

*All businesses today face a new reality—  
more important and lasting, in my opinion,  
than the advent of any game-changing  
technology or global market trend.*

Samuel J. Palmisano  
*Chairman, President and Chief Executive Officer*



Businesses now operate in an environment in which long-standing societal concerns—in areas from diversity to equal opportunity, the environment and workforce policies—have been raised to the same level of public expectation as accounting practices and financial performance.

At IBM, we have always viewed our responsibilities as a corporation in multiple dimensions. The standards we've set for ourselves in community, environmental and workplace policy and practice are matters of public record, and are reflected in this report. But the real importance of the current focus on corporate responsibility, in all its dimensions, is what it means for the new challenges that will face all of us in the near future.

This is why IBM is publishing its first consolidated corporate responsibility report—a companion to our annual report, and something to which we have devoted equal care.

As it happens, it is timely for us to gather together the information in this report. We are in the midst of an active, companywide discussion and re-animation of IBM's core values—principles that guide everything we do, from our investments, to our workforce policies, to our R&D, and very definitely to extending IBM's philanthropic, environmental, economic and other social dimensions.

These values speak to the commitments we make to our clients; our legacy of innovation; and relationships built on trust and personal responsibility. This is about the kind of company IBM has been, and the company we are determined it will be going forward.

These values also align directly with our definition of corporate responsibility, which includes:

- being an employer of choice and maintaining programs that attract, retain and motivate the best talent in the world
- being protective of the environment in our operations, manufacturing and product development
- contributing to the betterment of our world and its communities—through both contributions of funding, resources and expertise; and by creating products and services that help solve the world's problems

#### A BUSINESS AND ITS BELIEFS

This alignment shouldn't be surprising. There has always been a direct correlation between IBM's corporate citizenship and our mainstream marketplace activities. In fact, the focus on values goes back to IBM's birth. Tom Watson, Sr., and his son were among the great business leaders of the 20th century—not because of their inventiveness, their organizational skills or even their business or technical vision (though they possessed all in abundance), but because they pioneered the idea of a company built on and run by a common set of strongly held values, the famous IBM Basic Beliefs.

For nearly a century, those beliefs guided IBM to a number of notable firsts—from hiring and promoting women, minorities and the disabled, to innovations in employee health and environmental programs, to progressive policies in benefits and compensation. They have shaped the relationships between IBM and its clients, investors and the communities and nations in which we do business. And, importantly, they have inspired and guided the work of our scientists and researchers in bringing to life new capabilities and solutions that have helped people all over the world.

We are proud of this record. And I think you'll also see in this report that we are embracing an ambitious agenda for IBM in the years ahead — which is as it should be. Since the solutions to many of the world's major problems can be better understood and made real through information technology, we have a unique role in continuing to drive those technological advances.

### TRUST IN THE FUTURE

The time is right for all of us at IBM to seriously re-examine our values, and to redouble our commitment to making IBM a great company. Obviously, the world that existed when IBM was founded nearly a century ago was vastly different from the world today. Tom Watson would not recognize our technological, economic and social realities — though he would surely savor the task of reinventing IBM for leadership in a new century. That work falls to all 316,000 of us in today's IBM.

During our company's near-collapse and hard-won recovery in the 1990s, we never abandoned our principles or progressive policies. But, frankly, in our efforts to adapt IBM to compete and lead in new times — and simply to keep the company alive — we didn't have the luxury of attending to all long-term implications.

For instance, we changed our pension plans in the United States in 1999 to introduce a cash-balance option that better meets the needs of a modern-day workforce. For a growing portion of that workforce, we were doing something very welcome. The world is changing, and most of our competitors don't even offer a pension benefit. However, some employees saw this change as a violation of trust. We listened to those concerns and did adjust, but some bitterness remains. The dispute is in the court system as I write this, and I can't com-

ment on a matter of ongoing litigation. However, I can say definitively that the issue of trust is one I take seriously, along with the rest of my management team.

There are many other areas in which a new era gives us the chance to innovate and improve. While there are many accomplishments and pioneering moves of which we are deeply proud, there are also plenty of issues left to be addressed, and challenges we are itching to tackle.

The increasingly pervasive reach of information technologies makes continual improvement in our environmental programs and in the environmental attributes of our products ever more important. The advent of a global economy and society is enormously promising, but comes with new issues related to personal privacy, intellectual property rights and free speech. Those are all issues that have yet to be fully understood, much less managed.

This company, its management and its people have never been comfortable operating in a reactive mode, or resting on our laurels. Our desire to take on tough problems and grand challenges hasn't abated with time. In fact, it's grown more acute.

That goes for areas of social inequity and environmental concern, as well as for business and technology. These problems can, we believe, be meaningfully alleviated through the application of intelligence, science and the dedicated commitment of responsible citizens. And we are more determined than ever to do so.



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