

# A Letter from the Chairman of the Board

As we look back on our strong performance in 2011—the culmination of an impressive decade—Ginni and I thought it would be appropriate for me to share a perspective on this most recent phase of IBM’s 100-year journey, and to offer some thoughts on what it has taught us.

I recently took a look at my notes from my first meeting with IBM’s senior leadership after becoming chairman in January 2003. I was surprised to see how little I had written down. At the top were just four questions:

- + Why would someone invest in us?
- + Why would customers buy from us?
- + Why would society allow us to operate?
- + Why would someone work here?

Our history teaches us that IBM became one of the world’s great companies by continually creating value for *all* of these stakeholders. Certainly, that was the IBM I joined 38 years ago. And as IBM’s incoming chairman nine years ago, I couldn’t imagine an agenda that wasn’t built on that multidimensional goal.

Let’s consider how we have done against each of these fundamental questions.

**First, how have we done in answering: Why would someone invest in us?** Some technology companies, particularly start-ups, are attractive to investors because they grow meteorically—but often without profit or positive cash flow. Others provide a broad portfolio of products and services—but their very breadth makes them mystifying to the investor.

A decade ago we committed to providing our owners with clarity about our business model, strategies, finances and governance principles. We would manage and grow IBM through the basics—revenue, profit, earnings, cash and margins. And we pledged to deliver consistent investor returns through dividends and repurchased shares. At the same time, we believed we could provide a unique investment opportunity—participation in attractive new growth areas in technology and in emerging markets, with confidence that IBM would safeguard shareholders’ investments.

It all came together in our 2010 Road Map, and we are continuing to demonstrate progress against our 2015 Road Map. The results for investors speak for themselves. Over the past five years, we have increased our market capitalization by \$70 billion, and returned \$50 billion to shareholders in net share repurchases and \$14 billion in dividends—creating approximately \$135 billion in value for our owners.

### **Second, why would customers buy from us?**

IBM's business model has always been to provide value to our clients that they cannot get from anyone else—value that gives them a competitive advantage. This model is not universal in our industry—where some choose to compete on the basis of greater efficiency and lower cost. But it was ours.

A decade ago, however, we straddled two worlds—of enterprise and consumer technology—at a time when computing was starting to move beyond the PC. This emerging model of technology, in which intelligence was being infused into all the ways our world works, could be of enormous value to our clients. But delivering this potential meant we had to transform our portfolio of technologies and skills.

We did so. We got out of PCs and disk drives, and increased our presence in key areas of software, industry expertise and process know-how, increasing software and services from 65 percent of IBM's segment profit in 2000 to 84 percent today. We invested nearly \$70 billion in R&D since the beginning of 2000, shifting research into new areas and generating more than 47,000 patents—extending IBM's streak of leadership in U.S. patents to 19 years. And we acquired 130 companies, in strategic areas of software and services.

The result? Client after client—from Bharti, which is accelerating the modernization of Africa through mobile telecom; to Macy's, which is redefining the online shopping experience; to the city of Rio de Janeiro, which is inventing the Smarter City of the 21st century—is saying, "We couldn't have done it without IBM." This is music to our ears.

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### **Third, why would society allow us to operate?**

Over the past decade, we have increasingly sought to address the world's biggest problems, driven by the idea of building a smarter planet. Without question, we do this in pursuit of large new profit opportunities. But it is more than that. It represents the fusion of IBM's business and citizenship goals. And that shows up not only in our broad strategies, but in how we work as individuals around the world.

We hear again and again from schools, governments, nongovernmental organizations and communities that the thing they value most is the expertise of IBMers—more even than donations of cash or technology (although those are also welcome, and plentiful). IBMers bring expertise in engineering, finance, marketing, management and more to help cities actually become smarter; to reimagine existing school models, as with P-TECH in New York City; and to develop global citizens and leaders, as we’re doing through Corporate Service Corps.

One consequence of this business–citizenship fusion is that we can deliver its benefits at increasing scale. Our On Demand Community, for example, has grown ninefold in volunteers since it began. In one example alone—our Centennial Celebration of Service—more than 300,000 IBMers performed more than 4 million hours of service across 120 countries.

**Fourth, why would someone work here?** In an earlier era, this had a lot to do with job security and stability. We learned the hard way that that was unsustainable. And yet, IBM today remains an employer of choice.

Why? I believe it is because, at this institution, an individual can actually change the world, can learn something new every day, can collaborate with some of the smartest people on the planet, can work in a progressive environment and can truly be a global citizen.

Since 2002 we have invested about \$100 billion in non-salary employee compensation—bonuses, commissions, benefits and employee equity—including

more than \$5 billion in employee learning and development. In 2005, we became the first corporation to guarantee our employees’ genetic privacy. The way we develop leaders was ranked number one in the world by *Fortune*. And we have received widespread recognition for our diversity, work/life, environmental and collaboration policies and programs.

In the end, it comes back to our values as IBMers. It was no accident that the first major work effort I launched at that senior leadership meeting nine years ago was a collective “jam” on who we are and why we exist. What resulted—the values IBMers themselves shaped—has held up remarkably well as a distillation of what it means to be “an IBMer.”

We still have a long way to go to fully realize these values in our work, our management systems and our behavior. But I think it’s safe to say, after nearly a decade, that we laid the right foundation. I am also convinced that the transformation we have carried out since then was only possible because we first undertook this deeper dive of self-discovery.

## The road ahead

None of these shifts was easy—but that comes with the territory, when you choose to live at the intersection of all of your company’s key constituencies. You must accept—indeed, embrace—the inherent tensions. And you must balance continual forward motion with a clear understanding of what must never change.

The result is a fundamentally different IBM than existed a decade ago — one that is delivering historic results despite a global economic downturn, even as it more fully exemplifies the company's century-old character. We have outperformed our industry and the market as a whole, and we did it the hard way — through technology breakthroughs, the creation of client value, and driving change in how the company operates. That record is something of which we can all be proud.

The fact that we enter our second century on such a high note is a testament to a unique institution and a remarkable group of people. For nine years, it has been my privilege to be the temporary steward of that institution. For 38 years, it has been my even deeper privilege to have worked with those women and men.

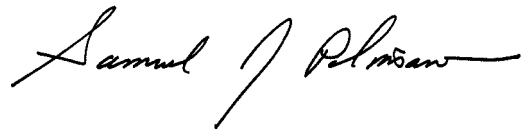
Clearly, 38 years with one company is rare these days. However, there is benefit to developing deep understanding of an industry and the culture of a company, even if this sort of longevity is not valued as highly in today's world. I believe such knowledge is what made it possible to transform IBM and position it for the future.

Both my own experience and the promise of our new CEO give me enormous hope for the decade ahead. Ginni Rometty is a brilliant leader who has also spent her entire career with IBM. I could not be prouder or happier for her, or more optimistic about IBM's future in her hands.

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To IBM's steadfast investors, to our clients, and to the citizens of all the communities where IBMers work to build a smarter planet, please know that you have my deepest thanks. I am confident that our second century together will be even more remarkable than our first.



Samuel J. Palmisano  
Chairman of the Board