are approved by Senior

Executives pursuant to a series of delegations that were approved by the Compensation Committee, and the grants made pursuant to these delegations are reviewed periodically with the Committee.

Equity awards granted as part of annual total compensation for senior leaders and other employees are made on specific cycle dates scheduled in advance. IBM's policy for new hires and promotions requires approval of any awards before or on the grant date, which is typically the date of the promotion or hire.

Ethical Conduct

Every executive is held accountable to comply with IBM's high ethical standards: IBM's Values, including "Trust and Personal Responsibility in all Relationships," and IBM's Business Conduct Guidelines. This responsibility is reflected in each executive's Personal Business Commitments, and is reinforced through each executive's annual certification to the IBM Business Conduct Guidelines. An executive's compensation is tied to compliance with these standards; compliance is also a condition of IBM employment for each executive. Annual cash incentive payments are also conditioned on compliance with these Guidelines.

The Company's equity plans and agreements have a clawback provision — awards may be cancelled and certain gains repaid if an employee engages in activity that is detrimental to the Company, such as violating the Company's Business Conduct Guidelines, disclosing confidential information, or performing services for a competitor. To further reinforce our commitment to ethical conduct, the Excess 401(k) Plus Plan allows the clawback of Company contributions made after March 2010 if a participant engages in activity that is detrimental to the Company.

In addition, approximately 2,100 of our key executives (including each of the named executive officers) have agreed to a non-competition, non-solicitation agreement that prevents them from working for certain competitors within 12 months of leaving IBM or soliciting employees within two years of leaving IBM.

The Committee has also implemented a policy for the clawback of cash incentive payments in the event an executive officer's conduct leads to a restatement of the Company's financial results as follows:

> To the extent permitted by governing law, the Company will seek to recoup any bonus or incentive paid to any executive officer if (i) the amount of such payment was based on the achievement of certain financial results that were subsequently the subject of a restatement, (ii) the Board determines that such officer engaged in misconduct that resulted in the obligation to restate, and (iii) a lower payment would have been made to the officer based upon the restated financial results.

Hedging Practices

The Company does not allow any member of the I&VT, including any named executive officer, to hedge the economic risk of their ownership of IBM securities, which includes entering into any derivative transaction on IBM stock (e.g., any short-sale, forward, option, collar, etc.).

Tax Considerations

Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, limits deductibility of compensation in excess of $1 million paid to the Company's CEO and to each of the other three highest-paid executive officers (not including the Company's chief financial officer) unless this compensation qualifies as "performance-based." Based on the applicable tax regulations, taxable compensation derived from certain stock appreciation rights and from the exercise of stock options by Senior Executives under the Company's Long-Term Performance Plans should qualify as performance-based. The IBM Excess 401(k) Plus Plan permits an executive officer who is subject to Section 162(m) and whose salary is above $1 million to defer payment of a sufficient amount of the salary to bring it below the Section 162(m) limit. In 1999, the Company's stockholders approved the terms under which the Company's annual and long-term performance incentive awards should qualify as performance-based. In 2009, as required by the Internal Revenue Code, the stockholders again approved the terms under which long-term performance incentive awards should qualify as performance-based. These terms do not preclude the Committee from making any payments or granting any awards, whether or not such payments or awards qualify for tax deductibility under Section 162(m), which may be appropriate to retain and motivate key executives.

2012 Summary Compensation Table Narrative

Operating Earnings Per Share (Operating EPS) and Free Cash Flow are non-GAAP financial measures. For reconciliation to GAAP and other information regarding these items, see Non-GAAP Supplemental Materials and related information in the Form 10-K submitted to the SEC on February 26, 2013.

Salary (Column (c))

Amounts shown in the salary column reflect the salary amount paid to each named executive officer during 2012.

- IBM reviews salaries for each named executive officer annually during a common review cycle. The salary rates for the named executive officers other than Mrs. Rometty and Mr. Palmisano were effective as of July 1, 2011. Mrs. Rometty's salary rate was effective January 1, 2012, the date she became CEO. Mr. Palmisano's salary rate has remained unchanged since June 1, 2006.

- See Section 1 of the 2012 Compensation Discussion and Analysis for an explanation of the amount of salary and other compensation elements in proportion to total compensation.

Bonus (Column (d))

No bonuses were awarded to named executive officers in the years shown in the 2012 Summary Compensation Table. Payments under the IBM Annual Incentive Program are included under column (g) (Non-Equity Incentive Plan Compensation).

Stock Awards Total (Column (e))

The amounts shown are the aggregate grant date fair values of Performance Share Units (PSUs) and Retention Restricted Stock Units (RRSUs) granted in each fiscal year shown, computed in accordance with accounting guidance (excluding any risk of forfeiture as per SEC regulations). The values shown for the PSU awards are calculated at the Target number, as described below. The values shown for the RRSUs reflect an adjustment for the exclusion of dividend equivalents.

Performance Share Units (PSUs)

The following describes the material terms and conditions of PSUs as reported in the column titled Performance Share Units (column (e)) in the 2012 Summary Compensation Table and in the 2012 Grants of Plan-Based Awards Table under the heading Estimated Future Payouts Under Equity Incentive Plan Awards (columns (f), (g) and (h)).

General Terms

- One PSU is equivalent in value to one share of IBM common stock.

- Executive officers are awarded a number of PSUs during the first year of the three-year performance period. PSUs are generally paid out in IBM common stock after the three-year performance period.

- Performance targets for cumulative three-year attainment in operating earnings per share and free cash flow are set at the beginning of the three-year per formance period. These targets are approved by the Compensation Committee.

- At the end of the three-year performance period, the Compensation Committee approves the determination of actual performance relative to pre-established targets, and the number of PSUs is adjusted up or down based on the approved actual performance.

- The performance period for the awards granted in 2012 is January 1, 2012 through December 31, 2014.

- There are no dividends or dividend equivalents paid on PSUs.

Vesting and Payout Calculations

- PSU awards granted in 2012 will be adjusted for performance, as described below. The performance period ends on December 31, 2014, and the awards will pay out in February 2015.
- Outstanding PSUs typically are cancelled if the executive's employment is terminated. See the 2012 Potential Payments Upon Termination Narrative for information on payout of unvested PSUs upon certain terminations.
- Payout will not be made for performance below the thresholds, as described below.
- For PSUs that were paid out on or before February 1, 2008, the executive could have elected, at least six months prior to vesting, to defer payment of these shares into the IBM Excess 401(k) Plus Plan. For PSUs that pay out after February 1, 2008, deferrals are not permitted.
- See Section 2 of the 2012 Compensation Discussion and Analysis for information on performance targets for the PSU program.

Threshold Number:

- The Threshold number of PSUs (listed in column (f) of the 2012 Grants of Plan-Based Awards Table) is 25% of the Target number.
- The Threshold number of PSUs will be earned for achievement of 70% of both business objectives (operating earnings per share and free cash flow).
- If only the cumulative operating earnings per share target is met at the Threshold level (and the free cash flow target is not met), the number of PSUs earned would be 80% of the Threshold number.
- If only the cumulative free cash flow target is met at the Threshold level (and the operating earnings per share target is not met), the number of PSUs earned would be 20% of the Threshold number.

Target Number:

- The Target number of PSUs (listed in column (g) of the 2012 Grants of Plan-Based Awards Table) will be earned if 100% of the objectives are achieved.

Maximum Number:

- The Maximum number of PSUs (listed in column (h) of the 2012 Grants of Plan-Based Awards Table) is 150% of the Target number.
- The Maximum number of PSUs will be earned for achieving 120% of both business objectives.

Restricted Stock Units (RSUs)

Restricted Stock Units (RSUs) may include RRSUs. In 2012, RRSUs were granted to Mr. Mills and Mr. MacDonald; no other RSUs were granted to the named executive officers. RRSUs granted in previous years to the named executive officers and outstanding at the end of 2012 are included in the 2012 Outstanding Equity Awards at Fiscal Year-End Table. In addition, the column titled Stock Awards in the 2012 Option Exercises and Stock Vested Table include previously-granted RRSUs. Also, Deferred IBM Shares in the 2012 Nonqualified Deferred Compensation Table include certain previously-granted RRSUs.

General Terms

- One RSU or RRSU is equivalent in value to one share of IBM common stock. RSUs and RRSUs are generally paid out in IBM common stock at vesting.

- Dividend equivalents are not paid on RSUs or RRSUs granted on or after January 1, 2008. Dividend equivalents are paid on RSUs and RRSUs granted before January 1, 2008 at the same rate and at the same time as the dividends paid to IBM stockholders.

Vesting and Payout

- Vesting periods for RSUs typically range from one to four years.

- Vesting periods for RRSUs typically range from two to five years and can be as long as ten years; these awards are typically given to select senior executives for the purpose of providing additional value to retain the executive through the vesting date.

- Payout of RSUs at each vesting date is typically contingent on the recipient remaining employed by IBM through that vesting date. See the 2012 Potential Payments Upon Termination Narrative for information on payout of unvested RSUs upon certain terminations.

- Payout of RRSUs is contingent on the recipient remaining employed by IBM until the end of each vesting period, except the payout of the RRSU awarded in 2012 to Mr. MacDonald requires that he is an employee of, or advisor to, IBM until the end of the vesting period.

- Executives have not been allowed to defer payment of RSUs.

- For RRSUs granted before January 1, 2008, the executive could have elected to defer payment of those shares into the IBM Excess 401(k) Plus Plan. For RRSUs granted on or after January 1, 2008, deferrals are not permitted.

- From time to time, special performance-based RSUs may be granted with performance contingent vesting.

Option Awards (Column (f))

- There were no option awards granted to the named executive officers in the years shown in the 2012 Summary Compensation Table. Market-priced and premium-priced options granted in previous years to the named executive officers and outstanding at the end of 2012 are included in the 2012 Outstanding Equity Awards at Fiscal Year-End Table.

General Terms

- In accordance with IBM's LTPP, the exercise price of stock options is not less than the average of the high and low prices of IBM common stock on the New York Stock Exchange (NYSE) on the date of grant.

- Options generally vest in four equal increments on the first four anniversaries of the grant date.

- Options generally expire ten years after the date of grant.

- The option recipient must remain employed by IBM through each vesting date in order to receive any potential payout value.

Market-priced options:

  - From 2005 to 2007, market priced options were awarded to the named executive officers who participated in the IBM stock investment program (the Buy-First Program) by agreeing to invest 5, 10, or 15% of their annual incentive program payout in the IBM Stock Fund under the nonqualified deferred compensation plan.

  - The exercise price is equal to the average of the high and low prices of IBM common stock on the NYSE on the date of grant.

- These options vest 100% three years after the date of grant.

Premium-priced options:

- The exercise price is equal to 110% of the average of the high and low prices of IBM common stock on the NYSE on the date of grant.

- These options vest in four equal increments on the first four anniversaries of the grant date.

Non-Equity Incentive Plan Compensation (Column (g))
Amounts in this column represent payments under IBM's Annual Incentive Program (AIP).

General Terms

- All named executive officers, other than Mr. Palmisano, participate in this program. The performance period is the fiscal year (January 1 through December 31, 2012).

- Performance goals are set annually in the beginning of the year and generally encompass corporate-wide goals and business unit goals.

- See Section 2 of the 2012 Compensation Discussion and Analysis for information on performance targets for AIP.

Payout Range

- Mrs. Rometty's target was increased from $3.5 million to $4 million, prorated effective October 1, 2012 to $3,625,000 for 2012.

- Mr. Loughridge, Mr. Mills and Mr. MacDonald had targets of 135% of their salary rate for 2012, and Mr. Daniels had a target of 175% of his salary rate for 2012. See column (d) of the 2012 Grants of Plan-Based Awards Table for the Target payout.

- Threshold payout for each named executive officer is $0 (see column (c) of the 2012 Grants of Plan-Based Awards Table).

- Maximum payout for each named executive officer is three times the Target (see column (e) of the 2012 Grants of Plan-Based Awards Table).

Vesting and Payout

- In addition to performance against corporate-wide and business unit goals, individual performance against goals set at the beginning of the year determine payout amount.

- An executive generally must be employed by IBM at the end of the performance period in order to be eligible to receive an AIP payout. At the discretion of appropriate senior management, the Compensation Committee, or the Board, an executive may receive a prorated payout of AIP upon retirement.

- AIP payouts earned between January 1, 2012 and December 31, 2012 will be paid on or before March 15, 2013.

Change in Retention Plan Value (Column (h))

- Amounts in the column titled Change in Retention Plan Value represent the annual change in retention plan value from

December 31, 2011 to December 31, 2012 for each named executive officer.

- See the 2012 Retention Plan Narrative for a description of the Retention Plan.

Change in Pension Value (Column (h))

- Amounts in the column titled Change in Pension Value represent the annual change in pension value from December 31, 2011 to December 31, 2012 for each named executive officer.

- See the 2012 Pension Benefits Narrative for a description of the IBM Pension Plans.

Nonqualified Deferred Compensation Earnings (Column (h))

- IBM does not pay above-market or preferential earnings on nonqualified deferred compensation.

- See the 2012 Nonqualified Deferred Compensation Narrative for a description of the nonqualified deferred compensation plans in which the named executive officers participate.

All Other Compensation (Column (i))

Amounts in this column represent the following as applicable:

Tax Reimbursements

- Amounts represent payments that the Company has made to the named executive officers to cover taxes incurred by them for certain business-related taxable expenses.

- These expenses are: family travel to and attendance at Company-related events, and commutation expenses for Mrs. Rometty, Mr. Palmisano and Mr. Loughridge (see Personal Use of Company Autos below).

Company Contributions to Defined Contribution Plans

- Amounts represent Company matching and automatic contributions to the individual accounts for each named executive officer.

- Under IBM's 401(k) Plus Plan, participants hired before January 1, 2005, which includes all the named executive officers, are eligible to receive matching contributions up to 6% of eligible compensation. In addition, for all eligible participants, the Company makes automatic contributions equal to a certain percentage of eligible compensation, depending on the participant's pension plan eligibility on December 31, 2007. In 2012, the automatic contribution percentage was 4% for Mrs. Rometty, Mr. Loughridge, Mr. Palmisano, Mr. Mills and Mr. Daniels, and was 2% for Mr. MacDonald.

- Under IBM's Excess 401(k) Plus Plan, the Company makes matching contributions equal to a percentage of the sum of (i) the amount the participant elects to defer under the Excess 401(k) Plus Plan, and (ii) the participant's eligible compensation after reaching the Internal Revenue Code compensation limits. Participants hired before January 1, 2005, which includes all the named executive officers, are eligible to receive matching contributions up to 6% of eligible compensation. In addition, for all eligible participants, the Company makes automatic contributions equal to a percentage of the sum of (i) the amount the participant elects to defer under the Excess 401(k) Plus Plan, and (ii) the participant's eligible compensation after reaching the Internal Revenue Code compensation limits. The automatic contribution percentage depends on the participant's pension plan eligibility on December 31, 2007, and in 2012, the automatic contribution percentage was 4% for Mrs. Rometty, Mr. Loughridge, Mr. Palmisano, Mr. Mills and Mr. Daniels, and was 2% for Mr. MacDonald.

- For purposes of calculating the matching contribution and the automatic contribution under the 401(k) Plus Plan, the participant's eligible compensation excludes the amount the participant elects to defer under the Excess 401(k) Plus Plan.

- See the 2012 Nonqualified Deferred Compensation Narrative for additional details on the nonqualified deferred compensation plans.

Life Insurance Premiums

- Amounts represent life insurance premiums paid by the Company on behalf of the named executive officers.
- These executive officers are covered by life insurance policies under the same terms as other U.S. full-time regular employees.
- Life insurance for employees and executives hired before January 1, 2004, which includes all named executive officers, is two times salary plus annual incentive program target, with a maximum coverage amount of $2,000,000.
- In addition, IBM provides Travel Accident Insurance for most employees in connection with business travel. Travel Accident Insurance for all eligible employees and executives is up to five times salary plus annual incentive target with a maximum coverage amount of $15,000,000.

Perquisites

The following describes perquisites (and their aggregate incremental cost calculations) provided to the named executive officers in 2012.

Personal Financial Planning

In 2012, IBM offered financial planning services with coverage generally up to $14,000 annually for senior U.S. executives, including each named executive officer.

Personal Travel on Company Aircraft

General Information

- Amounts represent the aggregate incremental cost to IBM for travel not directly related to IBM business.
- IBM's security practices provide that all air travel by the Chairman and by the CEO, including personal travel, be on Company aircraft. The aggregate incremental cost for both Mrs. Rometty's and Mr. Palmisano's personal travel is included in column (i) of the 2012 Summary Compensation Table. These amounts also include the aggregate incremental cost, if any, of travel by their family members or other non-IBM employees on both business and non-business occasions.
- Additionally, personal travel in 2012 on IBM aircraft by named executive officers other than Mrs. Rometty or Mr. Palmisano, and the aggregate incremental cost, if any, of travel by the officer's family or other non-IBM employees when accompanying the officer on both business and non-business occasions is also included.

- Also, from time to time, named executive officers who are members of the boards of directors of other companies and non-profit organizations travel on IBM aircraft to those outside board meetings. These amounts include travel related to participation on these outside boards.
- Any travel by named executive officers for an annual physical under the corporate wellness program is included in these amounts.

Aggregate Incremental Cost Calculation

- The aggregate incremental cost for the use of Company aircraft for personal travel, including travel to outside boards, is calculated by multiplying the hourly variable cost rate for the specific aircraft by the number of flight hours used.

- The hourly variable cost rate includes fuel, oil, parking/landing fees, crew expenses, aircraft maintenance (based on the hourly operation of the aircraft) and catering.
- The rate for each aircraft is periodically reviewed by IBM's flight operations team and adjusted as necessary to reflect changes in costs.
- The aggregate incremental cost includes deadhead flights (i.e., empty flights to and from the IBM hangar or any other location).
- The aggregate incremental cost for any charter flights is the full cost to IBM of the charter.

Personal Use of Company Autos

General Information

- IBM's security practices provide that the Chairman and the CEO be driven to and from work by IBM personnel in a car leased by IBM or by an authorized car service.
- In addition, under IBM's security practices, the Chairman and the CEO may use a Company-leased car with an IBM driver or an authorized car service for non-business occasions. Further, the families of both the Chairman and the CEO may use a Company- leased car with an IBM driver or an authorized car service on non-business occasions or when accompanying the Chairman or the CEO on business occasions.
- Other named executive officers may use a Company-leased car with an IBM driver or an authorized car service in extraordinary circumstances. Family members and other non-IBM employees may accompany named executive officers other than the Chairman and the CEO in a Company-leased car with an IBM driver or an authorized car service on business occasions.
- Amounts reflect the aggregate incremental cost, if any, for the above-referenced items.

Aggregate Incremental Cost Calculation

- The incremental cost for the car and driver for commutation and non-business events is calculated by multiplying the variable rate by the applicable driving time. The variable rate includes drivers' salary and overtime payments, plus a cost per mile calculation based on fuel and maintenance expense.
- The incremental cost for an authorized car service is the full cost to IBM for such service.

Personal Security

General Information

- Under IBM's security practices, IBM provides security personnel for both the Chairman and the CEO on certain non-business occasions and for the families of the Chairman and the CEO on certain non-business occasions or when accompanying such officer on business occasions.
- Amounts include the aggregate incremental cost, if any, of security personnel for those occasions.
- In addition, amounts also include the cost of home security systems and monitoring for Mrs. Rometty and Mr. Palmisano and any other named executive officers, if applicable.

Aggregate Incremental Cost Calculation

- The aggregate incremental cost for security personnel is the cost of any commercial airfare to and from the destination, hotels, meals, car services, and salary and travel expenses of any additional sub-contracted personnel if needed.
- The aggregate incremental cost for installation, maintenance and monitoring services for home security systems reflects the costs of these items.

Annual Executive Physical

- IBM covers the cost of an annual executive physical for the named executive officers under the Company's corporate wellness program.
- Amounts represent any payments by IBM for named executive officers under this program.

Family Travel and Attendance at Company-Related Events

- Company-related events may include meetings, dinners and receptions with IBM's clients, executive management or board members attended by the named executive officers and their family members.
- Amounts represent the aggregate incremental cost, if any, of commercial travel and/or meals and entertainment for the family members of the named executive officers to attend Company-related events.

Items for Mr. Palmisano

- Amounts include payments relating to furnished office space and administrative support provided to Mr. Palmisano after his December 1, 2012 retirement, as well as amounts for the renovation of the space.
- Amounts also include retirement items.

Other Personal Expenses

- Amounts represent the cost of meals and lodging for the named executive officers who traveled for their annual executive physical under the Company's corporate wellness program.
- Amounts also include expenses associated with participation on outside boards other than those disclosed as Personal Travel on Company Aircraft.
- Amounts also include ground transportation expenses, home office equipment and administrative charges incurred by executives.
- Amounts also include items in connection with an international IBM Board of Directors trip.

2012 Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Performance Share Units[1] ($) (e)	Restricted Stock Units[2] ($) (e)	Stock Awards Total[3] ($) (e)	Option Awards Total[4] ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Retention Plan Value[5] ($) (h)	Change in Pension Value[6] ($) (h)	Nonqualified Deferred Compensation Earnings[7] ($) (h)	All Other Compensation[8][9] ($) (i)	Total[10] ($) (j)
V.M. Rometty[11]	2012	$1,500,000	$0	$ 9,259,000	$0	$ 9,259,000	$0	$3,915,000	$ 181,656	$641,346	$0	$ 687,725	$16,184,727
Chairman, President and CEO	2011	715,000	0	5,109,845	0	5,109,845	0	1,470,000	180,206	617,157	0	250,062	8,342,270
	2010	630,000	0	3,567,706	0	3,567,706	0	1,292,000	154,853	517,301	0	233,696	6,395,556
M. Loughridge	2012	775,000	0	4,398,025	0	4,398,025	0	1,202,900	428,278	1,008,806	0	330,046	8,143,055
Senior VP and CFO, Finance	2011	747,500	0	4,087,876	0	4,087,876	0	1,359,800	510,704	1,150,367	0	163,143	8,019,390
and Enterprise Transformation	2010	720,000	0	3,567,706	0	3,567,706	0	1,482,000	392,632	870,514	0	147,805	7,180,657
S.J. Palmisano[12]	2012	1,650,000	0	18,518,000	0	18,518,000	0	0	867,643	13,860,240	0	2,178,390	37,074,273
Former Chairman	2011	1,800,000	0	14,307,565	0	14,307,565	0	6,500,000	2,293,870	5,283,183	0	1,614,300	31,798,918
	2010	1,800,000	0	13,319,450	0	13,319,450	0	9,000,000	2,395,650	4,142,277	0	1,061,231	31,718,608
S.A. Mills	2012	716,000	0	4,629,500	4,135,911	8,765,411	0	987,360	136,953	976,530	0	211,912	11,794,166
Senior VP & Group													
Executive,	2011	705,500	0	3,576,891	0	3,576,891	0	1,258,400	465,124	1,132,095	0	235,028	7,373,038
Software & Systems	2010	695,000	0	3,092,019	0	3,092,019	0	1,428,800	458,831	886,475	0	174,289	6,735,414
M.E. Daniels	2012	825,000	0	4,629,500	0	4,629,500	0	1,342,920	324,301	729,581	0	237,489	8,088,791
Senior VP & Group													
Executive,	2011	745,000	0	5,109,845	0	5,109,845	0	1,371,800	384,628	828,076	0	246,486	8,685,835
Services	2010	665,000	0	3,567,706	0	3,567,706	0	1,368,000	292,856	620,904	0	171,322	6,685,788
J.R. MacDonald[13]	2012	582,000	0	3,796,190	1,378,637	5,174,827	0	827,400	103,806	21,096	0	221,515	6,930,644
Senior VP													
Human Resources													

(1) The amounts in this column reflect the aggregate grant date fair values of Performance Share Unit (PSU) awards at the

Target number (described in the 2012 Summary Compensation Table Narrative), calculated in accordance with accounting guidance. At the Maximum number, these values for Mrs. Rometty would be: 2012: $13,888,500; 2011: $7,664,767; 2010: $5,351,559; for Mr. Loughridge: 2012: $6,597,038; 2011: $6,131,814; 2010: $5,351,561; for Mr. Palmisano: 2012: $27,777,000; 2011: $21,461,348; 2010: $19,979,175; for Mr. Mills: 2012: $6,944,250; 2011: $5,365,337; 2010: $4,638,027; for Mr. Daniels: 2012: $6,944,250; 2011: $7,664,767; 2010: $5,351,559; and for Mr. MacDonald: 2012: $5,694,285.

(2) The amounts in this column reflect the aggregate grant date fair values of Retention Restricted Stock Units (RRSUs), calculated in accordance with accounting guidance; these amounts reflect an adjustment for the exclusion of dividend equivalents.

(3) The amounts in this column reflect the total of the previous two columns (Performance Share Units and Restricted Stock Units). For assumptions used in determining the fair value of stock awards, see Note R (Stock-Based Compensation) to the Company's 2012 Consolidated Financial Statements.

(4) There were no option awards granted to the named executive officers in the years shown in the 2012 Summary Compensation Table.

(5) Assumptions used to calculate these amounts can be found immediately after the 2012 Retention Plan Table.

(6) Assumptions used to calculate these amounts can be found immediately after the 2012 Pension Benefits Table.

(7) IBM does not provide above-market or preferential earnings on deferred compensation. See the 2012 Nonqualified Deferred Compensation Narrative for information about deferred compensation.

(8) Amounts in this column include the following for 2012: for Mrs. Rometty: tax reimbursements of $21,551 and Company contributions to defined contribution plans of $297,000; for Mr. Loughridge: tax reimbursements of $24,113 and Company contributions to defined contribution plans of $213,480; for Mr. Palmisano: tax reimbursements of $15,501 and Company contributions to defined contribution plans of $815,000; for Mr. Mills: Company contributions to defined contribution plans of $197,440; for Mr. Daniels: Company contributions to defined contribution plans of $219,680; and for Mr. MacDonald: tax reimbursements of $12,826 and Company contributions to defined contribution plans of $115,904. In accordance with SEC rules, dividend equivalents paid in each of the years shown above on RSUs and RRSUs granted prior to January 1, 2008 are not included in "All Other Compensation" because those amounts were factored into the grant date fair values. RSUs and RRSUs granted on or after January 1, 2008 do not receive dividend equivalents.

(9) Amounts in this column also include the following perquisites for 2012: for Mrs. Rometty: personal financial planning, personal travel on Company aircraft of $304,376, personal use of Company autos, personal security, annual executive physical, family attendance at Company-related events, and other personal expenses; for Mr. Loughridge: personal financial planning, personal travel on Company aircraft of $45,102, personal use of Company autos, family attendance at Company-related events, and other personal expenses; for Mr. Palmisano: personal financial planning, personal travel on Company aircraft of $248,093, personal use of Company autos, retirement items, office payments and administrative support, including space renovation of $1,033,138, personal security, family attendance at Company-related events and other personal expenses; for Mr. Mills: personal financial planning, family attendance at Company-related events, and other personal expenses; for Mr. Daniels: personal financial planning; and for Mr. MacDonald: personal financial planning, personal travel on Company aircraft of $59,962, family attendance at Company-related events, and other personal expenses. See the 2012 Summary Compensation Table Narrative for a description and information about the aggregate incremental cost calculations for perquisites.

(10) The amounts in this column reflect the total of the following columns: Salary, Bonus, Stock Awards Total, Option Awards Total, Non-Equity Incentive Plan Compensation, Change in Retention Plan Value, Change in Pension Value, Nonqualified Deferred Compensation Earnings and All Other Compensation.

(11) Mrs. Rometty became President and CEO on January 1, 2012 and assumed the role of Chairman on October 1, 2012.

(12) Mr. Palmisano was Chairman until October 1, 2012; he was a Senior Advisor from October 1, 2012 to November 30, 2012 and retired December 1, 2012. See 2012 Compensation Discussion and Analysis "2012 Decisions for Mr. Palmisano" for additional information.

(13) Mr. MacDonald was not a named executive officer in the Company's 2011 and 2012 Proxy Statements. Therefore, this table does not provide 2010 and 2011 data for him.

2012 Grants of Plan-Based Awards Table

Name (a)	Type of Award[1]	Grant Date (b)	Compensation Committee Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[2] Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Payouts Under Equity Incentive Plan Awards[3] Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units[4] (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Closing Price on the NYSE on the Date of Grant ($/Sh)	Grant Date Fair Value of Stock and Option Awards[5] ($) (l)
V.M. Rometty	AIP	N/A	10/30/2012	$0	$3,625,000	$10,875,000				0	0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				12,500	50,000	75,000					$9,259,000
M. Loughridge	AIP	N/A	01/31/2012	0	1,046,000	3,138,000				0	0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				5,938	23,750	35,625					4,398,025
S.J. Palmisano	AIP(6)	N/A	N/A	N/A	N/A	N/A				0	0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				25,000	100,000	150,000					18,518,000
S.A. Mills	AIP	N/A	01/31/2012	0	968,000	2,904,000					0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				6,250	25,000	37,500					4,629,500
	RRSU	11/01/2012	10/30/2012							22,278				4,135,911
M.E. Daniels	AIP	N/A	01/31/2012	0	1,444,000	4,332,000				0	0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				6,250	25,000	37,500					4,629,500
J.R. MacDonald	AIP	N/A	01/31/2012	0	788,000	2,364,000					0	N/A	N/A	
	PSU	06/08/2012	01/31/2012				5,125	20,500	30,750					3,796,190
	RRSU	11/01/2012	10/30/2012							7,426				1,378,637

(1) Type of Award:
AIP = Annual Incentive Program
PSU = Performance Share Unit
RRSU = Retention Restricted Stock Unit

Each of these awards was granted under IBM's 1999 Long-Term Performance Plan. See the 2012 Summary Compensation Table Narrative for additional information on these types of awards.

(2) AIP amounts will be adjusted based on performance and paid on or before March 15, 2013.

(3) PSU awards will be adjusted based on performance and paid in February 2015.

(4) Mr. Mills's award vests on December 31, 2015 provided that he is an employee of the Company as of that date.
Mr. MacDonald's award vests on December 31, 2013, provided that he is an employee of, or advisor to, the Company as of that date.

(5) The amounts in this column reflect the aggregate grant date fair values of PSU and RRSU awards calculated in accordance with accounting guidance. The values shown for the PSU awards are based on the Target number, as described in the 2012 Summary Compensation Table Narrative. The values shown for the Retention Restricted Stock Units (RRSUs) reflect an adjustment for the exclusion of dividend equivalents.

(6) Mr. Palmisano was not eligible for AIP in 2012.

2012 Outstanding Equity Awards at Fiscal Year-End Narrative

Option Awards (Columns (b)—(f))

- The Grant Date for each of the outstanding option awards has been included to facilitate understanding of the vesting schedules. Additionally, a Total line has been included for each named executive officer to provide a better understanding of the total number of options outstanding in each category (exercisable and unexercisable).

- As of December 31, 2012, all outstanding option awards for the named executive officers were fully vested.
- IBM has not granted any option awards that are Equity Incentive Plan Awards.
- See the 2012 Summary Compensation Table Narrative for more details on option awards.

Stock Awards (Columns (g)—(j))

General Information

The Grant Date for each of the outstanding RRSU awards (column (g)) and PSU awards (column (i)) has been included to facilitate understanding of the vesting schedules.

Number of Shares or Units of Stock That Have Not Vested (Column (g))

The amounts in this column are the number of RRSUs that were outstanding as of December 31, 2012. There were no outstanding RSU awards as of December 31, 2012.

Market Value of Shares or Units of Stock That Have Not Vested (Column (h))

The amounts in this column are the value of RRSU awards disclosed in column (g), calculated by multiplying the number of units by the closing price of IBM stock on the last business day of the 2012 fiscal year ($191.55).

Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (Column (i))

The amounts in this column are the number of PSUs that were outstanding as of December 31, 2012.

Performance Share Units

- Amounts in column (i) reflect the Maximum number possible for each PSU award.
- The maximum payout level is 150% of the Target number, and the program has not paid out at the maximum level since the 1995-1997 performance period (which paid out in February 1998).
- The performance criteria for IBM’s PSU program is based on cumulative three-year rolling targets. Therefore, measuring annual performance against these targets, which is required by the SEC rules, is not meaningful.
- See Section 2 of the 2012 Compensation Discussion and Analysis, as well as the 2012 Summary Compensation Table Narrative, for a detailed description of the PSU program, including payout calculations.
- The table below provides the payout levels for all outstanding PSU awards for each of the named executive officers.

2012 Outstanding PSU Award Payout Levels

Name	Grant Date	Threshold	Target	Maximum
V.M. Rometty	06/08/2010	7,622	30,488	45,732
	06/08/2011	8,170	32,680	49,020
	06/08/2012	12,500	50,000	75,000
M. Loughridge	06/08/2010	7,622	30,488	45,732
	06/08/2011	6,536	26,144	39,216
	06/08/2012	5,938	23,750	35,625
S.J. Palmisano	06/08/2010	28,456	113,822	170,733
	06/08/2011	22,876	91,504	137,256
	06/08/2012	25,000	100,000	150,000
S.A. Mills	06/08/2010	6,606	26,423	39,635
	06/08/2011	5,719	22,876	34,314
	06/08/2012	6,250	25,000	37,500

M.E. Daniels	06/08/2010	7,622	30,488	45,732
	06/08/2011	8,170	32,680	49,020
	06/08/2012	6,250	25,000	37,500
J.R. MacDonald	06/08/2010	6,098	24,391	36,587
	06/08/2011	5,066	20,262	30,393
	06/08/2012	5,125	20,500	30,750

Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (Column (j))

The amounts in this column are the values of PSU awards disclosed in column (i), calculated by multiplying the number of units by the closing price of IBM stock on the last business day of the 2012 fiscal year ($191.55).

2012 Outstanding Equity Awards at Fiscal Year-End Table

	Option Awards						Stock Awards							
Name (a)	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable[2] (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable [3] (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price [4] ($) (e)	Option Expiration Date (f)	Type of Award	Grant Date	Number of Shares or Units of Stock That Have Not Vested[6] (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested[7] ($) (h)	Type of Award	Grant Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested[8] (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested [7] ($) (j)
V.M. Rometty	02/24/2004	30,369	0	N/A	$ 105.96[5]	02/23/2014	N/A				PSU	06/08/2010	45,732	$ 8,759,965
	03/08/2005	25,680	0	N/A	101.33[5]	03/07/2015					PSU	06/08/2011	49,020	9,389,781
	03/08/2005[1]	1,998	0	N/A	92.12	03/07/2015					PSU	06/08/2012	75,000	14,366,250
	07/26/2005	23,518	0	N/A	92.51[5]	07/25/2015								
	05/08/2006	21,456	0	N/A	91.04[5]	05/07/2016								
Total		**103,021**	**0**						**0**	**$ 0**			**169,752**	**$ 32,515,996**
M. Loughridge	N/A						RRSU	10/28/2008	16,667	$ 3,192,564	PSU	06/08/2010	45,732	$ 8,759,965
											PSU	06/08/2011	39,216	7,511,825
											PSU	06/08/2012	35,625	6,823,969
Total		**0**	**0**						**16,667**	**$ 3,192,564**			**120,573**	**$ 23,095,759**
S.J. Palmisano	03/08/2005	200,000	0	N/A	$ 101.33[5]	03/07/2015	N/A				PSU	06/08/2010	170,733	$ 32,703,906
	03/08/2005[1]	30,325	0	N/A	92.12	03/07/2015					PSU	06/08/2011	137,256	26,291,387
	05/08/2006	88,130	0	N/A	91.04[5]	05/07/2016					PSU	06/08/2012	150,000	28,732,500
	05/08/2006[1]	63,628	0	N/A	82.76	05/07/2016								
	05/08/2007[1]	58,264	0	N/A	102.80	05/07/2017								
Total		**440,347**	**0**						**0**	**$ 0**			**457,989**	**$ 87,727,793**
S.A. Mills	N/A						RRSU	11/01/2012	22,278	$ 4,267,351	PSU	06/08/2010	39,635	$ 7,592,084
											PSU	06/08/2011	34,314	6,572,847
											PSU	06/08/2012	37,500	7,183,125
Total		**0**	**0**						**22,278**	**$ 4,267,351**			**111,449**	**$ 21,348,056**
M.E. Daniels	07/26/2005	16,168	0	N/A	$ 92.51[5]	07/25/2015	N/A				PSU	06/08/2010	45,732	$ 8,759,965
	05/08/2006	23,321	0	N/A	91.04[5]	05/07/2016					PSU	06/08/2011	49,020	9,389,781
											PSU	06/08/2012	37,500	7,183,125
Total		**39,489**	**0**						**0**	**$ 0**			**132,252**	**$ 25,332,871**
J.R. MacDonald	N/A						RRSU	11/01/2012	7,426	$ 1,422,450	PSU	06/08/2010	36,587	$ 7,008,240
											PSU	06/08/2011	30,393	5,821,779
											PSU	06/08/2012	30,750	5,890,163
Total		**0**	**0**						**7,426**	**$ 1,422,450**			**97,730**	**$ 18,720,182**

Type of Award:
PSU = Performance Share Unit
RRSU = Retention Restricted Stock Unit

2012 Outstanding Equity Awards at Fiscal Year-End Table (continued)

(1) These options were granted under the Buy-First Program. See the 2012 Summary Compensation Table Narrative for additional information about this program.

(2) Option awards shown in this column vested 25% per year on the first through the fourth anniversaries of the respective grant dates, except for options granted under the Buy-First Program, which vested 100% on the third anniversary of the respective grant dates.

(3) As of December 31, 2012, there were no unexercisable options for the named executive officers.

(4) The exercise prices shown in this column are equal to the average high and low prices of IBM common stock on the New York Stock Exchange (NYSE) on the date of grant, except for premium-priced options.

(5) These options are premium-priced options, which have an exercise price equal to 110% of the average of the high and low prices of IBM common stock on the NYSE on the date of grant.

(6) The amounts shown in column (g) of the 2012 Outstanding Equity Awards at Fiscal Year-End Table are RRSU awards that have not yet vested. See the 2012 Summary Compensation Table Narrative for additional information on these types of awards. The table below shows the vesting schedules for these outstanding awards. Mr. Loughridge's award vests on October 28, 2013. Mr. Mills's award vests on December 31, 2015. Mr. MacDonald's award vests on December 31, 2013, provided that he is an employee of, or advisor to, the Company as of that date.

Vesting Schedule for Unvested RRSUs

		Vesting Schedule		
Name	**Grant Date**	**2013**	**2014**	**2015**
V.M. Rometty	N/A			
M. Loughridge	10/28/2008	16,667		
S.J. Palmisano	N/A			
S.A. Mills	11/01/2012			22,278
M.E. Daniels	N/A			
J.R. MacDonald	11/01/2012	7,426		

(7) Values in these columns are calculated by multiplying the number of units by the closing price of IBM stock on the last business day of the 2012 fiscal year ($191.55).

(8) The amounts shown in column (i) of the 2012 Outstanding Equity Awards at Fiscal Year-End Table are PSU awards that have not yet vested. See the 2012 Summary Compensation Table Narrative for additional information on PSU awards. The table below shows the vesting schedules for these outstanding PSU awards (reflecting Maximum payout), all of which are paid out in February of the year indicated.

Vesting Schedule for Unvested PSUs

		Vesting Schedule		
Name	**Grant Date**	**2013**	**2014**	**2015**
V.M. Rometty	06/08/2010	45,732		
	06/08/2011		49,020	
	06/08/2012			75,000
M. Loughridge	06/08/2010	45,732		
	06/08/2011		39,216	
	06/08/2012			35,625
S.J. Palmisano	06/08/2010	170,733		
	06/08/2011		137,256	

	06/08/2012			150,000
S.A. Mills	06/08/2010	39,635		
	06/08/2011		34,314	
	06/08/2012			37,500
M.E. Daniels	06/08/2010	45,732		
	06/08/2011		49,020	
	06/08/2012			37,500
J.R. MacDonald	06/08/2010	36,587		
	06/08/2011		30,393	
	06/08/2012			30,750

2012 Option Exercises and Stock Vested Table

	Option Awards		Stock Awards (1)	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($) (e)
V.M. Rometty	0	$ 0	81,400	$ 15,804,988
M. Loughridge	0	0	53,667	10,390,468
S.J. Palmisano	250,000	21,427,425	184,001(2)	35,624,434
S.A. Mills	0	0	46,001	8,906,254
M.E. Daniels	31,030	3,004,663	81,400	15,804,988
J.R. MacDonald	0	0	38,334	7,421,846

(1) Amounts shown in these columns reflect PSU and RRSU awards that vested during 2012. See the 2012 Summary Compensation Table Narrative for details on these types of awards.

(2) In addition, in 2012, Mr. Palmisano also received a distribution of shares in connection with RSUs that had vested in previous years and had been deferred into the Excess 401(k) Plus Plan. See the 2012 Nonqualified Deferred Compensation Table and Narrative for additional information.

2012 Retention Plan Narrative

Introduction and Purpose

As noted in Section 1 of the 2012 Compensation Discussion and Analysis, during the mid-1990s, an additional form of retention compensation was created for certain Company leaders. The plan, formally called the “IBM Supplemental Executive Retention Plan” (Retention Plan), began in 1995 during a particularly trying time in IBM’s history when the Company faced challenges that many thought put its very existence at risk. Some key leaders were recruited away from IBM during this time.

In this environment, IBM created this new plan to help retain for full careers the caliber of senior leaders needed to turn the Company around, preserve its long-term viability and position it for growth in the future. The Retention Plan discourages these leaders from joining competitors even after a full IBM career by providing that benefits under the Retention Plan are forfeited if this happens. The approach worked, as evidenced by the Company’s historic turnaround in the late 1990s and its current position of market leadership.

Because its original purpose had been met, the Retention Plan was closed to new participants in 2004. Future accruals under the Retention Plan stopped on December 31, 2007, and will not be replaced by any other plan.

Payments accrue based on age and service and are typically payable only after age 60, as a way to encourage senior leaders to continue working for the Company past the age when many others at the Company choose to retire.

Even though the Retention Plan provides for the payment of specified benefits after retirement, given the nature of this program as a retention vehicle, the Retention Plan is discussed in its own section instead of in the Pension Benefits section. As a consequence, the amounts reflected below are separately presented in the 2012 Retention Plan Table and are not included in the 2012 Pension Benefits Table.

The 2012 Retention Plan Table shows each named executive officer's number of years of credited service, present value of accumulated benefit and payments during the last fiscal year under the Retention Plan.

Description of Retention Plan

- The Retention Plan provides for payment of an annual benefit as long as the participant satisfies the age, service, pay and job level requirements.

- Effective July 1, 1999, IBM amended the Retention Plan to provide a new benefit formula, but allowed participants who met certain age, service, and pay level conditions as of June 30, 1999 to continue to earn benefits under the prior formula if the prior formula provides a greater benefit. Benefits for Mr. Palmisano and Mr. Mills are determined under the prior formula. Benefits for Mrs. Rometty, Mr. Loughridge, Mr. Daniels and Mr. MacDonald are determined under the 1999 plan formula.

- Effective May 1, 2004, the Retention Plan was closed to new participants. Accrual of future benefits under the Retention Plan stopped on December 31, 2007. Accordingly, a participant's Retention Plan benefit does not consider pay earned or service performed after December 31, 2007.

- Retention Plan benefits are subject to forfeiture and rescission if an executive is terminated for cause or engages in competitive or other activity detrimental to the Company during or following employment.

Material Terms and Conditions:
1995 Retention Plan

- The benefits provided under the Retention Plan for Mr. Palmisano and Mr. Mills are determined under the Retention Plan formula in effect prior to the July 1, 1999 amendment (1995 Retention Plan).

- Benefits are available under the 1995 Retention Plan only if a participant terminates employment, becomes disabled or dies on or after meeting the early retirement age and service, holds an executive level position immediately prior to termination or death, and has final average pay of at least $160,000 immediately prior to termination, disability or death.

- The definitions of early retirement age and service have the same meanings as under the Pension Credit Formula of the IBM Personal Pension Plan. Final average pay has the same meaning as it does under the Pension Credit Formula of the IBM Personal Pension Plan.

- The benefit provided under the 1995 Retention Plan is payable only as an annuity beginning on the first day of the month following termination of employment (subject to a six-month delay for "specified employees" as required under Section 409A of the Internal Revenue Code).

- If the participant terminates employment on or after age 60, the 1995 Retention Plan benefit expressed as an annual single life annuity is equal to:

(1)		(2)		(3)		(4)		(5)
1.7% times final average pay up to (and including) $311,400 times years of service up to (and including) 20 years	+	2.55% times final average pay in excess of $311,400 times years of service up to (and including) 20 years	+	1.3% times final average pay times years of service in excess of 20, but not in excess of 30 years	+	0.75% times final average pay times years of service in excess of 30, but not in excess of 35 years	-	The annual single life annuity that would be pro- vided under the IBM Personal Pension Plan beginning on the benefit com- mencement date

- If the participant terminates employment before age 60, the annual single life annuity resulting from the sum of the amounts specified in (1) through (4) is reduced as specified in the Retention Plan. For example, if a participant terminates at age 59, the benefit is reduced by 3%, at age 58, by 7%, and at age 57, by 11%.

- The benefit of a participant in the 1995 Retention Plan will not be less than the benefit that would be provided if the participant were in the 1999 Retention Plan, as described in the next subsection.

Material Terms and Conditions: 1999 Retention Plan

- The benefits provided under the Retention Plan to Mrs. Rometty, Mr. Loughridge, Mr. Daniels and Mr. MacDonald are determined under the Retention Plan formula in effect on and after the July 1, 1999 amendment (1999 Retention Plan).

- Benefits are available under the 1999 Retention Plan if a participant holds an executive-level position immediately prior to termination or death, has final average pay in excess of $405,400 on both January 1, 2007 and immediately prior to termination or death, and either:

  - Terminates employment for any reason other than cause or dies, in each case after attaining age 60 and completing at least five years of service; or

  - Terminates employment for any reason other than cause or dies, in each case after attaining age 55 and completing at least 15 years of service and either becomes disabled (as determined under the Company’s long-term disability plan), or if approved by the Board in the case of the two highest paid officers (and if approved by the Compensation Committee and the chairman and chief executive officer in the case of any other officer of IBM).

- Final average pay has the same meaning as it does under the Pension Credit Formula of the IBM Personal Pension Plan.

- The benefit provided under the 1999 Retention Plan is payable only as an annuity beginning on the first day of the month following termination of employment (subject to a six-month delay for “specified employees” as required under Section 409A of the Internal Revenue Code).

- If the participant terminates employment after attaining age 60 and completing at least five years of service, the 1999 Retention Plan benefit expressed as an annual single life annuity is equal to:

(1)		(2)		(3)
1% times final average pay up to (and including) $405,400 times years of service up to (and including) 35 years	+	2.5% times final average pay in excess of $405,400 times years of service up to (and including) 35 years	–	The annual single life annuity that would be provided under the IBM Personal Pension Plan beginning on the benefit commencement date

- In no event will the sum of the amounts in (1) and (2) exceed 65% times final average pay times a fraction (no greater than 1), the numerator of which is the participant's years of service and the denominator of which is 35.

- A participant who terminates employment after attaining age 55, but prior to attaining age 60, who completes at least 15 years of service, and who receives Compensation Committee and chairman and chief executive officer approval (or Board approval in the case of the two highest paid officers) as described above, will receive a reduced single life annuity. The reduced single life annuity will be determined by reducing the sum of the amounts specified in (1) and (2) by 0.5% for each month that the benefit commencement date precedes age 60.

- As previously disclosed by the Company, Mr. Daniels will retire on March 31, 2013. At such time, Mr. Daniels will be eligible to receive a reduced Retention Plan benefit because pursuant to the terms of the Retention Plan (i) he will be at least age 55 with at least 15 years of service, and (ii) the Compensation Committee and the Chairman and Chief Executive Officer have approved payment of a Retention Plan Benefit to him.

Compensation Elements Included in Calculations

The definitions of eligible final average pay and eligible compensation for purposes of the Retention Plan have the same meanings as under the Pension Credit Formula in the IBM Personal Pension Plan.

Funding

- The Retention Plan is unfunded and maintained as a book reserve (notional) account.

- No funds are set aside in a trust or otherwise; participants in the Retention Plan are general unsecured creditors of the Company regarding the payment of their Retention Plan benefits.

Policy Regarding Extra Years of Credited Service

- Generally, a participant's years of credited service are based on the years an employee participates in the Retention Plan.

- Accrual of future benefits under the Retention Plan stopped on December 31, 2007. Accordingly, a participant's Retention Plan benefit does not consider pay earned and service credited after December 31, 2007.

Available Forms of Payment

- A participant's benefit is only payable in the form of an annuity with monthly benefit payments. Lump sum payments are not available under the Retention Plan.

- A participant may elect to receive his or her benefit in the form of a single life annuity or in certain other actuarially equivalent forms of payment.

Annual Retention Plan Benefit

The annual Retention Plan benefit that was earned as of December 31, 2007 and that is payable as a single life annuity beginning at the earliest unreduced retirement age (as defined in the next subsection), for each of the named executive officers is detailed in the table below.

Name	Annual Retention Plan Benefit at Earliest Unreduced Retirement Age
V.M. Rometty	$ 102,392
M. Loughridge	255,994
S.A. Mills	288,676
M.E. Daniels	192,387
J.R. MacDonald	156,238

Note: Mr. Palmisano retired December 1, 2012, and his Retention Plan benefit information is included in the 2012 Retention Plan Table.

Present Value of Accumulated Benefit

- The present value of accumulated benefit shown in the 2012 Retention Plan Table is the value as of December 31, 2012 of the annual Retention Plan benefit that was earned as of December 31, 2007.
- The annual Retention Plan benefit, which is reflected in the table in the previous subsection titled Annual Retention Plan Benefit, is the benefit that is payable for the named executive officer's life beginning on his or her earliest unreduced retirement age.
- The earliest unreduced retirement age is the earliest age a named executive officer may start receiving the Retention Plan benefit without a reduction for early commencement. As of December 31, 2012, Mr. Palmisano, Mr. Mills and Mr. MacDonald have reached the earliest unreduced retirement age. Because Mrs. Rometty, Mr. Loughridge and Mr. Daniels did not attain age 60 by December 31, 2012, the earliest unreduced retirement age is the named executive officer's age on the first day of the month that coincides with or next follows the attainment of age 60.
- Certain assumptions were used to determine the present value of the annual accumulated Retention Plan benefit that is payable beginning at the earliest unreduced retirement age. Those assumptions are described immediately following the 2012 Retention Plan Table.

2012 Retention Plan Table

Name (a)	Plan Name (b)	Number of Years Credited Service[1] (#) (c)	Present Value of Accumulated Benefit[2] ($) (d)	Payments During Last Fiscal Year ($) (e)
V.M. Rometty	Retention Plan	26	$ 1,425,116	$ 0
M. Loughridge	Retention Plan	30	3,951,343	0
S.J. Palmisano	Retention Plan	35	23,415,290	0[3]
S.A. Mills	Retention Plan	34	4,467,520	0
M.E. Daniels	Retention Plan	32	2,900,352	0
J.R. MacDonald	Retention Plan	8	2,237,256	0

(1) Reflects years of credited service as of December 31, 2007, which was the date accruals under the Retention Plan stopped. Mr. Palmisano has an additional four years and eleven months of service with IBM after that date. Each of the other named

executive officers has five additional years of service with IBM after that date.

(2) While the accruals under the Retention Plan stopped on December 31, 2007, the value of the Retention Plan benefit will continue to change based on the ages of the named executive officers, the assumptions used to calculate the present value of the accumulated benefit, and the benefit that would be provided under the IBM Personal Pension Plan.

(3) Although Mr. Palmisano retired December 1, 2012, no payments of his Retention Plan benefit were made in 2012. Under Section 409A of the Internal Revenue Code, Mr. Palmisano is a "specified employee," and therefore payment of his Retention Plan benefit must be delayed for six months from the date of his retirement. Accordingly, payments of Mr. Palmisano's Retention Plan benefit will begin in June 2013.

Assumptions to determine present value for Mr. Palmisano:

- Interest rate for present value: 3.6%
- Mortality table: RP 2000 Combined Healthy Mortality, sex distinct with 38 year improvement using scale AA
- Annual benefits shown are actual benefits based on a retirement date of November 30, 2012 and a benefit commencement date of December 1, 2012. Present value of benefits is measured as of December 31, 2012 based on his actual benefits payable as a single life annuity as of December 1, 2012.

Assumptions to determine present value for each named executive officer other than Mr. Palmisano, as of December 31, 2012:

- Measurement date: December 31, 2012
- Interest rate for present value: 3.6%
- To determine Personal Pension Account benefit:
  - Interest crediting rate: 1.2% for 2013 and after
  - Interest rate to convert Personal Pension Account balance to single life annuity: 1.0367% for years 1-5, 3.6633% for years 6-20, and 4.59% for year 21 and after
  - Mortality table to convert Personal Pension Account balance to single life annuity is 2013 Personal Pension Account Optional Combined Unisex Table

- Mortality (pre-commencement): None
- Mortality (post-commencement): RP 2000 Combined Healthy Mortality, sex distinct with 38 year improvement using scale AA
- Termination of employment: Later of age 60 or current age
- Accumulated benefit is calculated based on credited service and final average pay as of December 31, 2007.
- Offset for benefit payable under the IBM Personal Pension Plan is determined based on the single life annuity that would be payable under the plan beginning on the first day of the month following the assumed termination of employment.
- Present value is based on the single life annuity payable beginning on the first day of the month following the assumed termination of employment. The six-month delay under the Retention Plan for "specified employees" as required under Section 409A of the Internal Revenue Code was disregarded for this purpose.
- All results shown are estimates only; actual benefits will be based on precise credited service and compensation history, which will be determined at termination of employment.

Assumptions to determine present value as of December 31, 2011:

- The column titled Change in Retention Plan Value in the 2012 Summary Compensation Table quantifies the change in the present value of the Retention Plan benefit from December 31, 2011 to December 31, 2012.
- To determine the present value of the Retention Plan benefit as of December 31, 2011, the same assumptions that are described above to determine present value as of December 31, 2012 were used, except (1) a 4.2% interest rate and the RP 2000 Combined Healthy Mortality, sex distinct with 36 year improvement using scale AA, and (2) to determine the Personal Pension Account benefit, the following were used:

- Interest crediting rate: 1.1%
- Interest rate to convert Personal Pension Account balance to annual single life annuity: 1.9733% for years 1-5, 4.5567% for years 6-20, and 5.7733% for year 21 and after

2012 Pension Benefits Narrative

The 2012 Pension Benefits Table shows each named executive officer's number of years of credited service, present value of accumulated benefit and payments during the last fiscal year under the IBM Personal Pension Plan. The IBM Personal Pension Plan consists of a tax-qualified plan and a non-tax qualified plan. Effective January 1, 2008, the non-tax qualified plan was renamed the IBM Excess Personal Pension Plan and is referred to herein as the Nonqualified Plan, and the tax-qualified plan is referred to as the Qualified Plan. The combined plan is referred to herein as the IBM Personal Pension Plan.

Qualified Plan and Nonqualified Plan Descriptions—General
Plan Description

- Effective July 1, 1999, IBM amended the IBM Personal Pension Plan to provide a new benefit formula, but allowed participants who met certain age and service conditions as of June 30, 1999, to elect to continue to earn benefits under the prior formulas, including the Pension Credit Formula.
- Effective January 1, 2005, the IBM Personal Pension Plan was closed to new participants.
- Accrual of future benefits under the IBM Personal Pension Plan stopped on December 31, 2007. Accordingly, a participant's pension benefit does not consider pay earned and service credited after December 31, 2007.
- The Qualified Plan provides funded, tax-qualified benefits up to the limits on compensation and benefits under the Internal Revenue Code.
- The Nonqualified Plan provides unfunded, nonqualified benefits in excess of the limits on compensation.

IBM Personal Pension Plan (Qualified Plan)
Purpose of the Qualified Plan

- The Qualified Plan was designed to provide tax-qualified pension benefits that are generally available to all U.S. regular employees.

- Effective January 1, 2008, all eligible employees, including the named executive officers, became eligible for Company contributions under a new defined contribution plan, the IBM 401(k) Plus Plan, on eligible pay up to the compensation limits of the Internal Revenue Code. Under the plan, participants are eligible for Company contributions up to 10% of eligible pay, depending on their pension plan formula participation as of December 31, 2007 and the amount they contribute to the plan. In 2012, Mrs. Rometty, Mr. Loughridge, Mr. Palmisano, Mr. Mills and Mr. Daniels, received Company contributions equal to 10% of total eligible pay. Mr. MacDonald received Company contributions equal to 8% of total eligible pay.

- The cessation of accruals under the IBM Personal Pension Plan and the replacement of Qualified Plan accruals with contributions under the new tax-qualified defined contribution plan reflect the Company's desire to provide appropriate benefits for its employees, consistent with the changing needs of IBM's workforce and the changing nature of retirement benefits provided by the Company's current competition.

Material Terms and Conditions: Pension Credit Formula under the Qualified Plan

- The benefits under the Qualified Plan for Mrs. Rometty, Mr. Loughridge, Mr. Palmisano, Mr. Mills and Mr. Daniels are determined under the Pension Credit Formula. Each of these named executive officers satisfied the eligibility requirements for the Pension Credit Formula in 1999.

- The Pension Credit Formula is a pension equity formula that provides annual benefits based on a participant's total point value divided by an annuity conversion factor.

- The total point value is equal to total base points times final average pay plus total excess points times final average pay in excess of Social Security Covered Compensation.

- For purposes of the Pension Credit Formula, final average pay is equal to average compensation over the final five years of employment or the highest consecutive five calendar years of compensation, whichever is greater, prior to 2008.

- The annuity conversion factor is determined according to a table set forth in the IBM Personal Pension Plan document.

- Prior to 2008, participants earned points as follows: 0.16 base points each year until a 4.25 base point cap was reached, and 0.03 excess points each year until a 0.75 excess point cap was reached.

- The total point value is converted to an annuity at the benefit commencement date based on pre-determined annuity conversion factors.

- A participant may receive his or her benefit immediately following termination of employment, or may defer benefit payments until any time between early retirement age and normal retirement age.

- Early retirement age is defined as:

  - Any age with 30 years of service;

  - Age 55 with 15 years of service; or

  - Age 62 with five years of service.

- As of December 31, 2012 (and for Mr. Palmisano, as of the date of his retirement), the named executive officers noted above had attained early retirement age.

- Under the Pension Credit Formula, a participant who terminates employment and whose pension benefit commences before his or her normal retirement age will receive smaller monthly annuity payments than if his or her benefit commences at normal retirement age.

- Instead of receiving his or her entire benefit under the Pension Credit Formula as an annuity, a participant may elect to receive a portion of the benefit as an unsubsidized lump sum. The amount that may be paid as a lump sum is based on the benefit the participant earned before January 1, 2000.

Material Terms and Conditions: Personal Pension Account Formula under the Qualified Plan

- Mr. MacDonald's benefit under the Qualified Plan is determined under the Personal Pension Account formula which is a cash balance formula.

- According to the terms of the Qualified Plan, under the Personal Pension Account formula prior to 2008, Mr. MacDonald receives pay credits and interest credits to his Personal Pension Account. The pay credits for a year were equal to 5% of his eligible compensation for that year. The interest credits are based on the annual interest rate on one-year Treasury Constant Maturities plus 1%. Further, Mr. MacDonald may receive his benefit under the Personal Pension Account formula at any time following his termination of employment, but may not defer his benefit later than normal retirement age. If his benefit begins to be paid before normal retirement age, it will be reduced when compared to the benefit that would commence at normal retirement age. He may receive his benefit in the following forms: a lump sum equal to his Personal Pension Account, an annuity that is actuarially equivalent to his Personal Pension Account, or both a partial lump sum and a reduced annuity.

Compensation Elements Included in Calculations

- Prior to 2008, eligible compensation was generally equal to the total amount that is included in income including:
  - Salary;
  - Recurring payments under any form of variable compensation plan (excluding stock options and other equity awards); and
  - Amounts deducted from salary and variable compensation under IBM's Internal Revenue Code Section 125 plan (cafeteria plan), and amounts deferred under IBM's 401(k) Plus Plan and Excess 401(k) Plus Plan.
- Equity compensation—stock options, RSUs, RRSUs and PSUs
  - was excluded from eligible compensation.
- Compensation for a year was limited to the compensation limit under the Internal Revenue Code. For 2007, the last year that benefits accrued under the Qualified Plan the compensation limit was $225,000. In addition, benefits provided under the Qualified Plan may not exceed an annual benefit limit under the Internal Revenue Code (which in 2012 was $200,000 payable as an annual single life annuity beginning at normal retirement age).

Qualified Plan Funding

- Benefits under the Qualified Plan are funded by an irrevocable tax-exempt trust.
- A participant's benefits under the Qualified Plan are payable from the assets held by the tax-exempt trust.

Policy Regarding Extra Years of Credited Service

- Generally, a participant's years of credited service are based on the years an employee participates in the Plan.
- The years of credited service for the named executive officers are based only on their service while eligible for participation in the Plan. Because accruals under the Qualified Plan stopped on December 31, 2007, service performed after such date is not counted.

IBM Excess Personal Pension Plan
(Nonqualified Plan)
Purpose of the Nonqualified Plan

- The Nonqualified Plan provides Qualified Plan participants with benefits that may not be provided under the Qualified Plan because of the tax limits on eligible compensation.
- The benefit provided to a participant is payable only as an annuity beginning on the first day of the month following a separation from service from IBM (subject to the six-month delay for "specified employees" as required under Section 409A of the Code).

Material Terms and Conditions of the Nonqualified Plan

The Nonqualified Plan provides a benefit that is equal to the benefit that would be provided under the Qualified Plan if the compensation and benefit limits did not apply minus the benefit actually provided under the Qualified Plan disregarding the benefit limits.

Nonqualified Plan Funding

- The Nonqualified Plan is unfunded and maintained as a book reserve (notional) account.
- No funds are set aside in a trust or otherwise; participants in the Nonqualified Plan are general unsecured creditors of the Company with respect to the payment of their Nonqualified Plan benefits.

Policy Regarding Extra Years of Credited Service

- Like the Qualified Plan, generally a participant's years of credited service are based on the years an employee participates in the Plan.
- The years of credited service for the named executive officers are based only on their service while eligible for participation in the Plan. Because accruals under the Nonqualified Plan stopped on December 31, 2007, service performed after such date is not counted.

Available Forms of Payment

- A portion of the benefit that is available to each of the named executive officers, other than Mr. MacDonald, under the Qualified Plan may be paid as a lump sum. The portion is determined on the benefit that was earned before January 1, 2000.
- According to the terms of the Qualified Plan Personal Pension Account formula, Mr. MacDonald's entire benefit may be paid as a lump sum. Further, he has elected to receive his Nonqualified Plan benefit in a lump sum immediately following separation from employment.
- The maximum lump sum amount that the named executive officers, other than Mr. Palmisano, could have elected to receive as of January 1, 2013 if they had a separation from service from IBM on December 31, 2012 was equal to:

	Maximum Lump Sum		
Name	**Qualified Plan**	**Nonqualified Plan**	**Total Available Lump Sum**
V.M. Rometty	$ 361,779	$ 0	$ 361,779
M. Loughridge	494,240	0	494,240
S.A. Mills	865,695	0	865,695
M.E. Daniels	537,985	0	537,985
J.R. MacDonald	93,343	382,005	475,348

Note: Mr. Palmisano retired December 1, 2012, and his retirement benefit information is included in the 2012 Pension Benefits Table.

- A participant may elect to receive his or her entire benefit, or the portion of the benefit that is not paid as a lump sum, in the form of a single life annuity or in certain other actuarially equivalent forms of payment.

Annual Pension Benefits

The annual pension benefit that was earned as of December 31, 2007, and that is payable as a single life annuity beginning at normal retirement age for each of the named executive officers, other than Mr. Palmisano is below. Because Mr. MacDonald elected a lump sum payment for his Nonqualified Plan benefits, no amount is represented in the Nonqualified Plan column below:

	Annual Pension Benefit at Normal Retirement Age		
	Qualified	**Nonqualified**	**Total**

Name	Plan	Plan	Benefit
V.M. Rometty	$ 81,390	$ 342,761	$ 424,151
M. Loughridge	85,717	613,407	699,124
S.A. Mills	92,479	594,573	687,052
M.E. Daniels	88,036	416,355	504,391
J.R. MacDonald	6,904	N/A	6,904

Note: Mr. Palmisano retired December 1, 2012, and his retirement benefit information is included in the 2012 Pension Benefits Table.

Present Value of Accumulated Benefit

- The present value of accumulated benefit is the value as of December 31, 2012 of the annual pension benefit that was earned as of December 31, 2007.
- The annual pension benefit is the benefit that is payable for the named executive officer's life beginning at his or her normal retirement age.
- The normal retirement age is defined as the later of age 65 or the completion of one year of service.
- Certain assumptions were used to determine the present value of accumulated benefits. Those assumptions are described immediately following the 2012 Pension Benefits Table.

2012 Pension Benefits Table

As noted in the Introduction and Purpose to the 2012 Retention Plan Narrative, the 2012 Pension Benefits Table does not include amounts reflected in the 2012 Retention Plan Table.

Name (a)	Plan Name (b)	Number of Years Credited Service[1] (#) (c)	Present Value of Accumulated Benefit[2] ($) (d)	Payments During Last Fiscal Year ($) (e)
V.M. Rometty	Qualified Plan	26	$ 842,120	$ 0
	Nonqualified Plan		3,546,437	0
	Total Benefit		**$ 4,388,557**	**$ 0**
M. Loughridge	Qualified Plan	30	$ 971,696	$ 0
	Nonqualified Plan		6,953,640	0
	Total Benefit		**$ 7,925,336**	**$ 0**
S.J. Palmisano	Qualified Plan	35	$ 1,427,052	$ 0[3]
	Nonqualified Plan		47,474,783	0[4]
	Total Benefit		**$ 48,901,835**	**$ 0**
S.A. Mills	Qualified Plan	34	$ 1,138,532	$ 0
	Nonqualified Plan		7,319,938	0
	Total Benefit		**$ 8,458,470**	**$ 0**
M.E. Daniels	Qualified Plan	32	$ 974,723	$ 0
	Nonqualified Plan		4,609,851	0
	Total Benefit		**$ 5,584,574**	**$ 0**
J.R. MacDonald	Qualified Plan	8	$ 91,717	$ 0
	Nonqualified Plan		375,350	0
	Total Benefit		**$ 467,067**	**$ 0**

(1) Reflects years of credited service as of December 31, 2007, which was the date accruals under the Qualified Plan and the Nonqualified Plan stopped. Mr. Palmisano has an additional four years and eleven months of service with IBM after that date. Each of the other named executive officers has five additional years of service with IBM after that date.

(2) While the accruals under the Qualified Plan and the Nonqualified Plan stopped on December 31, 2007, the value of the Qualified Plan and Nonqualified Plan benefits for the named executive officers, other than Mr. Palmisano, will continue to change based on their ages and the assumptions used to calculate the present value of the accumulated benefit. The benefit reflected in the table for Mr. Palmisano is the present value of his actual benefits as of December 31, 2012 calculated based on the assumptions below.

(3) In accordance with the terms of the plan, Mr. Palmisano made his election to commence benefits under the Qualified Plan in January 2013. Accordingly, no payment of his Qualified Plan benefit was made in 2012.

(4) Although Mr. Palmisano retired December 1, 2012, no payments of his Nonqualified Plan benefit were made in 2012. Under Section 409A of the Internal Revenue Code Mr. Palmisano is a “specified employee,” and therefore payment of his Nonqualified Plan benefit must be delayed for six months from his retirement. Accordingly, payments of Mr. Palmisano’s Nonqualified Plan benefit will start in June 2013.

Assumptions to determine present value for Mr. Palmisano:

- Interest rate for present value: 3.6%
- Mortality table: RP 2000 Combined Healthy Mortality, sex distinct with 38 year improvement using scale AA
- Annual benefits shown are actual benefits based on a retirement date of November 30, 2012 and a benefit commencement date of December 1, 2012. Present value of benefits is measured as of December 31, 2012 based on his actual benefits payable as a single life annuity as of December 1, 2012. In addition to those outlined above, change in pension value from December 31, 2011 to December 31, 2012 also includes a change in retirement age for the Qualified Plan and the Nonqualified Plan (from age 65 to age 61.3).

Assumptions to determine present value as of December 31, 2012 (other than Mr. Palmisano):

- Measurement date: December 31, 2012
- Interest rate for present value: 3.6%
- To determine Personal Pension Account benefit:
    - Interest crediting rate: 1.2% for 2013 and after
    - Interest rate to convert Personal Pension Account balance to single life annuity: 1.0367% for years 1-5, 3.6633% for years 6-20, and 4.59% for year 21 and after
    - Mortality table to convert Personal Pension Account balance to single life annuity is 2013 Personal Pension Account Optional Combined Unisex Table
- Mortality (pre-commencement): None
- Mortality (post-commencement): RP 2000 Combined Healthy Mortality, sex distinct with 38 year improvement using scale AA

- Separation from service from IBM: Later of age 65 or current age
- Accumulated benefit is calculated based on credited service and compensation history as of December 31, 2007.
- Benefit payable as a single life annuity in the case of the Pension Credit Formula and lump sum in the case of the Personal Pension Account Formula beginning on the first day of the month following a separation from service from IBM. The six-month delay under the Nonqualified Plan for "specified employees" as required under Section 409A of the Internal Revenue Code was disregarded for this purpose.
- The Pension Credit Formula conversion factor is based on age at December 31, 2007 and commencement at age 65.
- Other than for Mr. Palmisano, all results shown are estimates only; actual benefits will be based on precise credited service and compensation history, which will be determined at separation from service from IBM.

Assumptions to determine present value as of December 31, 2011:

- The column titled Change in Pension Value in the 2012 Summary Compensation Table quantifies the change in the present value of the pension benefit from December 31, 2011 to December 31, 2012.
- To determine the present value of the pension benefit as of December 31, 2011, the same assumptions that are described above to determine the present value as of December 31, 2012 were used, except a (1) 4.2% interest rate and the RP 2000 Combined Healthy Mortality, sex distinct with 36 year improvement using scale AA, and (2) to determine the Personal Pension Account benefit, the following were used:
  - Interest crediting rate: 1.1%
  - Interest rate to convert Personal Pension Account balance to single life annuity: 1.9733% for years 1-5, 4.5567% for years 6-20, and 5.7733% for year 21 and after.

2012 Nonqualified Deferred Compensation Narrative

IBM Excess 401(k) Plus Plan
General Description

- Effective January 1, 2008, the IBM Executive Deferred Compensation Plan (EDCP) was amended and renamed the IBM Excess 401(k) Plus Plan. IBM employees, including the named executive officers, who are eligible to participate in the IBM 401(k) Plus Plan and whose eligible pay is expected to exceed the Internal Revenue Code compensation limit for the applicable plan year are eligible to participate in the Excess 401(k) Plus Plan. The purpose of the Excess 401(k) Plus Plan is to provide benefits that would be provided under the qualified IBM 401(k) Plus Plan if the compensation limits did not apply. The Excess 401(k) Plus Plan provides employees with the opportunity to save for retirement on a tax-deferred basis.
- The 2012 Nonqualified Deferred Compensation Table shows the employee deferrals (executive contributions), Company match (registrant contributions), automatic contributions (registrant contributions) and investment gain or loss (aggregate earnings) for each named executive officer during 2012.
- The table also shows the total balance that each named executive officer, other than Mr. Palmisano, has accumulated over all the years he or she has participated in the plan. For Mr. Palmisano the table shows his aggregate distributions during 2012 and his total remaining balance, which together represent the benefit he has accumulated over all the years he participated in the plan.
- Account balances in the Excess 401(k) Plus Plan are comprised of cash amounts that were deferred by the participant or contributed by the Company (Basic Account), and all deferred shares, comprised of shares that were deferred by the participant (Deferred IBM Shares). Generally, amounts deferred and vested prior to January 1, 2005 are not subject to Code Section 409A, while amounts deferred and vested on and after January 1, 2005 are subject to Code Section 409A.

- The Excess 401(k) Plus Plan balance is not paid to, and cannot be accessed by, the participants until after a separation from service from IBM.
- The Excess 401(k) Plus Plan allows the clawback of Company matching and automatic contributions made to a participant's account after March 31, 2010, if a participant engages in activity that is detrimental to the Company.

Purpose of the Excess 401(k) Plus Plan

- U.S. tax laws limit the amount of pay that employees can defer for retirement into qualified 401(k) plans.
- IBM established the nonqualified plan to give participants the ability to save for retirement with additional tax-deferred funds, as permitted under the current Department of Labor and Internal Revenue Service regulations and other guidance.

Compensation Eligible for Deferral under Excess 401(k) Plus Plan

- An eligible employee may elect to defer between 1% and 80% of salary and between 1% and 80% of eligible performance pay, including annual incentive program payments.
- In both cases, the Internal Revenue Code requires the deferral elections to be made before the calendar year in which the compensation is earned.

Deferred IBM Shares

- Prior to January 1, 2008, under the EDCP, an executive could have elected to defer receipt of shares of IBM stock that otherwise would be paid as a result of the vesting of certain restricted stock unit awards granted on or before December 31, 2007 under the Company's Long-Term Performance Plan (LTPP).
- In addition, an executive could have also elected to defer receipt of shares of IBM stock that otherwise would be paid on or before February 1, 2008 as a result of the vesting of Performance Share Unit (PSU) awards under the Company's LTPP.
- Deferral elections must have been made in advance of the vesting of the eligible awards and in accordance with IRS rules.
- Effective January 1, 2008, deferrals of receipt of IBM stock are no longer allowed under the Excess 401(k) Plus Plan. Executives who made elections prior to January 1, 2008 to defer receipt of IBM stock granted on or before December 31, 2007 were able to defer the receipt of such stock into the Excess 401(k) Plus Plan when the awards vest.
- None of the named executive officers made a previous election that resulted in deferral of stock in 2012.
- Dividend equivalents on Deferred IBM Shares are paid in cash at the same rate and on the same date as the dividends paid to IBM stockholders.

Excess 401(k) Plus Plan Funding

- The Excess 401(k) Plus Plan is unfunded and maintained as a book reserve (notional) account.
- No funds are set aside in a trust or otherwise; participants in the plan are general unsecured creditors of the Company for payment of their Excess 401(k) Plus Plan accounts.

Company Match on Participant Contributions

- The Company credits matching contributions to the Basic Account of each eligible participant who defers salary or performance pay (including annual incentive program payments) under the Excess 401(k) Plus Plan.

- The matching contributions equal the percentage of the sum of (i) the amount the participant elects to defer under the Excess 401(k) Plus Plan, and (ii) the participant's eligible compensation after reaching the Internal Revenue Code compensation limits. The maximum matching contribution percentage for a participant is the participant's maximum matching contribution percentage under the IBM 401(k) Plus Plan. Participants hired before January 1, 2005, which includes all the named executive officers, are eligible for up to 6% matching contributions; participants hired on or after January 1, 2005 are eligible for up to 5% matching contributions. For purposes of calculating the matching contributions under the IBM 401(k) Plus Plan, the participant's eligible compensation excludes the amounts the participant elects to defer under the Excess 401(k) Plus Plan.

- Effective January 1, 2013, matching contributions will be made once annually at the end of the year. In order to receive such matching contributions each year, a participant must be employed on December 15 of the plan year. However, if a participant separates from service (including going on long-term disability) prior to December 15, and the participant has:

    - At least 30 years of service;
    - At least age 55 with 15 years of service;
    - At least age 62 with 5 years of service; or
    - At least age 65 with 1 year of service;

    then the participant will be eligible to receive such matching contributions as soon as practicable following separation from service. If a participant dies prior to December 15 of a plan year he will not be treated as having "retired" even if he or she was eligible to retire at the time of death.

- The Company does not provide any matching contributions for Deferred IBM Shares.

Company Automatic Contributions

- Effective January 1, 2008, the Company credits automatic contributions to the Basic Account of each eligible participant.

- The automatic contributions equal a percentage of the sum of (i) the amount the participant elects to defer under the Excess 401(k) Plus Plan, and (ii) the participant's eligible compensation after reaching the Internal Revenue Code compensation limits. The automatic contribution percentage for a participant is the participant's automatic contribution percentage under the IBM 401(k) Plus Plan. The percentage is 2% or 4% if the participant was hired before January 1, 2005 (depending on the participant's pension plan eligibility on December 31, 2007), or 1% if the participant was hired on or after January 1, 2005. For purposes of calculating the automatic contributions under the IBM 401(k) Plus Plan, the participant's eligible compensation excludes the amount the participant elects to defer under the Excess 401(k) Plus Plan. The automatic contribution percentage is 4% for Mrs. Rometty, Mr. Loughridge, Mr. Palmisano, Mr. Mills and Mr. Daniels; and is 2% for Mr. MacDonald.

- Effective January 1, 2013, automatic contributions will be made once annually at the end of the year. In order to receive such automatic contributions each year, a participant must be employed on December 15 of the plan year. However, if a participant separates from service (including going on long-term disability) prior to December 15, and the participant has:

    - At least 30 years of service;
    - At least age 55 with 15 years of service;
    - At least age 62 with 5 years of service; or

- At least age 65 with 1 year of service;

then the participant will be eligible to receive such automatic contributions as soon as practicable following separation from service. If a participant dies prior to December 15 of a plan year he will not be treated as having “retired” even if he or she was eligible to retire at the time of death.

Company Transition Credits

- Effective for the period of January 1, 2008 through June 30, 2009, the Company credited transition credits to an eligible participant’s Basic Account for those employees who were receiving transition credits in their Personal Pension Account under the Qualified Plan as of December 31, 2007. According to the terms of the IBM 401(k) Plus Plan, Mr. MacDonald was eligible to receive transition credits.

Earnings Measures

- A participant’s contributions to the Basic Account are adjusted for earnings and losses based on investment choices selected by the participant.

- As previously mentioned, IBM does not pay guaranteed, above market or preferential earnings on deferred compensation.

- The available investment choices are the same as the primary investment choices available under the IBM 401(k) Plus Plan, which are as follows (with 2012 annual rates of return indicated for each):

  - Target Date 2005 Fund (10.11%)
  - Target Date 2010 Fund (11.29%)
  - Target Date 2015 Fund (12.33%)
  - Target Date 2020 Fund (13.44%)
  - Target Date 2025 Fund (14.54%)
  - Target Date 2030 Fund (15.27%)
  - Target Date 2035 Fund (15.46%)
  - Target Date 2040 Fund (15.46%)
  - Target Date 2045 Fund (15.46%)
  - Target Date 2050 Fund (15.46%)
  - Income Plus Life Strategy Fund (8.66%)
  - Conservative Life Strategy Fund (11.11%)
  - Moderate Life Strategy Fund (12.69%)
  - Aggressive Life Strategy Fund (15.46%)
  - Interest Income Fund (3.35%)
  - Inflation Protected Bond Fund (6.84%)

- Total Bond Market Fund (4.11%)
- Total Stock Market Index Fund (16.4%)
- Total International Stock Market Index Fund (18.42%)
- Real Estate Investment Trust Index Fund (17.59%)
- International Real Estate Index Fund (31.32%)
- Long-Term Corporate Bond Fund (12.68%)
- High Yield & Emerging Markets Bond Fund (13.52%)
- Large Company Index Fund (16.00%)
- Large-Cap Value Index Fund (17.51%)
- Large-Cap Growth Index Fund (15.24%)
- Small/Mid-Cap Stock Index Fund (18.19%)
- Small-Cap Value Index Fund (18.15%)
- Small-Cap Growth Index Fund (14.85%)
- European Stock Index Fund (21.24%)
- Pacific Stock Index Fund (15.81%)
- Emerging Markets Stock Index Fund (1.32%)*
- IBM Stock Fund (5.88% including dividend equivalent reinvestment)

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* Performance for the Emerging Markets Stock Index Fund is since the fund's inception date of March 1, 2012

- A participant may change the investment selections for new payroll deferrals as frequently as each semi-monthly pay cycle.
- Investment selections for existing account balances may be changed daily, subject to excessive trading restrictions.
- Any changes (whether to new deferrals or existing balances) may be made through an Internet site or telephone call center maintained by the plan's third-party record keeper.
- Effective January 1, 2008, the Company match under the Excess 401(k) Plus Plan is notionally invested in the investment options in the same manner participant contributions are notionally invested.
- Because Deferred IBM Shares are credited, maintained and ultimately distributed only as shares of the Company's common stock, they may not be transferred to any other investment choice at any time.

- On a quarterly basis, dividend equivalents are credited to a participant's account with respect to all or a portion of such account that is deemed to be invested in the IBM Stock Fund at the same rate as dividends to IBM stockholders.

- Aggregate earnings on Deferred IBM Shares during the last fiscal year, as reported in column (d) of the 2012 Nonqualified Deferred Compensation Table, are calculated as the change in the price of the Company's common stock between December 31, 2011 and December 31, 2012 for all Deferred IBM Shares that were contributed prior to 2012.

Payouts, Withdrawals and Other Distributions

- No payouts, withdrawals or other distributions from the Basic Account are permitted prior to a separation from service from the Company.

- At termination, the balance in an executive's Basic Account that was deferred prior to January 1, 2005 is paid to the executive in an immediate lump sum unless: (a) the balance exceeds $25,000 and (b) the executive satisfies the following age and service criteria:

    - At least age 55 with 15 years of service;

    - At least age 62 with 5 years of service;

    - At least age 65 with 1 year of service;

    - Any age with at least 30 years of service, provided that, as of June 30, 1999, the executive had at least 25 years of service or was at least age 40 with 10 years of service; or

    - Commencing benefits under the IBM Long-Term Disability Plan.

- As of December 31, 2012 (and for Mr. Palmisano, as of the date of his retirement), the named executive officers had satisfied the age and service criteria.

- If the participant has satisfied the age, service and account balance criteria at termination, but has not made a valid advance election of another form of distribution, the amount of the participant's Basic Account that was deferred prior to January 1, 2005 is paid in a lump sum in February of the year following separation.

- If the participant has satisfied the age, service and account balance criteria at termination and has made a valid advance election, the amount of the participant's Basic Account that was deferred prior to January 1, 2005 is paid as elected by the participant from among the following choices:

    1. Lump sum upon termination;
    2. Lump sum in February of the year following termination; or
    3. Annual installments (beginning February 1 of the year following termination) for a number of years (between two and ten) elected by the participant.

- The participant's Basic Account with respect to amounts deferred on or after January 1, 2005 may be distributed in the following forms as elected by the participant:

    1. Lump sum upon separation;
    2. Lump sum in February of the year following separation; or
    3. Annual installments (beginning February 1 of the year following separation) for a number of years (between two and ten) elected by the participant.

    However, if the participant has elected annual installments and the total balance of the participant's Basic Account upon a separation from service from IBM is less than 50% of the applicable Internal Revenue Code compensation limit (in 2012, 50% of this limit was $125,000), the amounts deferred on or after January 1, 2005 are distributed in a lump sum on the date installments would have otherwise begun.

- Distribution elections may be changed in advance of separation, in accordance with Internal Revenue Code rules.
- Distribution elections apply to both the Basic Account and the Deferred Shares Account. Further, within the Basic Account and the Deferred Shares Account, different distribution elections are permitted to be made for the amounts that were deferred before January 1, 2005 and the amounts that were deferred on or after January 1, 2005.
- At December 31, 2012, the named executive officers, other than Mr. Palmisano, had the following distribution elections on file:
  - Mrs. Rometty—10 annual installments for all amounts
  - Mr. Loughridge—immediate lump sum for all amounts
  - Mr. Mills—10 annual installments for all amounts
  - Mr. Daniels—10 annual installments for pre-2005 amounts, and immediate lump sum for all post-2004 amounts
  - Mr. MacDonald—immediate lump sum for all amounts
- As of the date of his retirement, Mr. Palmisano had the following distribution elections on file: immediate lump sum for pre-2005 amounts, and 5 annual installments for all post-2004 amounts.
- The balance in a participant's Basic Account continues to experience investment gains and losses until it has been completely distributed.
- Deferred IBM Shares are distributed only in the form of shares of the Company's common stock.
- These distribution rules are subject to Section 409A of the Internal Revenue Code, including, for example, the rule that a "specified employee" may not receive a distribution of post-2004 deferrals until at least six months following a separation from service from IBM. All named executive officers were "specified employees" under Section 409A at the end of the last fiscal year.

2012 Nonqualified Deferred Compensation Table

Name (a)	Plan	Executive Contributions in Last FY[1] ($) (b)	Registrant Contributions in Last FY[2] ($) (c)		Aggregate Earnings in Last FY[3] ($) (d)	Aggregate Withdrawals/ Distributions ($) (e)	Aggregate Balance at Last FYE[4] ($) (f)
V.M. Rometty	Basic Account	$ 399,000	Match	$ 163,200	$ 209,021	$ 0	$ 6,144,954
			Automatic	108,800			
	Deferred IBM Shares	0		0	214,024	0	5,345,011
	Total	**$ 399,000**		**$ 272,000**	**$ 423,045**	**$ 0**	**$ 11,489,965**
M. Loughridge	Basic Account	$ 113,088	Match	$ 113,088	$ 162,896	$ 0	$ 4,228,122
			Automatic	75,392			
	Deferred IBM Shares	0		0	290,501	0	7,254,956
	Total	**$ 113,088**		**$ 188,480**	**$ 453,397**	**$ 0**	**$ 11,483,078**
S.J. Palmisano	Basic Account	$ 475,250	Match	$ 474,000	$ 1,980,497	$ 16,445,752[5]	$ 16,059,958
			Automatic	316,000			

	Deferred IBM Shares	0		0	1,408,343	21,052,287[5]	19,956,637
	Total	**$ 475,250**		**$ 790,000**	**$ 3,388,840**	**$ 37,498,039**[5]	**$ 36,016,595**
S.A. Mills	Basic Account	$ 344,080	Match	$ 103,464	$ 559,618	$ 0	$ 10,289,523
			Automatic	68,976			
	Deferred IBM Shares	0		0	0	0	0
	Total	**$ 344,080**		**$ 172,440**	**$ 559,618**	**$ 0**	**$ 10,289,523**
M.E. Daniels	Basic Account	$ 116,808	Match	$ 116,808	$ 517,865	$ 0	$ 5,977,179
			Automatic	77,872			
	Deferred IBM Shares	0		0	0	0	0
	Total	**$ 116,808**		**$ 194,680**	**$ 517,865**	**$ 0**	**$ 5,977,179**
J.R. MacDonald	Basic Account	$ 71,928	Match	$ 71,928	$ 818,561	$ 0	$ 9,148,990
			Automatic	23,976			
	Deferred IBM Shares	0		0	12,886	0	321,804
	Total	**$ 71,928**		**$ 95,904**	**$ 831,447**	**$ 0**	**$ 9,470,794**

(1) A portion of the amount reported in this column (b) for each named executive officer's Basic Account is included within the amount reported as salary for that officer in column (c) of the 2012 Summary Compensation Table. These amounts are: $105,000 for Mrs. Rometty; $31,500 for Mr. Loughridge; $85,250 for Mr. Palmisano; $92,400 for Mr. Mills; $34,500 for Mr. Daniels and $19,920 for Mr. MacDonald.

(2) For each of the named executive officers, the entire amount reported in this column (c) is included within the amount reported in column (i) of the 2012 Summary Compensation Table. The amounts reported as Company contributions to defined contribution plans in footnote 8 to the 2012 Summary Compensation Table are larger because the amounts reported in that footnote also include the Company's contributions to the IBM 401(k) Plus Plan.

(3) None of the amounts reported in this column (d) are reported in column (h) of the 2012 Summary Compensation Table because the Company does not pay guaranteed, above-market or preferential earnings on deferred compensation.

(4) Amounts reported in this column (f) for each named executive officer include amounts previously reported in the Company's Summary Compensation Table in previous years when earned if that officer's compensation was required to be disclosed in a previous year. Amounts previously reported in such years include previously earned, but deferred, salary and incentive and Company matching and automatic contributions. This total reflects the cumulative value of each named executive officer's deferrals, match and automatic contributions and investment experience, including an $8 quarterly administrative fee.

(5) In accordance with Mr. Palmisano's distribution election, his pre-2005 amounts were paid in a lump sum. Although Mr. Palmisano retired December 1, 2012, no payments of his post-2004 Excess 401(k) Plus Plan were made in 2012. Under Section 409A of the Internal Revenue Code Mr. Palmisano is a "specified employee," and therefore payment of the first installment of his post-2004 Excess 401(k) Plus Plan benefit, which ordinarily would be paid in February 2013, must be delayed for six months from his retirement. Accordingly, the first annual installment of Mr. Palmisano's post-2004 Excess 401(k) Plus Plan benefit will be made in June 2013, and the remaining four installments will be made in accordance with the terms of the Excess 401(k) Plus Plan.

2012 Potential Payments Upon Termination Narrative

Introduction

IBM does not have any plans, programs, or agreements under which payments to any of the named executive officers are triggered by a change of control of the Company, a change in the named executive officer's responsibilities or a constructive termination of the named executive officer.

The only payments or benefits that would be provided by the Company to a named executive officer following a termination of employment would be provided under the terms of the Company's existing compensation and benefit programs (as described below). However, Mr. MacDonald will be eligible to elect retiree medical coverage on an annual basis as explained below. The 2012 Potential Payments Upon Termination Table that follows this narrative reports such payments and benefits for each named executive officer other than Mr. Palmisano, assuming termination on the last business day of the fiscal year end. Mr. Palmisano's actual arrangements based on his retirement are described separately below.

As explained below, certain of these payments and benefits are enhanced by or dependent upon the named executive officer's attainment of certain age and service criteria at termination. Additionally, certain payments or benefits are not available following a termination for cause and/or may be subject to forfeiture and clawback if the named executive officer engages in certain activity, also as described below.

This 2012 Potential Payments Upon Termination Narrative and the 2012 Potential Payments Upon Termination Table do not reflect payments that would be provided to each named executive officer under the IBM 401(k) Plus Plan or the IBM Individual Separation Allowance Plan following termination of employment on the last business day of the fiscal year end because these plans are generally available to all U.S. regular employees similarly situated in age, years of service and date of hire and do not discriminate in favor of executive officers.

Qualified Plan amounts and Nonqualified Plan amounts are not reflected in the 2012 Potential Payments Upon Termination Table. Previously, these amounts were available under one plan, the IBM Personal Pension Plan, which was generally available to all U.S. regular employees similarly situated in years of service and dates of hire and did not discriminate in favor of executive officers. For amounts payable under the Qualified and Nonqualified Plans, see the 2012 Pension Benefits Table. The 2012 Potential Payments Upon Termination Table also does not quantify the value of retiree medical and life insurance benefits, if any, that would be provided to each named executive officer following such termination of employment because these benefits are generally available to all U.S. regular employees similarly situated in age, years of service and date of hire and do not discriminate in favor of executive officers; however, the named executive officers' eligibility for such benefits is described below. The 2012 Potential Payments Upon Termination Table does not contain a total column because the Retention Plan payment is paid as an annuity, not a lump sum. Therefore, a total column would not provide any meaningful disclosure.

Annual Incentive Program (AIP)

- The AIP may provide a lump sum, cash payment in March of the year following resignation, retirement or involuntary termination without cause. An AIP payment may not be paid if an executive engages in activity that is detrimental to the Company.

- This payment is not triggered by termination; the existence and amount of any AIP payment is determined under the terms of the AIP applicable to all executives employed through December 31 of the previous year.

- AIP payments to executive officers are subject to clawback as described in Section 2 of the 2012 Compensation Discussion and Analysis.

- For purposes of the 2012 Potential Payments Upon Termination Table below, it is assumed that the AIP payment made to each named executive officer following termination of employment on the last business day of the fiscal year end would have been the same as the actual payment made in March 2013. Mr. Palmisano was not eligible for AIP in 2012.

IBM Long-Term Performance Plans (LTPP)

- The named executive officers have certain outstanding equity grants under the LTPP including:

  - Stock Options;

  - Retention Restricted Stock Units (RRSUs); and/or

  - Performance Share Units (PSUs).

- The LTPP and/or the named executive officers' equity award agreements contain the following terms:

  - Generally, unvested stock options, RSUs, RRSUs, and PSUs are cancelled upon termination; and
  - Vested stock options may be exercised only for 90 days following termination.

- Payment of these awards is not triggered by termination of employment (because the awards would become payable under the terms of the LTPP if the named executive officer continued employment), but if he or she resigns, retires or is involuntarily terminated without cause after attaining age 55 with at least 15 years of service (and for Mr. MacDonald, pursuant to his offer letter, with at least five years of service regardless of age), the following terms apply:
  - Vested stock options continue to be exercisable for the remainder of their ten-year term if approved by the Board, Compensation Committee or other appropriate management; and
  - The Company prorates a portion of unvested PSU awards to continue to vest under their original vesting schedules.
- If an executive dies, outstanding stock options, RSU awards and RRSU awards would vest immediately. In addition, in such case, outstanding PSU awards granted before June 8, 2011 would be prorated for the portion of the performance period completed and continue to vest under their original vesting schedules, and outstanding PSUs granted on or after June 8, 2011 would remain outstanding and continue to vest under their original vesting schedules.

- If an executive becomes disabled, outstanding stock options, RSU awards and RRSU awards would continue to vest under their original vesting schedules. In addition, in such case, outstanding PSU awards granted before June 8, 2011 would be prorated for the portion of the performance period completed and continue to vest under their original vesting schedules, and outstanding PSUs granted on or after June 8, 2011 would remain outstanding and continue to vest under their original vesting schedules.
- Beginning with PSU and RSU awards granted in 2009, in cases other than death or disability, certain executives may be eligible for continued vesting of these awards after separation.
  - To ensure that the interests of the members of the Performance Team are aligned with the Company's long-term interests as these leaders approach retirement, these executives, including the named executive officers, may be eligible to receive payouts of their full unvested PSU and RSU awards upon termination if the following criteria are met:
    - The executive is on the Performance Team at the time of departure;
    - For RSU awards, at least one year has passed since the award grant date; and for PSU awards, at least one year has passed in the performance period;
    - The executive has reached age 55 with 15 years of service (and for Mr. MacDonald, five years of service regardless of age, as noted above) at the time of departure; and
    - The payout has been approved by appropriate senior management, the Compensation Committee or the Board, in their discretion.
  - Both the Chairman and the CEO are also eligible for the payouts described upon termination, except such officer must have reached age 60 with 15 years of service, and the payout must be approved by the Board, in its discretion.
  - Payouts of PSU awards after termination as described above will be made in February after the end of the three-year performance period and only if the performance goals are met. Payouts of RSU awards after termination, as described above, will be made in accordance with the original vesting schedule.
- The 2012 Potential Payments Upon Termination Table assumes the following:
  - Amounts shown reflect the payout of the 2010 PSU awards calculated using the actual performance achieved for the 2010-2012 performance period and the 2012 fiscal year-end closing price of $191.55 for IBM common stock; and
  - Outstanding awards for the 2011 and 2012 PSU awards were not included because there is no guarantee of payment on these awards as they are subject to meeting threshold performance criteria.

- LTPP awards are subject to forfeiture and rescission if an executive is terminated for cause or engages in activity that is detrimental to the Company (including but not limited to competitive business activity, disclosure of confidential Company information and solicitation of Company clients or employees) prior to or within 12 months following payment. LTPP awards also contain a covenant that the recipient will not solicit Company clients or employees for a period of one year following termination of employment.
- In the 2012 Potential Payments Upon Termination Table, amounts in the Stock Options column were calculated assuming that each named executive officer chose to exercise all of his or her vested, in-the-money options at an IBM common stock price of $191.55 (the closing price of IBM stock at fiscal year end).

IBM Supplemental Executive Retention Plan (Retention Plan)

- Payments under the Retention Plan are triggered by resignation, retirement or involuntary termination without cause after attainment of eligibility criteria.
- Eligibility criteria are described in the 2012 Retention Plan Narrative.
- Retention Plan payments are paid as an annuity beginning on the first day of the month following termination of employment (subject to a six-month delay for “specified employees” as required under Section 409A of the Internal Revenue Code).
- At termination, the executive chooses either a single life annuity or an actuarially equivalent joint and survivor annuity.
- The 2012 Potential Payments Upon Termination Table reflects the annual amount payable as a single life annuity.
- This table does not reflect the following provisions that would apply in accordance with Section 409A of the Internal Revenue Code:
  - The payment would be delayed six months following termination; and
  - Amounts not paid during the delay would be paid (with interest) in July 2013.
- Retention Plan payments are subject to forfeiture and rescission if an executive is terminated for cause or engages in competitive business activity or discloses Company confidential information at any time prior to or following commencement of Retention Plan payments.

IBM Excess 401(k) Plus Plan

- As described in the 2012 Nonqualified Deferred Compensation Narrative, payment of the named executive officers’ Excess 401(k) Plus Plan accounts (Basic Accounts and any Deferred IBM Shares) is triggered by resignation, retirement or involuntary termination.
- Under the terms of the LTPP, Deferred IBM Shares are subject to rescission if the named executive officer participates in activity that is detrimental to the Company within 12 months following the release date.
- The Excess 401(k) Plus Plan allows the clawback of Company matching and automatic contributions made to a participant’s account after March 31, 2010 if a participant engages in activity that is detrimental to the Company.
- The 2012 Potential Payments Upon Termination Table indicates the estimated amount and the time and form of payment, determined by either the executive’s distribution election in effect (if any) or the plan’s default distribution provision.
- Estimated payments were calculated using the aggregate account balance as of the last business day of the fiscal year end, without assumptions for the following between such date and the distribution date(s):
  - Investment gains and losses on the Basic Account (including dividend equivalent reinvestment for the IBM Stock Fund); and
  - Fluctuations in the market price of IBM stock for Deferred IBM Shares.
- The tables do not reflect:
  - That payment of amounts deferred after December 31, 2004 (and the associated earnings) are required to be delayed

six months following termination under Section 409A of the Internal Revenue Code; or
- Any other restriction on such payments imposed by the requirements of Section 409A of the Internal Revenue Code.

Retiree Medical and Life Insurance General Description

Benefits under IBM's retiree medical and life insurance programs are triggered by a named executive officer's retirement, as described below. Eligibility for a particular program is dependent upon date of hire, age and years of service at termination. Future coverage remains subject to IBM's right to amend or terminate the plans at any time.

IBM Retiree Benefits Plan

- Medical, dental and vision insurance coverage, partially subsidized by the Company, is provided to former employees and their eligible dependents.
- This coverage is available to all U.S. regular employees who, as of June 30, 1999, were within five years of satisfying either of the following criteria (and who satisfy at least one of these):
    - 30 years of service with the Company; or
    - Age 55 with at least 15 years of service with the Company.
- Mr. Mills would have been eligible for this benefit following a separation from service on the last business day of the fiscal year end.

IBM Future Health Account (FHA)

- Amounts credited by the Company to a hypothetical account may be used to offset the cost of medical, dental and vision insurance coverage for former employees and their eligible dependents.
- Generally, all regular full-time or part-time U.S. IBM employees who meet the following criteria are eligible to use amounts from the account for these purposes:
    - Hired before January 1, 2004;
    - Not within 5 years of earliest retirement eligibility under the prior IBM Retirement Plan on June 30, 1999; and
    - At termination they have attained 30 years of service (regardless of age) and were eligible for an opening balance on July 1, 1999, or have attained at least age 55 with 15 years of service. An employee was eligible for an opening balance on July 1, 1999 if the employee was at least age 40 and completed at least one year of service on June 30, 1999.
- Mrs. Rometty, Mr. Loughridge and Mr. Daniels, would have been eligible for this benefit following a separation from service on the last business day of the fiscal year end. Mr. MacDonald would not have been eligible for this benefit, and any balance in his FHA would be forfeited.
- Pursuant to the terms of a letter agreement dated November 20, 2008, between the Company and Mr. MacDonald, if he is not eligible to withdraw his FHA benefit at separation he will be eligible to make an annual election for Access-Only coverage (the coverage for which he is currently eligible), and his eligible surviving spouse will be eligible for continued Access-Only coverage following his death. The Company does not subsidize Access-Only coverage, and the participant pays the full premium on an after-tax basis. Following his separation from service, he must pay a premium equal to the present value of this annual ability to elect Access-Only coverage. The value of this election right is equal to $13,055. Because he is a "specified employee," the premium, plus interest at the interest crediting rate under the plan, will be due on the first business day following the six-month delay required under Section 409A of the Internal Revenue Code. Effective January 21, 2013, Mr. MacDonald irrevocably waived his right to the following payments he would have been entitled to receive under the terms of the letter agreement noted above, (i) payment equal to his FHA balance and (ii) reimbursement of the premium; plus interest and any related gross up payments on both these amounts.

IBM Group Life Insurance

- IBM Group Life Insurance provides $25,000 of coverage before age 65, which reduces to $5,000 at age 65.
- This coverage is available to all U.S. regular employees hired prior to January 1, 2004 who terminate employment and are eligible for the IBM Retiree Benefits Plan or IBM Future Health Account.
- Mrs. Rometty, Mr. Loughridge, Mr. Mills and Mr. Daniels would have been eligible for this benefit following a separation from service on the last business day of the fiscal year end. Mr. MacDonald would not have been eligible for this benefit.

Arrangements for Mr. Palmisano

Performance Share Units

- As explained in the 2012 Compensation Discussion and Analysis, Mr. Palmisano's 2010, 2011 and 2012 Performance Share Unit awards will continue to vest after his retirement. The payout for each award (delivered in IBM shares) will occur only if the performance goals are met, with the number of shares determined based on actual performance relative to pre-established targets. The value of Mr. Palmisano's 2010 Performance Share Unit award (based on the average of the high and low stock price on February 1, 2013) was $26,312,875.

Retention Plan

- Mr. Palmisano satisfied all criteria under the terms of the Retention Plan to receive a benefit, which is payable as an annuity.
- Although Mr. Palmisano retired December 1, 2012, no payments of his Retention Plan benefit were made in 2012. Under Section 409A of the Internal Revenue Code, Mr. Palmisano is a "specified employee," and therefore payment of his Retention Plan benefit must be delayed for six months from his retirement. Accordingly, payments of Mr. Palmisano's Retention Plan benefit will begin in June 2013.

IBM Excess 401(k) Plus Plan

- Upon retirement, in accordance with the terms of the IBM Excess 401(k) Plus Plan and his distribution election, Mr. Palmisano received a lump sum payment of his pre-2005 amount in December of 2012, as reflected in the 2012 Nonqualified Deferred Compensation Table. His post-2004 amounts will be paid in five annual installments. Under Section 409A of the Internal Revenue Code, Mr. Palmisano is a "specified employee," and therefore payment of the first installment of his post-2004 amounts, which ordinarily would be paid in February 2013, must be delayed for six months from his retirement. Accordingly, the first annual installment of Mr. Palmisano's post-2004 amounts will be made in June 2013, and the remaining four annual installments will be made in accordance with the terms of the Excess 401(k) Plus Plan.

Retiree Medical and Life Insurance

- Mr. Palmisano and his eligible dependents are eligible to participate in the IBM Retiree Medical Plan as described above. In addition, pursuant to the terms of the IBM Group Life Insurance described above, Mr. Palmisano will be provided with $25,000 of life insurance coverage before age 65, which reduces to $5,000 at age 65.

Consulting Arrangement

- After Mr. Palmisano's retirement, he may be asked, from time to time, to provide services to the Company as an independent contractor. The fee for such services would be $20,000 per day for each day he provides four or more hours of services and $10,000 per day for each day that he provides less than four hours. As of December 31, 2012, no consulting fees have been paid to Mr. Palmisano.

Office Space

- IBM has agreed to provide furnished office space with administrative support for Mr. Palmisano's use after retirement, until such time that he notifies the Company that he no longer wishes to maintain the office.

2012 Potential Payments Upon Termination Table

Name	Termination Scenario	Annual Incentive Program[2] ($)	LTPP Stock Options [3] ($)	LTPP PSUs[4] ($)	Retention Plan[5] ($)	Excess 401(k)[6] Basic Account ($)	Excess 401(k)[6] Deferred IBM Shares ($)
V.M. Rometty	Termination [1]	$ 3,915,000	$ 9,600,559	$ 6,599,089	$ 0	$ 614,495[7]	$ 534,501[7]
	For cause	0	0	0	0	614,495[7]	534,501[7]
M. Loughridge	Termination [1]	1,202,900	0	6,599,089	0	4,228,122[8]	7,254,956[8]
	For cause	0	0	0	0	4,228,122[8]	7,254,956[8]
S.A. Mills	Termination [1]	987,360	0	5,719,300	288,676	1,028,952[9]	0
	For cause	0	0	0	0	1,028,952[9]	0
M.E. Daniels	Termination [1]	1,342,920	3,945,272	6,599,089	0	3,008,007[10]	0
	For cause	0	0	0	0	3,008,007[10]	0
J.R. MacDonald[12]	Termination [1]	827,400	0	5,279,501	156,238	9,148,990[11]	321,804[11]
	For cause	0	0	0	0	9,148,990[11]	321,804[11]

Note: Mr. Palmisano retired December 1, 2012 and his actual arrangements are described separately in the narrative above.

(1) Termination includes the following separation scenarios: resignation, retirement and involuntary termination not for cause (in all cases, assuming the executive is not entering into competitive or other activity detrimental to IBM).

(2) Assumes that the AIP payment made to each named executive officer following termination of employment on the last business day of the fiscal year end would have been the same as the actual payment made in March 2013.

(3) Assumes each named executive officer exercised all vested, in-the-money options at $191.55 (the fiscal year-end closing price of IBM common stock on the NYSE).

(4) Assumes IBM released PSU awards, granted in 2010 according to its policy, for the three-year performance period ending December 31, 2012, for named executive officers who were at least age 55 and had at least 15 years of service (Mrs. Rometty, Mr. Loughridge, Mr. Mills and Mr. Daniels) and pursuant to his offer letter for Mr. MacDonald who has completed at least 5 years of service. PSU awards are adjusted for performance and released in shares of IBM common stock (with any fractional shares rounded to the nearest whole share) in February in the year following the end of the performance period.

(5) Reflects the Retention Plan benefit payable as an immediate annual single life annuity. See the IBM Supplemental Executive Retention Plan section above for more details.

(6) Estimated payments were calculated using the aggregate account balance as of the last business day of the fiscal year end. See the IBM Excess 401(k) Plus Plan section above for more details.

(7) Approximate annual amount payable for 10 years starting in February 2013. Deferred IBM Shares are paid as shares of IBM common stock.

(8) Payable in an immediate lump sum following termination. Deferred IBM Shares are paid as shares of IBM common stock.

(9) Approximate annual amount payable for 10 years starting in February 2013.

(10) Sum of the approximate annual amount of Basic Account deferred prior to January 1, 2005 payable for 10 years starting in February 2013 ($329,908) and the approximate amount of the Basic Account deferred on or after January 1, 2005 payable in an immediate lump sum following termination ($2,678,099).

(11) Payable in an immediate lump sum following termination. Deferred IBM Shares are paid as shares of IBM common stock.

(12) Amounts shown in this table are either payments of incentive compensation or a benefit payable under the terms of the applicable employee benefit plan to Mrs. Rometty, Mr. Loughridge, Mr. Mills, Mr. Daniels and Mr. MacDonald. This table does not reflect the value of Mr. MacDonald's provision of Access-Only coverage upon separation because it is not a payment made to him; it is a payment to IBM. The value of such provision is set forth above in the IBM Future Health Account narrative. The assumptions used to determine such value are: Interest rate for present value: 3.30%; Mortality: RP 2000 Combined Healthy Mortality, sex distinct, with 38 years of projected mortality improvement using Scale AA; Medical Trend: 7.00% for 2013, 6.50% for 2014, 6.00% for 2015, 5.50% for 2016 and 5.00% thereafter; Dental Trend: 4.00%; Administrative Expense Trend: 3.00%; base plan annual costs reflect the average plan costs across the entire IBM retiree population for 2012 projected to 2013; the cost impact due to age differences is assumed to be 3.00% per year for individuals not eligible for Medicare and 1.00% per year for individuals eligible for Medicare; assumes that he and his