Over the next three years, hundreds of IBMers from around the world will work together in small, diverse teams, as part of IBM's Corporate Service Corps. These future leaders will learn the skills to be global citizens and professionals, while collaborating with communities in emerging markets on their economic development.

2007–2008 Corporate Responsibility Report

IBM

IBM's most significant corporate citizenship priorities are shaped by the emergence of a global economy and society, and are reflected in the structure and content of this report.

This annual corporate responsibility report, published in October 2008, covers our performance in 2007 and some notable activities during the first half of 2008. ∗ We have compiled this report using the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, having attained GRI Application Level A. *(We used the GRI Reporting Principles of materiality, completeness, sustainability context and stakeholder inclusiveness to select content for inclusion in this report. We have provided a GRI Index on our Website.)* ∗ Unless otherwise noted, the data in this report covers our global operations. More details about IBM's corporate responsibility activities and performance is available at ibm.com/ibm/responsibility. Information about our business and financial performance is provided in our 2007 Annual Report at ibm.com/annualreport/2007. ∗ IBM did not employ an external agency or organization to audit this report. The metrics contained herein were generated using IBM's corporate accounting systems audited by IBM's internal audit staff. ∗ So that our citizenship reporting is regular and timely, we plan to publish our corporate responsibility report every year during the second quarter, starting in 2009.

LETTER FROM SAMUEL J. PALMISANO
Chairman, President and Chief Executive Officer

This year, a small team of IBMers, drawn from locations around the world, came together in Ghana to explore a new way for enterprises to relate to communities, markets—and their own people. The program they were launching was IBM's Corporate Service Corps. Modeled in part on the Peace Corps of the 1960s, this program aims to give tomorrow's IBM leaders a new kind of global experience and education. It aims to empower and equip them to take action and make decisions based on their own knowledge and judgment. And it aims to engage our communities around the world by working together with them, on the ground, to help them develop new businesses.

In addition to the inaugural team in Ghana, we are deploying a dozen of these groups in 2008 to Romania, the Philippines, Vietnam and Tanzania—with plans to increase significantly next year. And when participants go back to their "day jobs," they will socialize what they learned with their colleagues—via blogs, discussions, podcasts and more—helping IBMers everywhere to gain a clearer, more personal understanding of what it truly means to be a global citizen in a globally integrated enterprise.

The Corporate Service Corps is one program of a broad initiative we call the Global Citizen's Portfolio. We undertook this new approach not out of philanthropy, but out of competitive necessity. The competition I'm talking about here isn't over market share or the pursuit of "the next big thing" in technology. I'm talking about attracting and enabling the innovators and leaders who will shape the future of business and society—sometimes called "the global war for talent." The enterprises, countries and communities that provide the smartest, most connected and most open environment for these coming generations to grow and innovate in will be the ones that win.

They'll also be the ones that shape the planet on which we all live.

Pursuing a progressive agenda for business and society on a global scale is nothing new for IBM. It has always been central to our purpose as an enterprise. But it is both possible and necessary today in very new ways.

For the first time in history, almost anything can become digitally aware and interconnected. And with so much technology and networking abundantly available at such low cost, all businesses, societies and communities will soon begin to transform their systems, operations, enterprises and personal lives to take advantage of them.

This is an enormous opportunity. It also raises equally significant responsibilities. It will be imperative for all enterprises, institutions, communities and individuals to seize the new capabilities at their disposal, in order to confront the new challenges before us.

These challenges are formidable, including:

- **WASTED ENERGY:** According to the U.S. Department of Energy, 67 percent of all electrical energy is lost due to inefficiencies in the grid.
- **GRIDLOCKED TRAFFIC:** Congested roadways in the U.S. cost $78 billion annually in the form of 4.2 billion lost hours and 2.9 billion gallons of wasted gas—and that's not even counting the impact on the quality of the air we breathe.
- **INEFFICIENT SUPPLY CHAINS:** Consumer products and retail industries lose about $40 billion annually, or 3.5 percent of their sales, due to supply chain inefficiencies, according to a report by the Yankee Group.
- **WASTEFUL FOOD CHAINS:** In a world that faces food shortages, it is a tragedy that grocers and consumers throw away $48 billion worth each year in the U.S. alone, according to the United Nations.
- **UNHEALTHY HEALTHCARE:** Electronic medical records could help prevent deaths from medical error, estimated at nearly 100,000 a year in the U.S. in a 2000 study by the National Academies.
- **UNMANAGED CLIMATE SYSTEMS:** According to a 2004 report from Lawrence Berkeley National Laboratory, the economic costs of weather-related events totaled $1 trillion worldwide from 1980 through 2003.

› **ERODING WATER SUPPLY:** Global water usage has increased sixfold since the 1900s, twice the rate of human population growth. According to the Asian Development Bank, one in five people living today lacks access to safe drinking water, and half the world's population does not have adequate sanitation.

This list could go on. Fortunately, the technology to turn these inefficient systems into smart systems is now available or on the horizon. That's because, over the past two decades, a new computing model has emerged based on openness, networks, powerful new technology and the integration of all that digital intelligence into the fabric of work and life.

The world is becoming smaller, flatter—and smarter. We are moving into the age of the globally integrated and intelligent economy, society and planet. But achieving its potential and extending its benefits to everyone will take more than technology, or enhanced productivity or higher profit margins. It will require innovation that runs much deeper: new workforce models, new management systems and new curricula, along with forward-thinking policy regimes and political cultures. It demands new kinds of engagement with a wide diversity of stakeholders. Most challenging of all, we will need to begin the difficult journey toward shared values.

Taken together, this amounts to a new model of global citizenship among individuals, organizations and society at large—the sort of new model that a team of young, idealistic IBMers from around the world was helping to explore this year in Ghana.

You can read about their experience on pages 13-15. This, and many of the other ways IBMers are making the new and progressive global enterprise of the future a reality in the present, are described in the pages of this document. I encourage you to view it not only as a report on our own progress, but as an invitation to engage with us on the urgent and exciting work ahead.

From IBM's inception, nearly a century ago, our company has always been in the business of engaging with forward-thinkers across business, science and society to make the world work better. IBMers have always believed that when people think about how the world should work, they are inevitably driven to challenge the status quo, and to change it. And the resulting benefits flow not just to them and their organizations, but to their communities and global society.

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

IBM Basics

IBM is a company of 380,000 individuals who do, in new ways, what IBMers have done for nearly a century: invent technology and apply it to business and society on a global scale to make the world work better. Today, we create and integrate hardware, software and services to enable enterprises, institutions and forward-thinkers around the world to succeed.

BUSINESS PRIORITIES AND STRATEGY

Every two years, IBM conducts a survey of CEOs and other leaders around the world to assess what is most important to them. In the most recent survey more than 1,100 CEOs worldwide assessed the impact of the rise of the integrated global economy. Eight out of 10 said they foresee significant changes to their industries and business models in the near term—and plan to respond to them with bold measures.

Several factors are driving these changes:

- The integration of global economies, the rapid growth in new markets and the widespread emergence of new skills
- A new computing model for business based on open flexible systems
- The need for organizations to use technology to be more innovative in their processes, business models and management systems

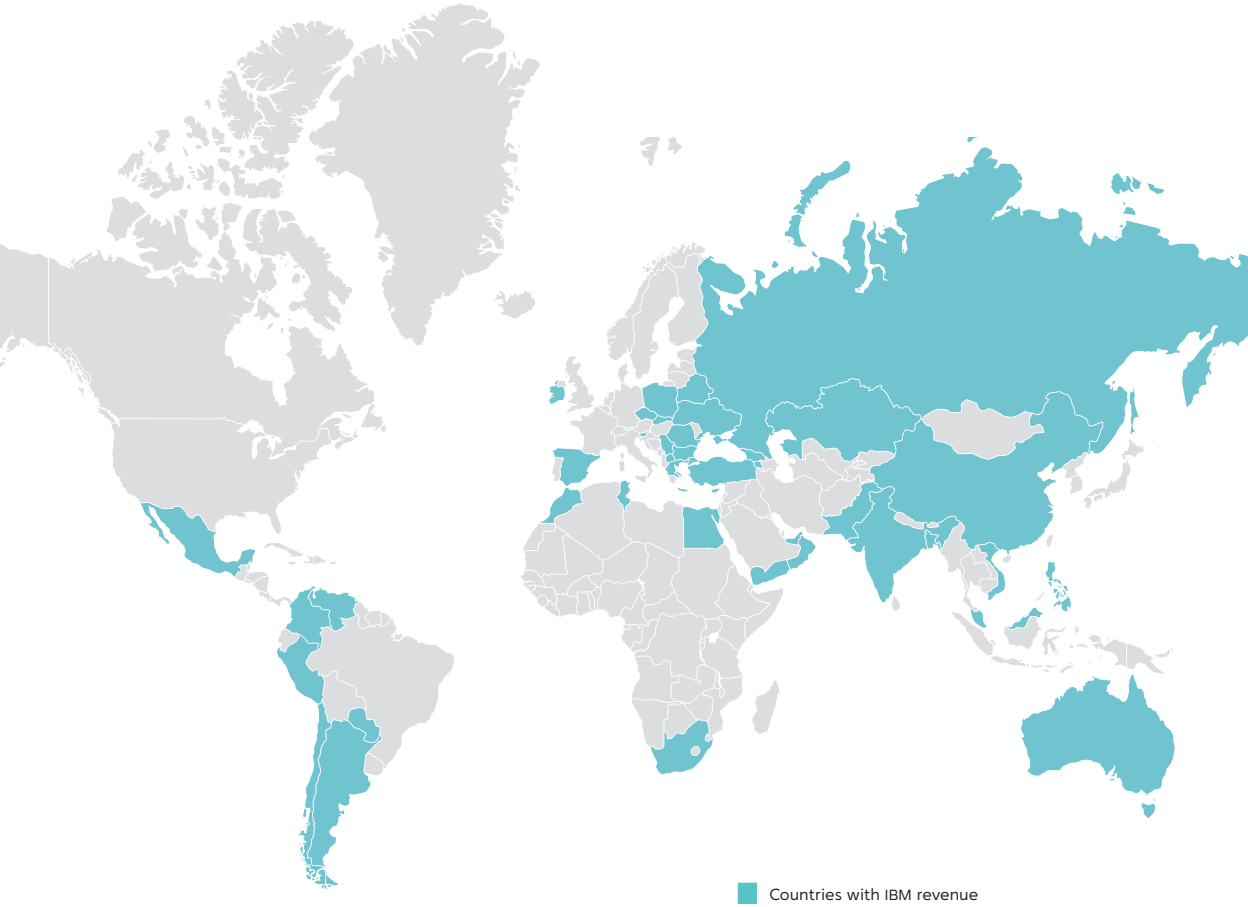
At IBM, we're working with our clients to develop new business designs and technical architectures to compete in this new environment—addressing their needs through three strategic priorities:

- Focusing on open technologies and high-value solutions such as virtualization, high performance chips, modular and open IT and service oriented architecture (SOA)
- Delivering integration and innovation to clients by transforming their business operations and improving profitability
- Becoming the premier globally integrated enterprise by investing in emerging markets and replacing vertical hierarchies with horizontally integrated teams

MARKETS OF OPERATION

A globally integrated enterprise, IBM operates in more than 170 countries and enjoys an increasingly broad-based distribution of revenue, grouping markets by common growth characteristics, not location.

Our 2007 revenue increased by 26 percent in the BRIC countries (Brazil, Russia, India and China) and by more than 10 percent in over 50 markets, including Czech Republic, Mexico, Egypt, Vietnam, Poland, Malaysia, Singapore and South Africa.



Countries with IBM revenue growth greater than 10 percent in local currency in 2007

TECHNOLOGY LEADERSHIP

In 2007, for the 15th consecutive year, IBM was issued more U.S. patents (3,125) than any other company.

In the last five years IBM has aggressively complemented an investment of $29 billion in research and development with more than 60 acquisitions of hardware, services and software companies.

MAJOR OPERATIONS

GLOBAL TECHNOLOGY SERVICES

Primarily provides outsourced IT infrastructure services and business process services.

GLOBAL BUSINESS SERVICES

Primarily provides professional services and application outsourcing services.

SYSTEMS AND TECHNOLOGY

Provides clients with solutions that require advanced computing power and storage capabilities, as well as leading semiconductor technology and products.

SOFTWARE

Consists primarily of middleware that enables clients to integrate systems, processes and applications, and operating systems software that runs computers.

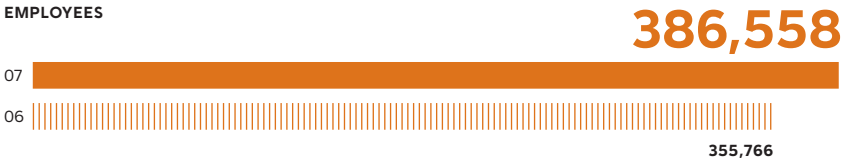
OTHER

Our Sales organization and our Research, Development and Intellectual Property organization also deliver value to clients.

OUR VALUES

Since its inception, IBM has been a company that defines itself by fundamental values—not by products, technologies or leaders. Today, shared values are more essential than ever before—for enterprises, for individuals and for the globally integrating society of the 21st century. In 2003, IBMers worldwide came together to renew and define our core values which now serve as the foundation of IBM's culture and brand, and the guide for each IBMer's work, decisions and relationships.

EMPLOYEES



2007 BUSINESS PERFORMANCE

Revenue
(Up 8%, 4% adjusted
for currency)

$98.8 B

Net Cash from Operations,
excluding Global
Financing receivables
(Up 14%)

$17.4 B

Net Income from
Continuing Operations
(Up 11%)

$10.4 B

Return on Equity

37%

Share Repurchase

$18.8 B

Dividend (Per Share)

$1.50

Returned to Shareholders
(Share repurchases and
dividends as a percentage
of net earnings)

100%+

Section One
Employees: Equipping IBMers for Success as Global Professionals and Citizens

OUR CHALLENGES

Managing employee transitions in an increasingly complex world

Developing a workforce equipped for a globally integrated economy, society and enterprise

Engaging with employees across geographies, time zones and cultures

OUR OPPORTUNITIES

Finding new ways to connect employees to opportunities and learning experiences

Harnessing the rich perspectives provided by a diverse and globally dispersed workforce

Using technology to help IBMers innovate and collaborate with colleagues, clients and the community

OUR STRATEGY

Empowering our employees to direct and manage their own careers through a Workforce Management Initiative

Offering meaningful opportunities for advancement and development through a Global Citizen's Portfolio

Helping employees collaborate through the use of social computing

Encouraging work flexibility and promoting employees' health and well-being

Making the world work better and building progressive enterprises and societies depend on developing and empowering individuals with the right skills. This is also the core requirement for any enterprise's commitment to innovation-based agendas. We must build organizational cultures and processes that adapt continually and that welcome and engage the "wisdom of crowds" and broad societal ecosystems.

At IBM, we have invested in approaches that we believe hold great promise because they are based on the belief that individuals are in the best position to make decisions about their own careers and how they choose to work:

1

Employee Learning and Development for Global Success

A new relationship has developed between IBMers and IBM: As a result of the company's investment in training and development opportunities, employees are taking on greater personal responsibility for their career development, learning, wellness and community involvement.

We believe we will attract the best expertise and talent by offering the best access to it. Of course, there's always the risk that people will take this expertise and these assets somewhere else. We've found, though, that this approach allows us to both attract and keep outstanding people.

Workforce Management Initiative

The Workforce Management Initiative (WMI) is IBM's single integrated approach to acquiring, managing, developing and deploying our global workforce. WMI helps us to:

ANTICIPATE AND BUILD EMPLOYEE SKILLS to meet current and emerging marketplace needs through:

- An Expertise Assessment tool for evaluating current skill levels and determining areas of growth
- A Learning@IBM Explorer online resource to provide personalized career guidance and individualized learning plans
- A Blue Opportunities program to access short-term skill-building opportunities without leaving one's current position
- A Mentoring Program to encourage innovation and collaboration among employees

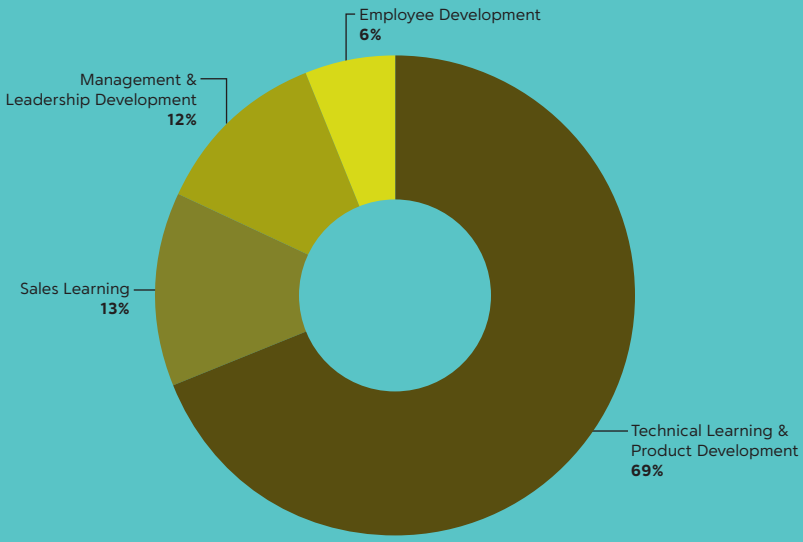
DEPLOY talent to match skills and expertise with opportunities through:

- A CV/resume application to enable consistency in how we talk about our experiences and expertise across our workforce
- A Professional Marketplace resource to match qualified talent with client projects and engagements
- A Global Opportunity Marketplace application for strategic external hiring and internal job matching

KEY PERFORMANCE INDICATOR

Learning and Training

LEARNING BY PILLAR



LEARNING INVESTMENT WORLDWIDE ($M)

07	**$622**
06	**$682**
05	**$648**
04	**$697**
03	**$707**

LEARNING HOURS WORLDWIDE (M)

07	**22.3**
06	**19.6**
05	**18.0**
04	**15.3**
03	**11.8**

LEARNING HOURS PER EMPLOYEE

07	**58**
06	**55**
05	**55**
04	**46**
03	**37**

Commentary: At IBM, using technology to deploy timely, focused and cost-effective learning to benefit all employees is leading a paradigm shift in workplace learning. Rather than bringing employees in for training, IBM sends learning to the workplace by providing a personalized, collaborative, accessible and continually updated work-based learning environment for a worldwide employee audience.

Goal: Increase employee participation in learning by providing more personalized learning options to all IBMers. In 2007, we increased learning hours delivered by 13.8 percent while reducing the total investment in learning by 9 percent.

Note: Pillar data only available for 2007, the first year data was collected by pillar.

Global Citizen's Portfolio

"From the launch of the Peace Corps in the 1960s to leadership of the Corporation for National Service in the 1990s to the Service-Nation Summit this year, I've been promoting citizen service, in its many forms, for all ages. Until now, most of the new service opportunities that have been created have been advanced and supported by the public and nonprofit sectors. Private industries' involvement has been minimal, apart from financial contributions to many worthwhile programs and charitable causes. As a result, the time and talent of our private sector workforce has been largely untapped for their value to communities, at home and abroad.

Real success in today's connected world requires a deeper understanding of the diversity of culture and differences in work styles and growth opportunities, particularly in developing countries. This calls for a shift in the concept of community service from the old philanthropic model to one of leadership development, skill-building and economic opportunity for individuals, companies and communities.

Business professionals, especially those at large global companies, have unique skills and experiences to offer the developing world. And people in these emerging growth markets have much to teach them about the future of the global economy. Tomorrow's leaders need and want to become global citizens and intertwine their broader societal interests with their business careers.

IBM's Corporate Service Corps is an innovative and pioneering example of how to turn this from promise to reality."

Harris L. Wofford
Wofford was a U.S. senator from Pennsylvania and organizer of the Peace Corps

The nature of business expertise is changing to keep pace with new technological advances—and companies, communities and countries need to foster this change. Toward that end, IBM's Global Citizen's Portfolio is laying the groundwork for a new set of tools that enable individuals to take control of their economic future. The following are the first three programs.

THE CORPORATE SERVICE CORPS will bring teams of emerging IBM leaders to Romania, Vietnam, the Philippines, Ghana and Tanzania in 2008 to work on projects in which information technology is used to foster economic development. They will be exposed to new challenges and perspectives, enhancing their ability to operate as global citizens. In the process, IBM will gain a new set of future leaders with a broader range of skills—and local projects and communities will benefit from IBM's expertise and resources on an ongoing basis. In the program's first year, we received over 5,000 applications from which 100 IBMers from 33 countries were selected. IBM expects to grow the program to include 600 participants over the next three years.

OUR PERSONAL LEARNING ACCOUNTS provide IBMers with the capital necessary to access development opportunities outside of those provided by the company. Employees with at least five years of service may contribute up to $1,000 per year, and IBM will match 50 percent of the contribution. These funds are available for the employee to use at any time toward a professional education opportunity of his or her choosing. The new program is currently available to U.S. employees only, but we plan to extend the program into other markets.

THE TRANSITION2 PROGRAM is designed to help interested employees and retirees who have developed high-demand skills during their tenure at IBM to move into second careers in the public sector, higher education and not-for-profit organizations.

On July 11, 2008 ten IBM employees from countries including Canada, Germany, India, Italy, U.S. and U.K. arrived in Ghana as part of IBM's Corporate Service Corps (CSC), a program designed to address socio-economic and business development challenges in emerging markets while deepening IBM employees' global leadership skills.

One Team, Working with Three Organizations
The Ghana team worked with three nongovernmental organizations: Association of Ghana Industries, National Bureau of Small-Scale Industries and Aid to Artisans Ghana in Kumasi to help improve business processes and provide training for a network of small and medium enterprises there.

Providing Basic Business Training
The CSC team in Ghana helped entrepreneurs in Kumasi acquire the knowledge and skills they will need to compete successfully in the global economy. At the same time, CSC members learned new perspectives from a culture that is very different from their own.

CSC, described as "a corporate version of the Peace Corps," provides a number of benefits for everyone involved. IBM develops leaders with a broader range of skills who can function in a global context. The individual participants acquire a unique set of leadership opportunities and development experiences. And communities in developing nations get IBM's best problem-solving skills.

Supporting Micro Enterprises and Growing Ambitions

CSC members helped Ghanaian industries—from handicrafts and food products to chemicals and building products—scale up their business models and implement technology solutions that will make a critical difference in their ability to compete regionally and globally.

The CSC team had the opportunity to interface not only with Ghanaian citizens but with government officials and dignitaries, including two members of Parliament and the mayor of Kumasi.

2 Employee Engagement

Over 42 percent of our employees are now mobile, and the boundaries of when, where and how they manage their jobs have become increasingly flexible.

At IBM, we are investing in efforts to make it easier to adjust to clients' changing needs in the global economy—and systematically helping our employees learn new fields and master new skills so they remain competitive.

Technology enables IBMers to work together and share ideas across geographies, time zones and cultures—whether they're halfway around the world or a few miles away. And our Flexible Work Options, such as Leave of Absence, Part-Time, and Job Share opportunities and Compressed Work Weeks, help them address the everyday stresses of today's work environment.

Social Computing

We support the use of social computing platforms as a way for IBMers to build bridges with one another that result in more meaningful work relationships and more powerful collaboration. Current and former employees are currently congregating in Facebook, LinkedIn, Orkut, Xing and The Greater IBM Connection, and all IBM employees have the ability to create, publish, discuss and network on a variety of internal Social Computing platforms as well.

We believe it is in our best interest to understand, experiment and engage in social computing, for two reasons: It enables us to learn from the world around us, and allows us to contribute to the public discussions that matter to business and society. IBM has created the Social Computing Guidelines that provide a framework for employee interaction in social computing environments—blogging, social networking and user-generated content.

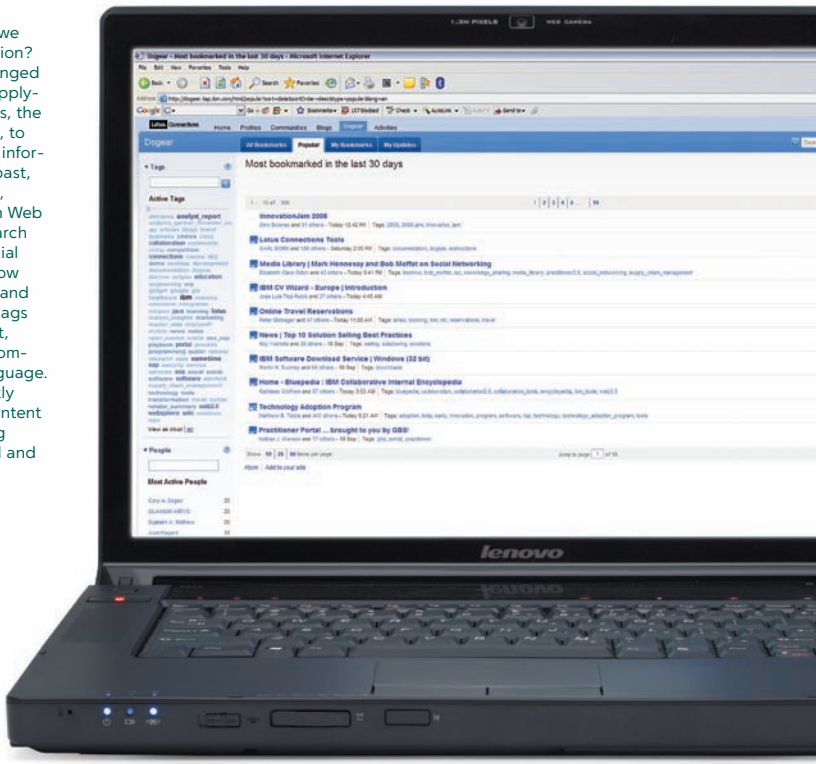
Social Computing Guidelines
ibm.com/blogs/guidelines.html

TAGGING
If Web 2.0 is so great, why are we still overwhelmed with information? In 2007, IBM fundamentally changed the nature of intranet search, applying one of our latest innovations, the IBM Enterprise Tagging Service, to influence how people discover information and colleagues. In the past, search was based on keywords, making searchers dependent on Web page developers to specify search terms—now search is more social and user friendly. Employees now have the ability to actively tag and categorize Web pages. These tags reflect the community's context, culture and language. As the community evolves, so does its language. This means people can indirectly help each other find related content and other people, transcending corporate jargon, geographical and cultural biases.

131,822
Total overall tags

690,267
Total tagged URLs

45,831
Total users



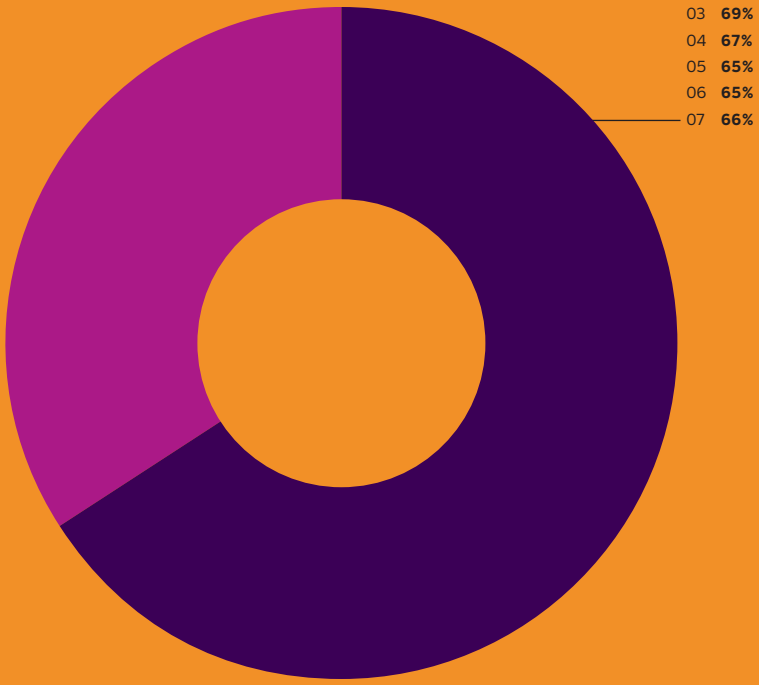
MEDIA LIBRARY is an online social media tool that allows employees to consume and/or publish information—everything from audio to video to documents and more—in a space that enables unique page design, subscription, open discussion, social tagging and content ranking. For employees who can no longer meet face-to-face, tools such as this help create important business connections, expertise awareness and problem solving through collaboration—and more trusting relationships.

JAMS are online brainstorming sessions for the purpose of collecting ideas on a variety of topics. These free-form conversations involving thousands of employees have become a key element in our employee engagement practices and values-based management system.

THINKPLACE is one of our most powerful engines for new ideas. It's a Website where any IBMer can suggest ideas, comment on them, refine them, express support or even explain why an idea might not work. To date, over 159,000 IBM employees have submitted, viewed or rated more than 17,900 ideas.

KEY PERFORMANCE INDICATOR

Employee Satisfaction



Commentary: Up to 40 percent of IBMers are randomly invited to participate in our annual Global Pulse Survey. The annual averages shown are the percent favorable for overall job satisfaction; that is, employee responses to "Considering everything, how satisfied are you with your job?" IBM's most recent results are up one point year-over-year.

Goal: IBM management will continue to work with our employees to improve job satisfaction. Examples of actions informed by survey results include: the Workforce Management Initiative to support employee development and job movement, new tools to ease manager workload, town hall meetings and other employee communications to provide clarity on our company strategy, improvements in company processes, and ThinkPlace for employees to suggest and shape ideas (see pages 10 and 17 for more information on the Workforce Management Initiative and ThinkPlace).

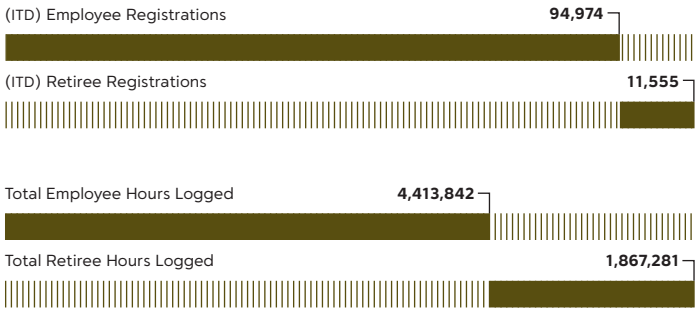
On Demand Community

Our On Demand Community (ODC) provides current and retired employees with access to resources that enable them to be better volunteers in nonprofit community organizations and schools. With a global reach and tools offered in as many as 10 languages, the ODC Website provides presentations, documents and other technology-based resources that allow IBM volunteers to support and advance the work of the organizations they serve.

106,529
Grand Total (ITD) Registrations Globally

6,281,123
Grand Total Hours Logged Globally

ODC INCEPTION TO DATE (ITD) REGISTRANTS AND HOURS



Employee Charitable Contribution Campaign (ECCC)

IBM employees and retirees support thousands of community-based health and human services agencies in the U.S. and Canada each year through personal contributions as part of the Employee Charitable Contributions Campaign (ECCC).

U.S.	2003	2004	2005	2006	2007
Amount Donated ($ in Millions)	**32.3**	**33.1**	**34.6**	**34.7**	**35.1**
Employee Participation Rate	**56%**	**58%**	**58%**	**57%**	**58%**
Recipient Agencies	**11,200**	**11,300**	**12,104**	**12,315**	**14,035**

CANADA	2003	2004	2005	2006	2007
Amount Donated ($ in Millions)	**2.2**	**2.3**	**3.6**	**3.4**	**3.3**
Employee Participation Rate	**53%**	**55%**	**55%**	**52%**	**49%**
Recipient Agencies	**1,132**	**1,199**	**1,246**	**1,275**	**1,323**

3 Supporting the Diversity of Our Workforce

More than half of IBM's revenues now come from outside the U.S. For us to remain competitive, we need employee populations that mirror and understand the markets we serve—uniting different cultures, languages, geographic origins, professions and perspectives into one globally integrated enterprise.

Toward that end, we have embarked on a review of our diversity strategy to ensure that it responds to the 21st century workforce trends and supports our company strategy. While we will be launching a new global diversity strategy in 2009, our goal remains the same: to enhance awareness, open-mindedness, knowledge, tolerance and respect for other cultures in order to build a stronger IBM team and continue to foster innovation.

Diversity Recruiting Programs

Our diversity recruiting programs identify and attract a diverse pool of outstanding students from colleges and universities, conferences, employee referrals and the Internet.

- **DIVERSITY EVENTS:** We participate in or sponsor diversity events focused on women, people with disabilities and minorities.
- **ENTRY POINT:** This internship program provides opportunities for students with disabilities to gain on-the-job experience and learn about the wealth of career opportunities we offer.
- **PROJECT VIEW:** This diversity recruitment program offers African American, Hispanic/Latino, Native American, Asian, women and people with disabilities career opportunities in the U.S.
- **PROJECT VIEW PLUS:** This diversity recruitment program sponsors recruiting events that bring together IBM hiring managers with skilled, experienced professionals to fill open positions.

The integration of different ethnic and cultural groups into society has become an important issue, so we are focusing new diversity efforts on "multiplicity in the workplace"—promoting cultural awareness and acceptance for all employees.

10
women

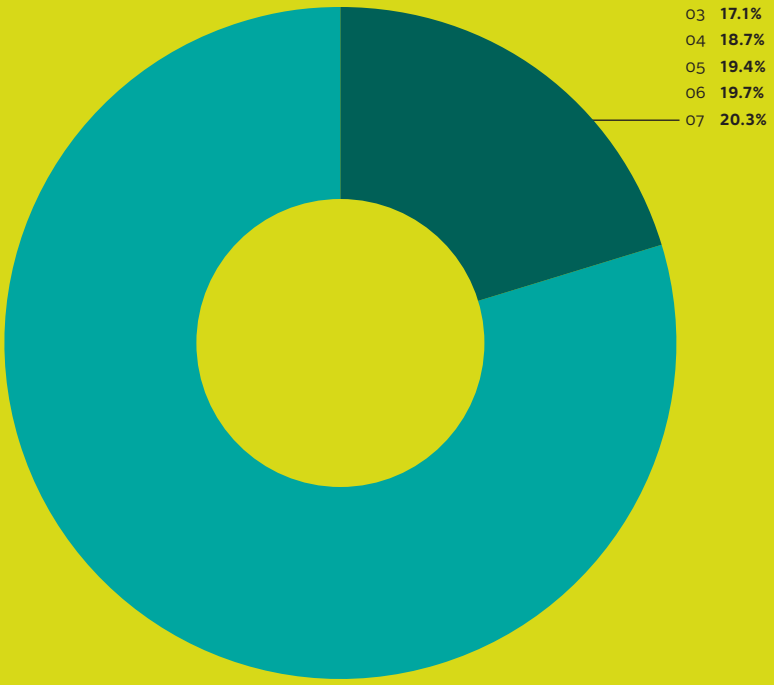
Women in the IBM Workforce

IBM has seen substantial growth in the number of senior women executives globally—from 185 in 1997 to more than 1,000 today. Sixty-five percent of our women executives are working mothers, and we have 16 female country managers in locations such as Singapore, Taiwan, Thailand and Spain. Each of these women demonstrates outstanding leadership qualities and is achieving superior results. All IBM had to do was level the playing field so that excellence and achievement were the only criteria for success.

KEY PERFORMANCE INDICATOR

Workforce Diversity

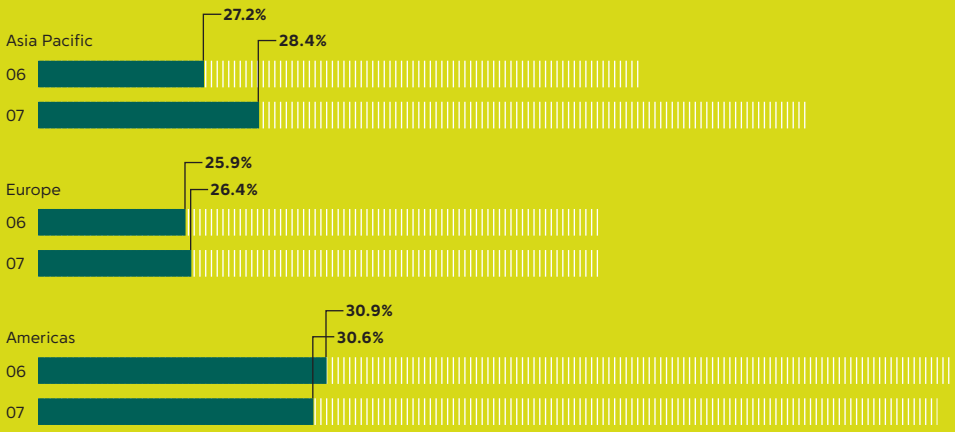
PERCENTAGE OF WOMEN GLOBAL EXECUTIVES



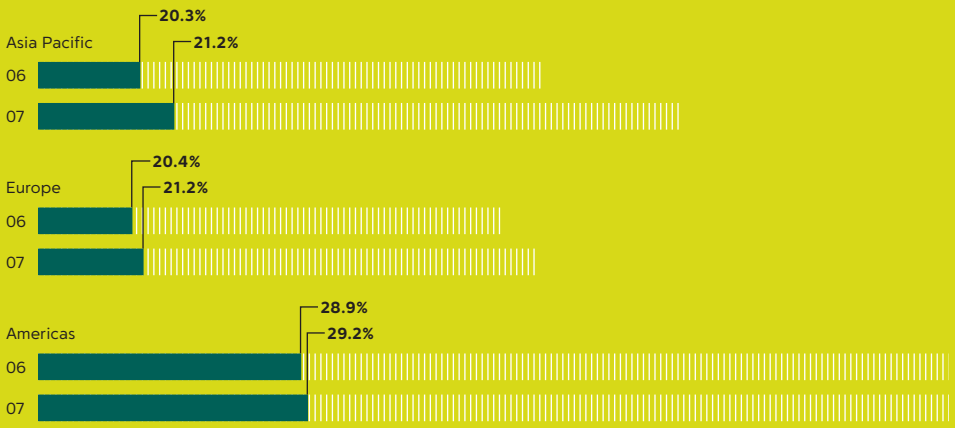
Commentary: As a result of our diversity programs, IBM has experienced a 500 percent increase in women executives from 1997 to today. Sixty-five percent of our global women executives are working mothers; and we have 16 female country managers in locations such as Singapore, Taiwan, Thailand, Spain and others.

Goal: Maintain or grow percentage of women in our employee base.

PERCENTAGE OF WOMEN IN THE IBM WORKFORCE BY REGION



PERCENTAGE OF WOMEN MANAGERS IN THE IBM WORKFORCE BY REGION



4

Supporting the Health and Well-Being of Employees

IBM's fast-paced business growth and expansion into new markets challenge the traditional means of managing employee well-being. The profile of the average IBMer is changing, and this demographic shift presents a broad range of challenges relative to safety, health and wellness.

In response to these challenges, IBM's global Well-Being Management System (WBMS) deploys a "total health management strategy" that creates locally relevant healthcare initiatives that are proactive—and that effectively manages the highly complex, diverse and changing health and safety needs of countries and employee populations around the world.

The WBMS deploys strategies that directly align with and advance IBM's business and human resource priorities—and that seek out cost-efficient ways to use technology to advance the productivity, resilience and well-being of the global IBM workforce. IBM's WBMS is one of a select group of corporate initiatives to receive a worldwide WBMS certificate of conformance to Occupational Health and Safety Assessment Series (OHSAS) 18001 Specifications.

Wellness for Life—IBM's Global Wellness Initiatives

At IBM, we are establishing a "culture of health" in which wellness and healthy living are considered the company norm, and employees are encouraged to maintain healthy lifestyles. Our goal is to enable and support our employees and their families in becoming active and informed participants in their health with a range of information sources and services available to them.

Our strategy for improving employee health, while keeping costs in check, has four core elements:

- Supporting health system reform
- Investing in prevention and primary care
- Developing programs for healthy lifestyles among our employees and community
- Scaling programs and services through Web-based healthcare tools

Some examples of our global programs include:

- **WOMEN'S HEALTH IN ITALY:** deployment of medical prevention programs with a focus on specific areas with high impact on cancer and cardiovascular health
- **PHYSICAL ACTIVITY IN GERMANY:** partnership with local fitness studios to provide our employees low-cost access to exercise facilities
- **EMPLOYEE WELLNESS PROGRAMS IN CENTRAL AND EASTERN EUROPE, MIDDLE EAST AND AFRICA:** rebate programs that incentivize employees to quit smoking, lose weight or begin an exercise regimen
- **WELLNESS IN CHINA:** programs on healthy lifestyle, diet, nutrition, general medical care, access to specialist doctors and immunization opportunities
- **INFLUENZA VACCINATIONS IN ASIA PACIFIC:** company-wide vaccination programs across Asia Pacific
- **CHILDREN'S HEALTH REBATE IN THE UNITED STATES:** incentives for parents and families to take steps to help children stay fit
- **IBM BABY BRAZIL:** provides pregnant women with education and medical resources to support a healthy pregnancy

IBM and HIV/AIDS in Our Global Workforce

We have been involved in the fight against HIV/AIDS since the early 1980s. This includes a policy of nondiscrimination in hiring and work; prevention, early diagnosis, care and treatment for employees and dependents; and leadership in improving our response to HIV/AIDS through technology.

Over the years we have developed global leadership programs in countries such as South Africa, Russia, Brazil, India and the U.S. Recently we became the first multinational in China to offer a medical insurance plan to employees that provides coverage for HIV/AIDS, including testing and counseling, in- and out-patient care and medications.

Since 2005, IBM has been engaged in a dialogue on HIV/AIDS in the workforce with the Interfaith Center on Corporate Responsibility (ICCR), a coalition of nearly 300 faith-based institutional investors who seek a global community built on justice and sustainability through transformation of the corporate world. Initiated by a letter sent from ICCR to our chairman inquiring about our practices, these conversations have grown into a relationship of mutual programmatic influence and promotion of best practices.

Hepatitis B

From our work with HIV/AIDS, we are also learning how to address the emerging global crisis of hepatitis B. An estimated 350 to 400 million people worldwide have chronic HBV infection, and without proper treatment at least one quarter of those infected will die of liver failure, liver cancer or cirrhosis. The virus kills at least 600,000 people every year, despite the fact that a preventative vaccine has long been available.

We have an opportunity to protect our employees, especially in China where 100 million people have chronic hepatitis B. It is essential that we work to mitigate losses in productivity due to hepatitis B as well as the rising healthcare costs related to the epidemic, while protecting our workers and their families. Toward that end, we have:

- Developed one of the first nondiscrimination policies among multinationals for hepatitis-infected individuals for both our employees and those employed in our supply chain
- Offered employees education programs on hepatitis B and its prevention and management
- Provided a full hepatitis B immunization program to all employees in China
- Supported employees' healthcare costs for treatment and management of hepatitis B
- Made supportive psychological counseling available throughout China

In 2007, our goal was to immunize 30 percent of eligible employees, but we were able to almost double this by inoculating 56 percent of those eligible.

Section Two
Communities: Expertise and Technology to Address Societal Challenges

OUR CHALLENGES

Identifying the most pressing social and environmental threats to communities worldwide

Developing and maintaining skills for the 21st century, especially in science, technology, engineering and mathematics

Preparing for the massive growth of small businesses and their impact on the global economy

OUR OPPORTUNITIES

Applying our technology and expertise to societal problems in systemic ways

Using the reach of our businesses and technologies to help global citizens and growing businesses stay competitive

OUR STRATEGY

Investing in collaborations and programs that marry expertise with technology

Instituting and supporting global community programs that focus on skills development and entrepreneurship

Individuals, small businesses and local communities can be the chief beneficiaries of the global economy—but only if they understand their options and are empowered to seize them. Today, many enlightened companies, communities and thinkers are trying to decide how to differentiate themselves in order to get the world to invest in them, buy from them or hire them. At IBM, we are looking at ways to use technology to facilitate cooperation, collaboration and competition—to help break down the barriers that impede progress. And we have embarked on several important initiatives in the following areas:

1 Engaging the World in Problem Solving

Addressing the issues that impede progress is everyone's responsibility—individuals, organizations and governments. Here are some of the ways IBM is helping to mobilize this effort worldwide.

World Community Grid

World Community Grid is the largest public humanitarian grid in existence, with a base of more than one million computers and 400,000 members, supporting 10 research projects to date.

Using grid technology that connects individual computers to create a larger and more powerful system, World Community Grid provides increased computing power and makes larger bodies of information available to help public and not-for-profit organizations advance research for humanitarian purposes.

Nutritious Rice for the World, Computational Biology Research Group, University of Washington
This project is studying proteins in the genes of various types of rice to better understand how to breed more nutritious and disease- and pest-resistant strains in the future. The results will hopefully help to alleviate the world food crisis.

"Rice is one of the most important crops in the world—and the main source of nourishment for nearly half the world's population. We need to ensure that it remains an essential and viable food source.

Our Computational Biology Research Group at the University of Washington teamed up with IBM to use the power of the World Community Grid to run our 3-D modeling program to study the crop's gene products (proteins) at an atomic level. The goal is to expand our knowledge of each protein's function and learn what makes rice produce more grains, ward off pests and disease or hold more nutrients. This will allow us to breed new strains that are more nutritious and disease resistant—and even apply them to different environmental situations—to help alleviate the world food crisis.

Initially, we used a 400 CPU cluster to work on six protein sequence sets, partly funded by a five-year $2 million project from the U.S. National Science Foundation (NSF). But more computational power was needed to improve the accuracy of the predicted protein structures and identify their functions and interactions. The IBM World Community Grid will shorten the time to discovery from 200 years using traditional experimental approaches to less than two years."

Ram Samudrala, Ph.D.
Associate Professor, Computational Biology, University of Washington

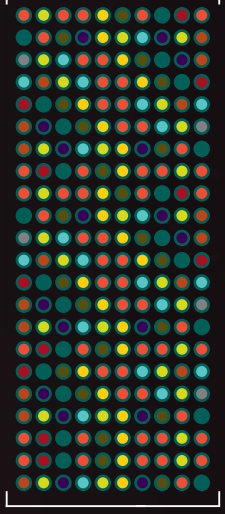
Join at
worldcommunitygrid.org

There are fewer than one hundred known rice protein structures. By predicting the structures of the remaining tens of thousands, scientists hope to identify traits that contribute to rice plants' hardiness, maturation and nutritional value.

FightAIDS@Home—Experiments 21-23, Olson Laboratory, The Scripps Research Institute in La Jolla, California
This project is using computational methods to identify new compounds that bind well to many different strains of HIV protease. The goal is to modify, combine and decorate the most promising compounds in order to create new drugs that are effective against the multi-drug-resistant "super bugs" of HIV. The prevalence of these "super bugs" and their ability to avoid the effects of the current anti-AIDS drugs keep increasing—impeding the successful treatment of AIDS patients worldwide.

HIV-1

VS.

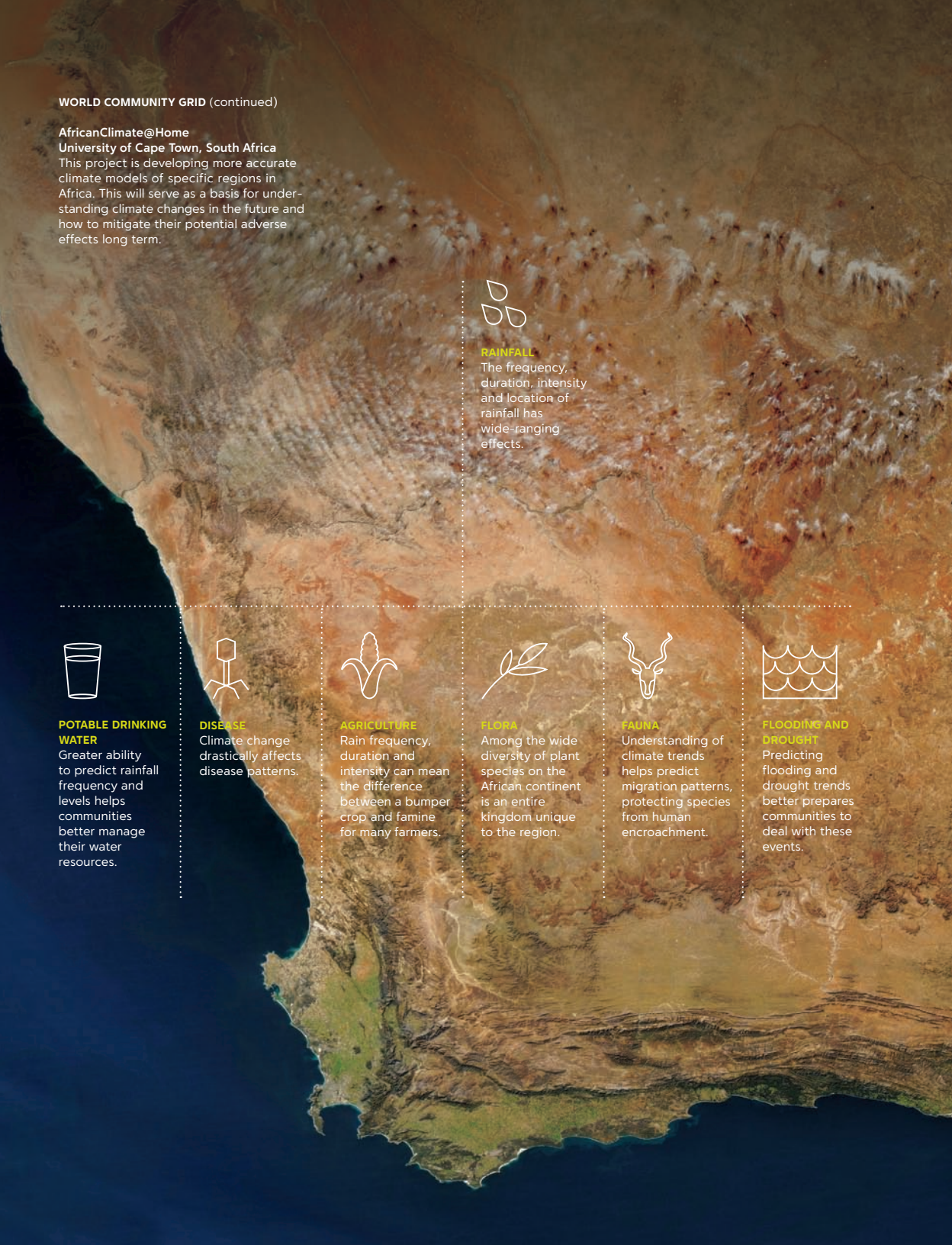


= 1,000 chemicals

HIV protease is a key drug target that, when blocked, stops infected cells from producing mature, infectious virus particles. The class of anti-AIDS drugs that bind to and block the function of HIV protease are called "protease inhibitors"—and these drugs help prevent the onset and impede the progression of AIDS.

WORLD COMMUNITY GRID (continued)

AfricanClimate@Home
University of Cape Town, South Africa
This project is developing more accurate climate models of specific regions in Africa. This will serve as a basis for understanding climate changes in the future and how to mitigate their potential adverse effects long term.



RAINFALL
The frequency, duration, intensity and location of rainfall has wide-ranging effects.

POTABLE DRINKING WATER
Greater ability to predict rainfall frequency and levels helps communities better manage their water resources.

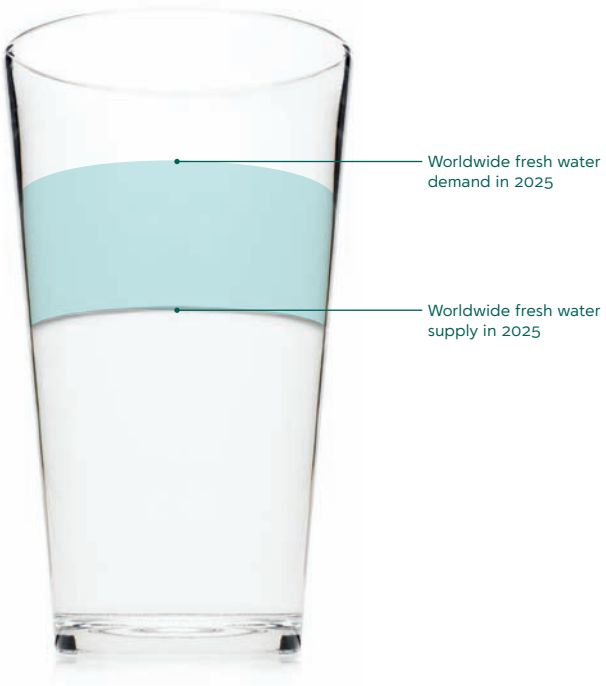
DISEASE
Climate change drastically affects disease patterns.

AGRICULTURE
Rain frequency, duration and intensity can mean the difference between a bumper crop and famine for many farmers.

FLORA
Among the wide diversity of plant species on the African continent is an entire kingdom unique to the region.

FAUNA
Understanding of climate trends helps predict migration patterns, protecting species from human encroachment.

FLOODING AND DROUGHT
Predicting flooding and drought trends better prepares communities to deal with these events.



A LOOMING CRISIS
By 2025 the demand for fresh water will exceed the supply by an estimated 50 percent.

The Water for Tomorrow Program

By 2025 the demand for fresh water will exceed the supply by an estimated 50 percent. IBM has undertaken a collaborative project with The Nature Conservancy and the Center for Sustainability and the Global Environment at the University of Wisconsin to develop water-modeling and decision-making tools for more effective, large-scale watershed management. The goal is to gain a more holistic understanding of watershed behavior, more comprehensive analysis of climate, rainfall, land cover, vegetation and biodiversity, and more efficient streamlining of disparate efforts to improve land use and water quality and management. The project includes Brazil's Paraguay-Paraná River system, the Mississippi River basin in the United States and China's Yangtze River.

University of Edinburgh, Blue Gene, HIV/AIDS

The HIV virus can mutate and invalidate drug therapy—faster than researchers can keep up.

In a five-year joint research project being conducted at the University of Edinburgh, IBM's Blue Gene supercomputer and new experimental characterization are facilitating the design of drugs aimed at inhibiting infection by the HIV process.

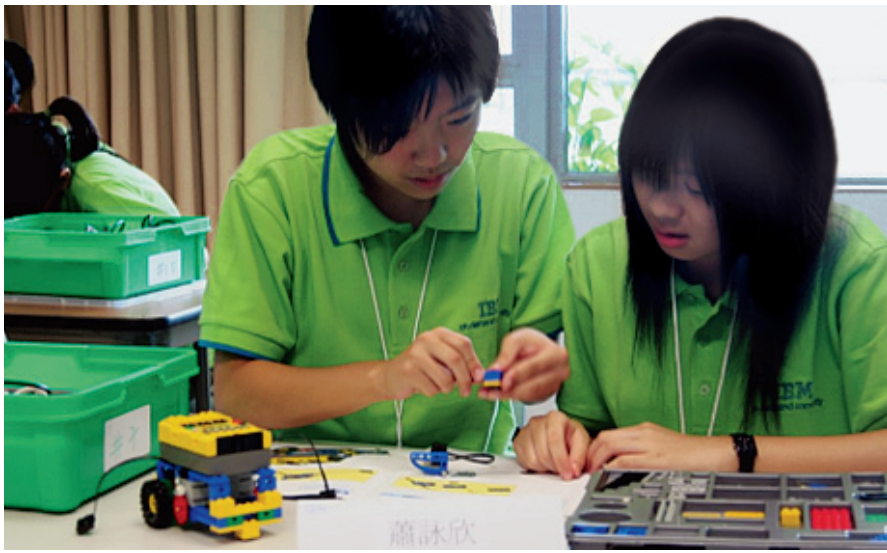
2 Equipping Students and Entrepreneurs

Success depends on one's ability to innovate, and to keep doing so, even as circumstances, markets and societies continue to evolve. At IBM, we are working along a number of fronts to equip individuals, small businesses and communities with the skills and tools to help them stay competitive.

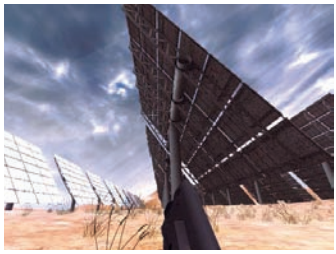
Technology Camps

Since 1999 we have conducted technology camps to motivate and inspire children in middle school to develop and sustain an interest in science, technology, engineering and mathematics (STEM). More than 10,000 students have participated in the camps to date. The campers are paired with IBM employees who serve as online mentors during the school year as part of IBM's MentorPlace program.

IBM TECHNOLOGY CAMPS	2002	2003	2004	2005	2006	2007
Worldwide	**25**	**35**	**40**	**56**	**73**	**75**



The online game PowerUp challenges kids to save a fictitious planet from ecological disaster—and helps develop their critical thinking skills and environmental awareness.



PowerUp

Job opportunities in science, technology, engineering and mathematics are projected to grow by 22 percent in the U.S. through the year 2014. However, grade school students in this country continue to lag behind those in other developed nations in these subject areas. To help young people learn the skills they will need to compete in the global work force, IBM recently launched PowerUp for Engineers Week (EWeek) 2008. This free, 3-D, online multiplayer game challenges players to save the planet "Helios" from ecological disaster while they develop critical thinking skills, engineering and science knowledge, and greater environmental awareness. Lesson plans are available for teachers, and the game is accessible for students with disabilities. PowerUp was recognized as the official game of Earth Day 2008.

EWeek—"Diversity in Engineering"

Co-chaired by IBM and the Chinese Institute of Engineers-U.S.A., the 2008 EWeek had a special focus on expanding diversity in the field of engineering. EWeek reaches a global audience of several million and is dedicated to helping create a diverse and well-educated future engineering workforce.

With worldwide and virtual activities, chats and campaigns, EWeek reaches a global audience of several millions—raising public understanding and appreciation of STEM professions and their contributions to society as well as interest in engineering and technology careers among young students. We have supported the National Engineers Week (NEW) Foundation, a coalition of more than 75 professional societies, major corporations and government agencies with EWeek initiatives since 1990.

Women in Engineering

IBM helped the NEW Foundation launch Engineer Your Life, a campaign aimed at encouraging high school girls to consider careers in engineering. The Foundation's 2008 Global Marathon For, By and About Women in Engineering featured 24 hours of live Internet chats and teleconferences that reached a worldwide audience of 300,000 people who logged in to the Marathon's Website.

IBM has joined with The Feminist Press to launch Under the Microscope in 2008, a new Website for girls and young women to encourage them to pursue careers in mathematics, science and engineering; to learn from women who have blazed trails before them; and to use social networking tools to support one another.

Service Science, Management and Engineering

For the past five years, IBM has been reaching out to universities to discuss the need for "Service Science, Management and Engineering" (SSME) as an academic discipline and research area. The goal is to better prepare students to compete in an increasingly services-oriented global economy and to further develop a science around service systems. IBM is working with universities worldwide to update curricula and to equip students with multidisciplinary skills in technology, business and social sciences. To date, more than 200 universities in 42 countries are now offering SSME courses, degree programs and research projects.

Academic Initiative

Our Academic Initiative is a global program that collaborates with educators to teach students skills to help them compete in the ever-changing IT workplace. The initiative offers a wide range of technology education benefits that can be scaled to meet the goals of large research universities, community colleges and vocational schools.

The Academic Initiative includes an online portal that provides access to software, hardware, training and course materials, most at no charge. The goal is to ensure that today's technical professionals graduate with open standards skills and are well-prepared to address today's IT integration challenges.

The IBM Academic Initiative is part of a family of IBM online communities for developers of today and tomorrow, including IBM developerWorks, IBM alphaWorks and the IBM Academic Initiative Websites.

- More than 3,100 colleges and universities worldwide teach courses that include open standards technologies such as IBM middleware and tools, IBM Systems server platforms and open source technologies.
- IBM's Academic Initiative reached more than 650,000 university students in 2007 alone—and more than 1.6 million over the last three years.
- More than 9,200 faculty members are registered with the program, representing over 6,000 institutions worldwide.

Hispanic Participation in Technology Careers

It is expected that by mid-century, the Hispanic community in the U.S. will constitute 25 percent of the overall U.S. population. On a parallel track, the growth of new career opportunities in science, technology, engineering and mathematics is expected to grow by 50 percent over the next 10 years, according to the U.S. Labor Department.

However, with Hispanic students dropping out of high school at a rate of 24 percent and a decline in interest in STEM careers overall, a looming crisis threatens America's ability to remain competitive. To address this issue and sustain a diverse, skilled workforce, IBM executives met with more than 150 leaders from companies such as ExxonMobil, Lockheed Martin, Univision and others in May 2007. The conference, held in New York, marked the beginning of an ongoing collaborative effort to increase the number of Hispanic students in the U.S. who pursue careers in science, technology, engineering and mathematics.

IBM has committed to focus a variety of education initiatives on schools and communities serving Latino students. This includes offering free automatic translation software to any school district that wants it and increasing our mentoring programs.

Small Business Toolkit

(continued on page 40)

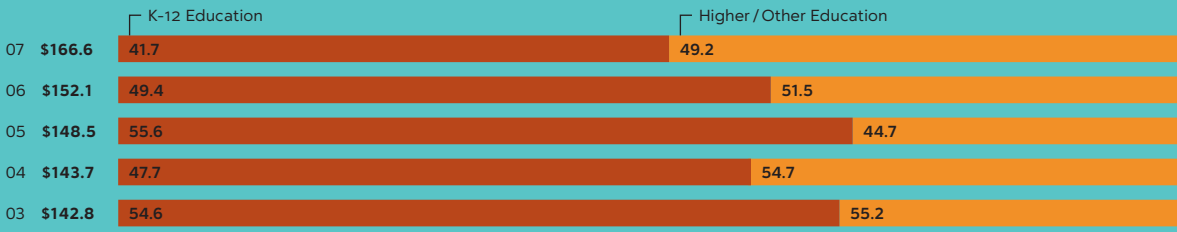
According to The World Bank, by 2030 there will be 1.2 billion people in developing countries—15 percent of the world population—who fall into the category of the "global middle class." That's up from about 400 million today. These individuals will play a major role in shaping policies and institutions in their respective countries as well as the world economy.

This new model of the small global entrepreneur brings with it a new set of challenges. Besides financial resources, what these emerging businesses really need is intellectual capital: the how-tos of implementing best practices and successful business models as well as the information on regulatory environments.

KEY PERFORMANCE INDICATOR

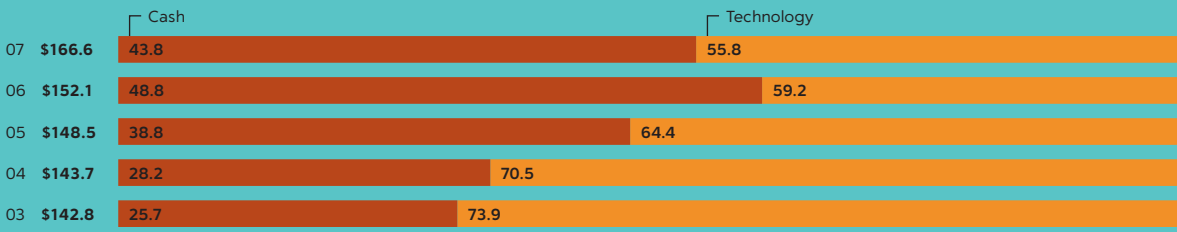
Global Contributions

GLOBAL CORPORATE CONTRIBUTIONS BY ISSUE ($ M)



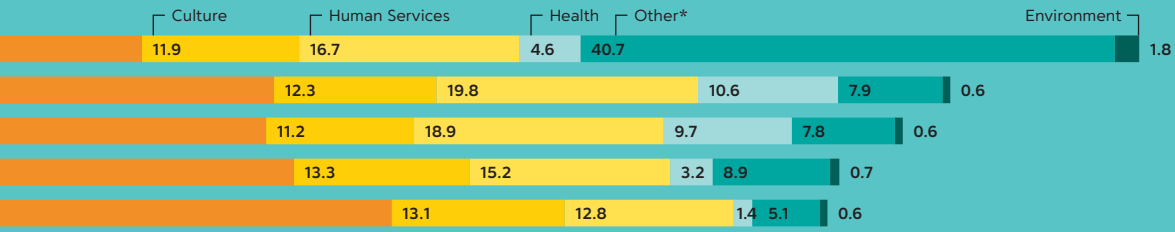
GLOBAL CORPORATE CONTRIBUTIONS BY GEOGRAPHY ($ M)

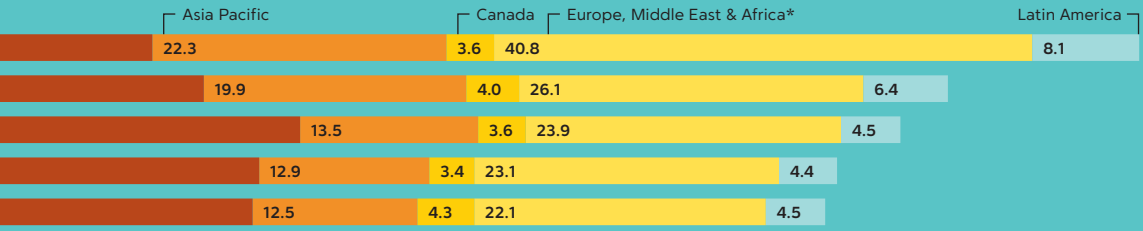
GLOBAL CORPORATE CONTRIBUTIONS BY TYPE ($ M)



Commentary: Education continues to be a primary focus for us globally, with technology and services representing the majority of contributions worldwide. Non-U.S. contributions continue to increase in accordance with strategy.

Goal: Maintain or increase total level of contributions globally, as well as the percentage of technology and services and the percentage contributed outside of the U.S.





*Includes a one-time donation for the Carson Project for community development.

Small Business Toolkit
(continued from page 37)

Because these entrepreneurial companies represent a substantial—and growing—segment of our client base, we are investing in ways to provide them with the tools and know-how to make the most out of the world's infrastructure, from global supply chains to talent pools.

Small Business Toolkit
smetoolkit.org

The Small Business Toolkit, a collaborative effort between IBM and The World Bank's International Finance Corporation, was designed to support small business growth in emerging markets. Since our partnership with the IFC was formed in 2006, the Small Business Toolkit distribution has grown to include more than 28 markets, speaking 15 different languages, and it receives more than 3.1 million visits per year. A version for women- and minority-owned businesses in the U.S. has also been created in English and Spanish. In addition, plans are now underway to expand the SME Toolkit into China, Saudi Arabia, Egypt, Turkey, Brazil, Mexico and additional parts of Africa.

"Small- and medium-sized Enterprises are key drivers of economic opportunity and development. They encourage private ownership, generate employment, spread economic activity and deliver the benefits of economic development.

In 2007, the Trestle Group Foundation joined with IBM to launch the Empowering Women Entrepreneurs Partnership Program. This initiative connects women entrepreneurs in emerging markets with IBM female professionals, who provide support in building networks, business strategies and practices for long-term success.

Directly connecting emerging economy women entrepreneurs with established business executives, the program provides critical 'human capital'—coaching, mentoring, management skills, marketing support, access to networks, resources and international markets—needed for long-term business success."

Dana Brice Smith
Co-Founder and Director, Trestle Group Foundation, which empowers entrepreneurs in emerging markets

Making Our Products More Accessible

Innovating for Inclusion

With more than 10 percent of the global population affected by some sort of disability, IBM has a goal to help give this population access to technology.

To accommodate the needs of disabled users, we invest in resources and collaborations that provide direction and guidance for the development, production and use of accessible computer and Internet technologies, educational materials and business communications. This includes:

- Leadership in key worldwide standards organizations
- The advancement of accessibility in important open standards such as OpenDocument Format

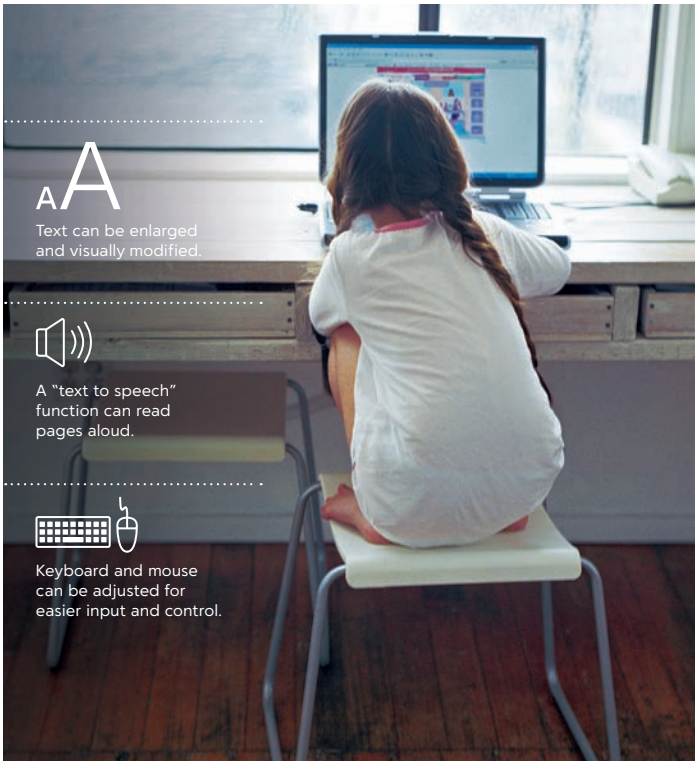
› Open source collaboration projects like IBM Research's collaboration with universities on the maturing workforce and the IBM Accessibility Tools Framework

accessibilityWorks

Our accessibilityWorks tool makes Web content available to people with disabilities and benefits those who may have difficulty reading from a computer screen or using a mouse and keyboard. accessibilityWorks contains features that allow Web content and interactions to be changed to meet individual user needs. For example, text can be enlarged and visually modified and a "text to speech" function can read pages aloud.

More than 200 nonprofit organizations and schools in 28 countries now use accessibilityWorks, and versions of the tool are currently available in multiple languages, including Brazilian Portuguese, Chinese, Italian, Spanish, Russian and Korean. In the future, there will be a concerted focus on expanding access worldwide, with particular emphasis on educating children with autism and other students with special needs. The technology is continually revised, based on input and suggestions from existing collaborators, such as Lighthouse International.

MAKING ACCESSIBILITY WORK
The versatility of accessibilityWorks technology allows it to be adapted to the needs of users with a variety of disabilities — from autism and dyslexia to declining vision and motor disabilities. Individual users select the features that best suit their specific requirements and learning modalities.



Section Three
Environment: Minimizing IBM's Impact on the Planet

OUR CHALLENGES

Increasing energy efficiency and reducing greenhouse gas emissions

Using environmentally preferable materials in our manufacturing processes, products and services

Minimizing waste and maximizing reuse and recycling

Ensuring we do business with environmentally responsible suppliers

Helping the world develop in a more sustainable manner

OUR OPPORTUNITIES

Conserving energy and producing products that maximize energy efficiency

Designing and manufacturing products and services to minimize environmental impact

Helping suppliers succeed by setting clear expectations

Developing innovative solutions to the world's energy and environmental challenges

OUR STRATEGY

Maintaining IBM's single global environmental management system

Integrating environmental responsibility throughout the fabric of IBM's business

Setting goals, measuring performance, adjusting accordingly, and disclosing results

Collaborating with industry peers regarding common supplier expectations

Integrating IBM's technical expertise and cross-industry business acumen for innovation that matters

The way the world works is changing. The systems and processes that enable billions of people to work and live; physical goods to be developed, manufactured, bought and sold; and services to be delivered are becoming increasingly instrumented, interconnected and intelligent.

This presents both an opportunity and a challenge to the development of better and more innovative approaches to managing environmental impacts.

At IBM, we apply this thinking to two overarching aspects of our business: minimizing the potential impact of our own operations and products, and applying our technology, products and services to help our clients and partners reduce theirs. Our environmental policy is supported by a comprehensive global environmental management system that governs our operations worldwide.

This section summarizes IBM's environmental programs in the following areas:

1 Climate Protection

"The world's leading scientists and economists have painted two simple visions of a globally warmed future. In one, we see a world addressing climate change and continuing to prosper; in the other, a world that ignores the threat and faces devastating losses. Choosing our preferred vision is easy. Making it a reality is more challenging.

A recent report by The Climate Group on behalf of the Global e-Sustainability Initiative (GeSI), found that smarter use of technology could reduce global emissions by 15 percent and save global industry over $946.5 billion in annual energy costs by 2020.

To share in the multi-billion dollar savings and unlock longer-term efficiency gains, mature businesses and economies need to invest in upgrading and improving entrenched systems and infrastructures. While smart technology exists already, it requires critical investment to be taken to scale and can only be unleashed with support from other industry leaders and policy makers around the world. I am confident IBM, given its track record, will be among those leading this vital progress."

Steve Howard,
Chief Executive Officer,
The Climate Group

At IBM, we recognize climate change as one of the most critical global environmental challenges facing the planet. We believe that businesses, governments and civil societies throughout the world need to work together to stabilize the atmospheric concentration of greenhouse gases (GHGs).

Our climate strategy includes a comprehensive effort to create products and develop solutions that enable clients to become more energy efficient (see pages 72-77). To reduce our company's operational environmental impact, we have a three-part strategy to reduce GHG emissions:

1. Designing, building, updating and operating our facilities and manufacturing operations to optimize our use of energy and materials and minimize GHG emissions
2. Purchasing electricity generated from low CO_2-emitting, renewable energy-generating sources where feasible
3. Efficiently utilizing the perfluorocompounds (a family of GHG materials) needed in our semiconductor manufacturing to minimize their emissions

IBM's goals and performance in these areas are summarized on pages 45-49.

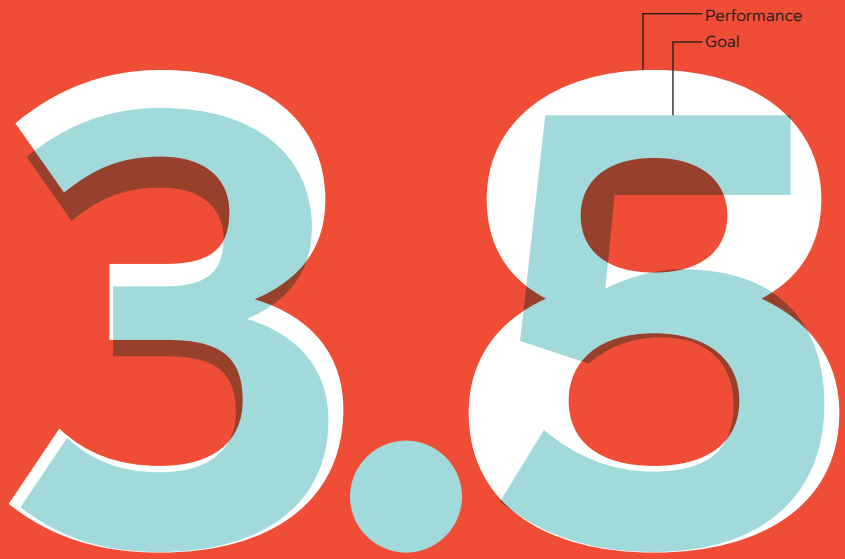
Energy Conservation

IBM's Global Energy Management team has developed energy efficiency best practice checklists for lighting, heating, ventilating and air conditioning systems, data centers and central utility plants. The top 200 energy using locations, representing over 80 percent of IBM energy use, assessed their conformance to the best practices. Based on this analysis, IBM committed $9 million per year for 2007 and 2008 to energy projects beyond those funded through the regular operational budget process.

KEY PERFORMANCE INDICATOR

Energy and Climate

ENERGY CONSERVATION
(2007 Percentage of Total Energy Use)



Goal: To achieve annual energy conservation savings equal to 3.5 percent of IBM's total energy use.

Between 1990 and 2007, IBM saved 4.6 billion kilowatt hours (kWh) of electricity consumption, avoided nearly 3.1 million metric tons of CO_2 emissions (equal to 45 percent of the company's 1990 global CO_2 emissions) and saved over $310 million through its annual energy conservation actions.

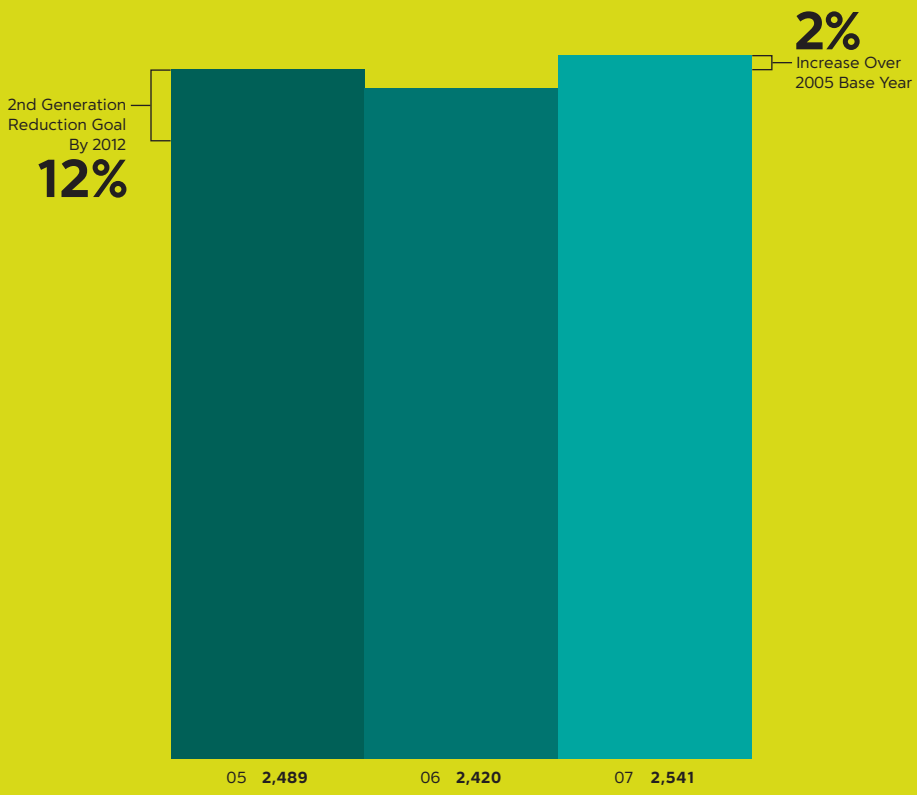
Results: In 2007, IBM's energy conservation projects across the company delivered savings equal to 3.8 percent of its total energy use versus the corporate goal of 3.5 percent.

These projects avoided the consumption of 179 million kWh of electricity and 2.7 million gallons of fuel, representing the avoidance of 111,000 metric tons of CO_2 emissions. The conservation projects also saved $19.3 million in energy expense. Reductions in energy consumption from downsizings or the sale of operations are not included in the energy conservation goal.

KEY PERFORMANCE INDICATOR

Energy and Climate

CO_2 EMISSIONS REDUCTION
(Metric Tons x 1,000)



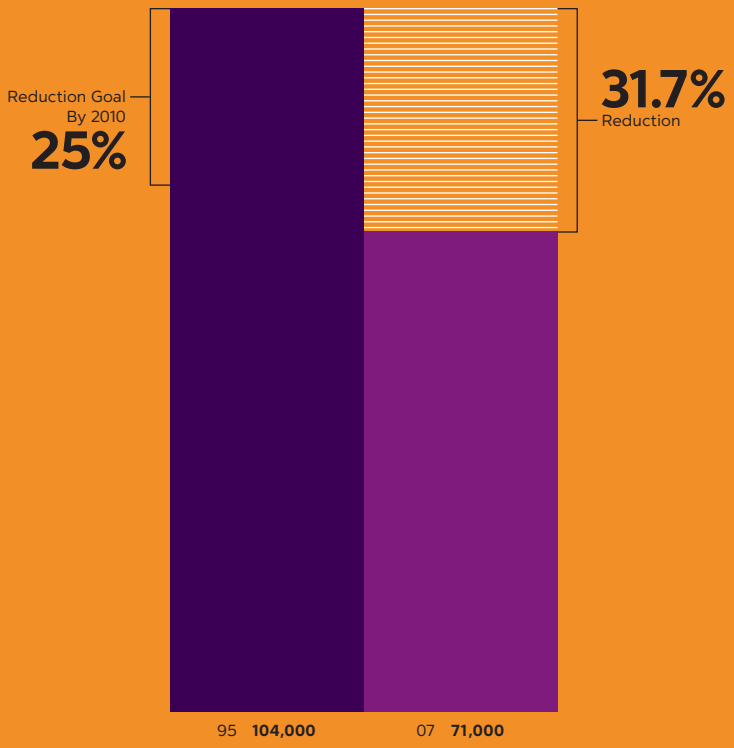
Goal: To further extend the significant reductions in CO_2 emissions IBM had achieved from 1990 through 2005, IBM set a "second generation" CO_2 emissions reduction goal: to reduce the CO_2 emissions associated with IBM's energy use 12 percent between 2005 and 2012 through: a) energy conservation, b) use of renewable energy, and/or c) funding an equivalent CO_2 emissions reduction by the procurement of Renewable Energy Certificates (RECs) or comparable instruments.

Results: In spite of outstanding conservation efforts and use of renewable energy, IBM's net CO_2 emissions increased by 5 percent between 2006 and 2007 as a result of business growth. This is a 2 percent increase when compared with the 2005 base year of IBM's goal.

KEY PERFORMANCE INDICATOR

Energy and Climate

PFC EMISSIONS REDUCTION (IN CARBON EQUIVALENTS)
(Metric Tons)



Goal: To reduce perfluorocompound (PFC) emissions from semiconductor manufacturing 25 percent by 2010 against a base year of 1995.

Results: As of year-end 2007, IBM's emissions were 31.7 percent below the 1995 baseline amount of 104,000 metric tons of carbon equivalent.

We also expanded our building recommissioning program which "fine tunes" building energy management systems to improve efficiency. In 2007, recommissioning projects saved nearly $1.8 million and 24,000 megawatt hours (MWh). In 2008, 25 sites globally will be evaluated under this program and we expect to capture an estimated $1.5 million of savings.

In spite of our significant energy conservation in 2007, our net energy use and CO_2 emissions increased by five percent over 2006 as a result of business growth.

The table at the right includes estimates for portions of IBM's office space that are leased. CO_2 emissions are calculated for all energy use, including electricity, fuel oil and natural gas.

IBM uses the greenhouse gas reporting protocol developed by the World Resources Institute and the World Business Council for Sustainable Development to gather and report its CO_2 emissions.

ELECTRICITY AND FUEL USE AND RELATED CO_2 EMISSIONS (SCOPE ONE AND TWO)

	2003	2004	2005	2006	2007
Electricity and Fuel Use (Thousand MMBTU)	**21,695**	**21,360**	**22,630**	**22,491**	**23,638**
CO_2 (Est) (Metric Tons × 1,000)	**2,334**	**2,192**	**2,489**	**2,420**	**2,541**

Using Renewable Energy

In 2007, we increased our total purchase of renewable energy to 455,000 MWh, representing 8.5 percent of our worldwide electrical usage—up from 7.3 percent in 2006. This represents a CO_2 emissions avoidance of 232,000 metric tons which was achieved through:

- **INCREASING RENEWABLE ENERGY PURCHASES IN THE U.K.** from 250,000 MWh in 2006 to 311,000 MWh in 2007 and adding 16,000 MWh and 3,865 MWh in the Netherlands and Australia respectively
- **RENEWABLE ENERGY PURCHASES IN THE U.S.** (direct purchases or purchases of RECs) totaled 110,103 MWh, placing IBM in the top 25 renewable energy purchasers on the year-end 2007 U.S. EPA Green Power Partners list and the top 15 on the Fortune 500 list

Voluntary Climate Initiatives

IBM is a charter member of the Chicago Climate Exchange (CCX), a voluntary emissions trading system with binding commitments for GHG emissions reduction by its member companies. IBM's participation in CCX covers scope one and two GHG emissions from the company's operations in Canada, Mexico and the U.S. By the end of 2007, IBM had reduced its GHG emissions 16.5 percent compared to the commitment of a 4.25 percent reduction.

We also announced a new U.S. EPA Climate Leaders program goal in 2007: to reduce total global GHG emissions by 7 percent between 2005 and 2012. We achieved our first Climate Leaders goal by reducing our total global energy-related GHG emissions an average of six percent per year and PFC emissions by 58 percent from 2000 to 2005.

Transportation

Employee Commuting

At IBM, we have been active in promoting programs that reduce our employees' commute. We have two flexible work programs:

- **WORK-AT-HOME:** Enables many employees to have their office be their home
- **MOBILE EMPLOYEES:** Enables many other employees to work from home a designated number of days each week

Last year, in just the U.S. alone, our work-at-home program conserved approximately 7.75 million gallons of fuel and avoided more than 64,000 metric tons of CO_2 emissions as a result of reduced employee commuting. Globally, many IBM locations provide support for the use of public transit systems, including shuttles from locations to mass transit stations, and alternate transportation or "loaner" cars for business trips during the workday.

Business Travel

We have developed a suite of IT collaboration tools to enable real-time collaboration without travel, including e-meetings, Web conferencing capabilities, advanced audio conferencing, video conferencing and instant messaging. During 2007, on average, there were approximately 1,000 Web conferences involving 5,000 participants each business day. Sixteen percent of these conferences involved clients and business partners.

Logistics

We have been working to make our logistics operations more efficient, and are a member of the U.S. EPA's SmartWay℠ Transport program, a voluntary initiative to improve fuel efficiency and reduce GHG emissions associated with our logistics operations. In 2007, 85 percent of our spending for shipping goods within the U.S. and from the U.S. to Canada and Mexico was spent with SmartWay carriers. In recognition of its leadership, IBM received a 2007 SmartWay Excellence Award. We have also extended specific SmartWay requirements to our global distribution operations.

2 Product Stewardship

The objectives of our product stewardship program, which was established in 1991, are to develop, manufacture and market products that are increasingly energy efficient; can be upgraded and reused to extend product life; incorporate recycled content and environmentally preferable materials and finishes; and can be recycled and disposed of safely.

Our environmental requirements for our products are integrated into our global environmental management system (EMS) and are included in our *Integrated Product Development* process.

Environmentally Preferable Substances and Materials

As an integral part of its EMS, IBM routinely and consistently monitors and manages the substances it uses in its manufacturing and development processes and in its products. Our precautionary approach includes the careful scientific review and assessment of certain substances prior to their use in IBM's processes and products. We have proactively banned or restricted substances used in our processes and products when sound science has determined an adverse effect on human health or the environment—and have often taken these steps in advance of any legal or regulatory intervention. Some examples:

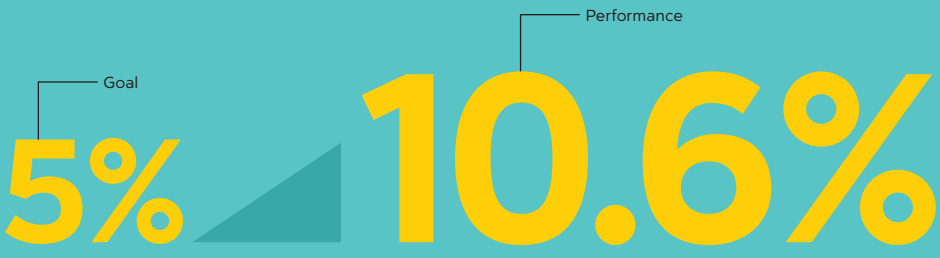
- **WE PROHIBITED** the use of polybrominated biphenyls (PBBs) and polybrominated diphenyl ethers (PBDEs) in our product designs during the early 1990s and in purchased commodities in 1993.
- **WE BANNED** the use of cadmium in inks, dyes, pigments and paints in 1993, in plastics and plating in 1994, and in CRT monitors along with nickel cadmium batteries in the mid-1990s.
- **WE DISCONTINUED** the use of polyvinyl chloride (PVC) in IBM IT system enclosures in 2000 and prohibited it from OEM system enclosures in 2007.
- **WE PROHIBITED** the use of nonreacted tetrabromobisphenol A (TBBPA) as a flame-retardant in IT system enclosures in 2007.

IBM's Product Environmental Restrictions and Requirements
ibm.com/ibm/environment/products/especs.shtml

KEY PERFORMANCE INDICATORS

Product Stewardship

RECYCLED PLASTICS



Results: In 2007, 10.6 percent of the total plastic IBM procured under its corporate contract for use in IBM products was from recycled content versus our goal of 5 percent or more.

Since the inception of this program in 1995, 11.8 million pounds of recycled resins have been procured under IBM's corporate contracts for use in IBM products.

PRODUCT PERFORMANCE AND POWER IMPROVEMENT

Range of percent increase in computing capability per kWh of electricity used in servers, point-of-sale terminals, optical storage

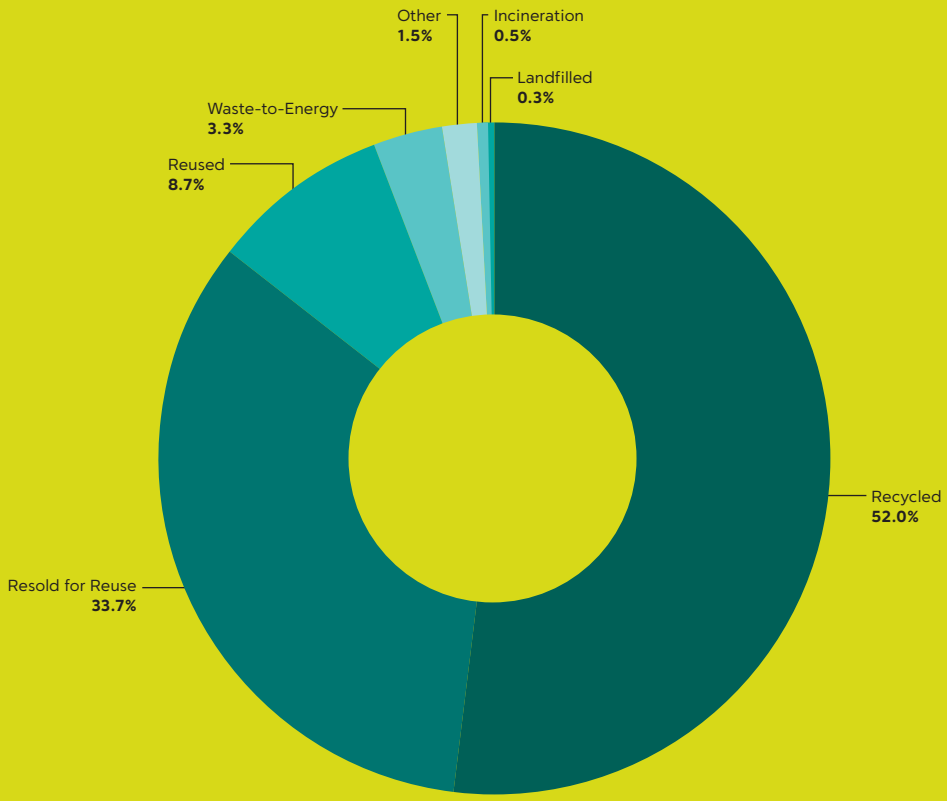
Goals and Results: IBM's product energy goal is to continually improve the computing power delivered for each kWh of electricity used with each new generation or model of a product. New models in 2007 delivered 14 percent to 73 percent more computing capability for each kWh of electricity used.

Note: IBM sold its Printing Systems Division in 2007. No new monitors or DASD subsystems were released in 2007.

KEY PERFORMANCE INDICATOR

Product End-of-Life Management Operations

LANDFILL AND INCINERATION MINIMIZATION
(Percentage by Weight 2007)



Goal: Reuse or recycle end-of-life products so that the amount of product waste sent by IBM to landfills or to incineration for treatment does not exceed 3 percent of the total amount processed.

Results: In 2007, our Product End-of-Life Management (PELM) operations worldwide processed 44,332 metric tons of end-of-life products and product waste. This represents 42.4 percent of the estimated 104,592 metric tons of new IBM IT equipment manufactured and sold in 2007. IBM's PELM operations sent only 143.7 metric tons (0.3 percent) of the total amount processed to landfills. When combined with incineration, these PELM operations sent only 346.5 metric tons (0.8 percent) of the total amount processed to incineration facilities for treatment or to landfills.

Product End-of-Life Management

Our Global Asset Recovery Services organization offers Asset Recovery Solutions to commercial customers in 57 countries, including:

- **MANAGEMENT OF DATA SECURITY** and disk overwrite services
- **WORLDWIDE REMARKETING NETWORK** for product resale
- **STATE-OF-THE-ART REFURBISHING AND RECYCLING CAPABILITY** for IT equipment
- **OPTIONAL LOGISTIC SERVICES** such as packing and transportation

By the end of 2007, IBM's Product-End-of-Life Management (PELM) operations had documented the recovery and processing of more than 1.5 billion pounds (686.9 million kilograms) of product waste worldwide since 1995, the year we began reporting this metric.

3 Pollution Prevention and Waste Management

Whenever possible, IBM designs processes to eliminate or reduce chemical use and substitute more environmentally preferable chemicals. We understand how important it is for chemicals that are used for research, development and manufacturing to be managed properly—from selection and purchase through storage, use and disposal.

IBM has developed comprehensive programs and practices for review and authorization of chemical usage and for the storage and utilization of chemicals. The company also has a comprehensive and proactive waste management program that ensures that materials disposed of by IBM are managed in a responsible manner.

KEY PERFORMANCE INDICATOR

Pollution Prevention

HAZARDOUS WASTE GENERATION

Reduced

8.4%

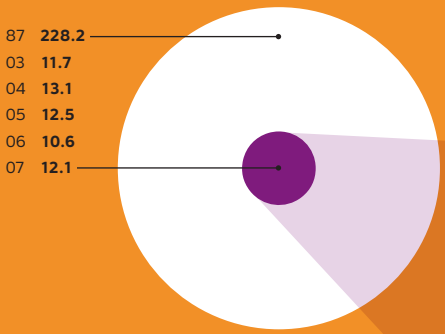
Indexed to Output

Goal: Achieve year-to-year reduction in hazardous waste generation from IBM's manufacturing processes indexed to output.

Results: In 2007, IBM's hazardous waste generation indexed to output was reduced by 8.4 percent. This means that source reduction efforts avoided the generation of hazardous waste by 302 metric tons. This goal covers approximately 90 percent of IBM's manufacturing and hardware development-related hazardous waste, which comes from four manufacturing sites.

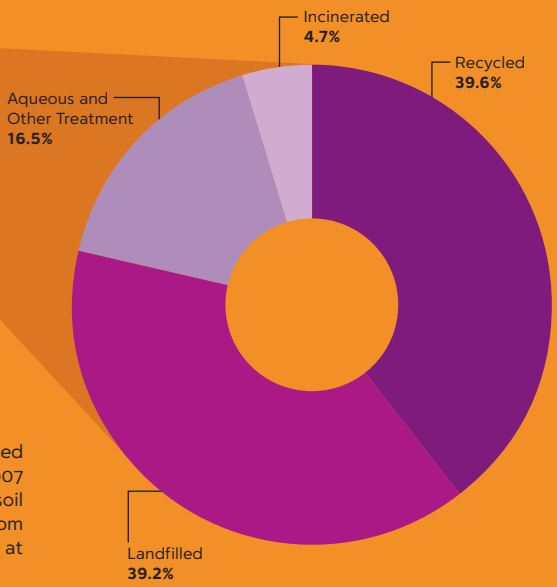
HAZARDOUS WASTE QUANTITIES WORLDWIDE

(Metric Tons × 1,000)



HAZARDOUS WASTE MANAGEMENT WORLDWIDE

(2007 Quantities 12,054 Metric Tons)



Commentary: Our hazardous waste generation increased by 1,423 metric tons, or 13 percent, from 2006 to 2007 — which was the result of managing contaminated soil from remediation work at one IBM site and sludge from a periodic cleaning of emergency holding tanks at another site.

In 2007, IBM recycled 39.6 percent of our hazardous waste, and 39.2 percent was sent to landfills. Of the total amount that went to landfill, 53 percent was sludge from industrial wastewater treatment plants. Local government regulations require disposition of this sludge in secure hazardous waste landfills.

IBM's total hazardous waste has decreased by 94.7 percent since 1987, the base year of this metric.

Commentary: It is possible for IBM's total hazardous waste to increase year-to-year even when it was reduced relative to output in our metric. This is due to the fact that our total hazardous waste includes waste from operations other than manufacturing, such as facility operations and distribution.

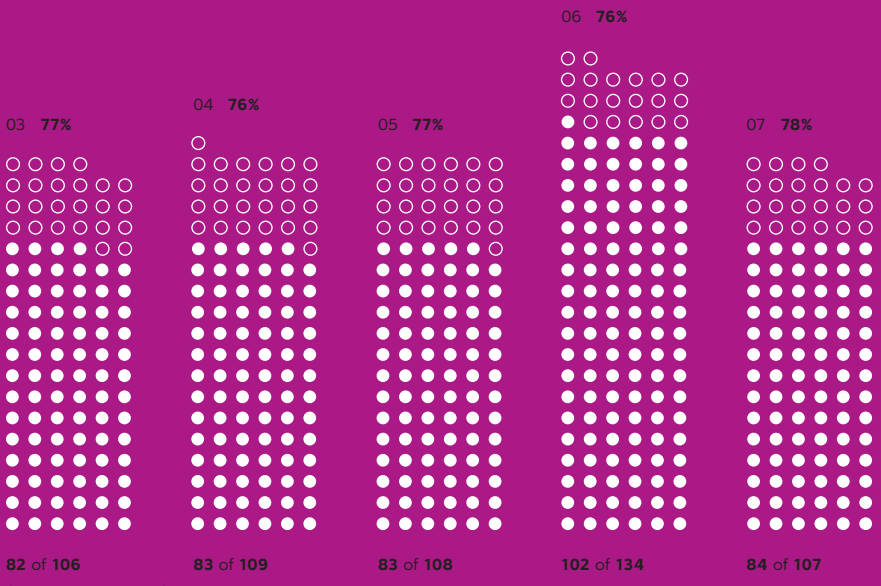
KEY PERFORMANCE INDICATOR

Nonhazardous Waste Recycling

PERCENT RECYCLED

○ Total Generated

● Total Recycled



82 of **106**

83 of **109**

83 of **108**

102 of **134**

84 of **107**

(Metric Tons × 1,000)

Goal: Send an average of 75 percent of the nonhazardous waste generated at locations managed by IBM to be recycled.

Results: In 2007, IBM sent 78 percent of its nonhazardous waste to be recycled, with 52 percent of the locations achieving or exceeding the 75 percent recycling goal.

Note: Data for 2006 was revised. The recycling percentage was previously incorrectly reported as 74.3 percent.

KEY PERFORMANCE INDICATOR

Chemical Use and Management

WORLDWIDE USE OF CHEMICALS ON THE U.S. TOXIC RELEASE INVENTORY LIST*

2007 Reduction

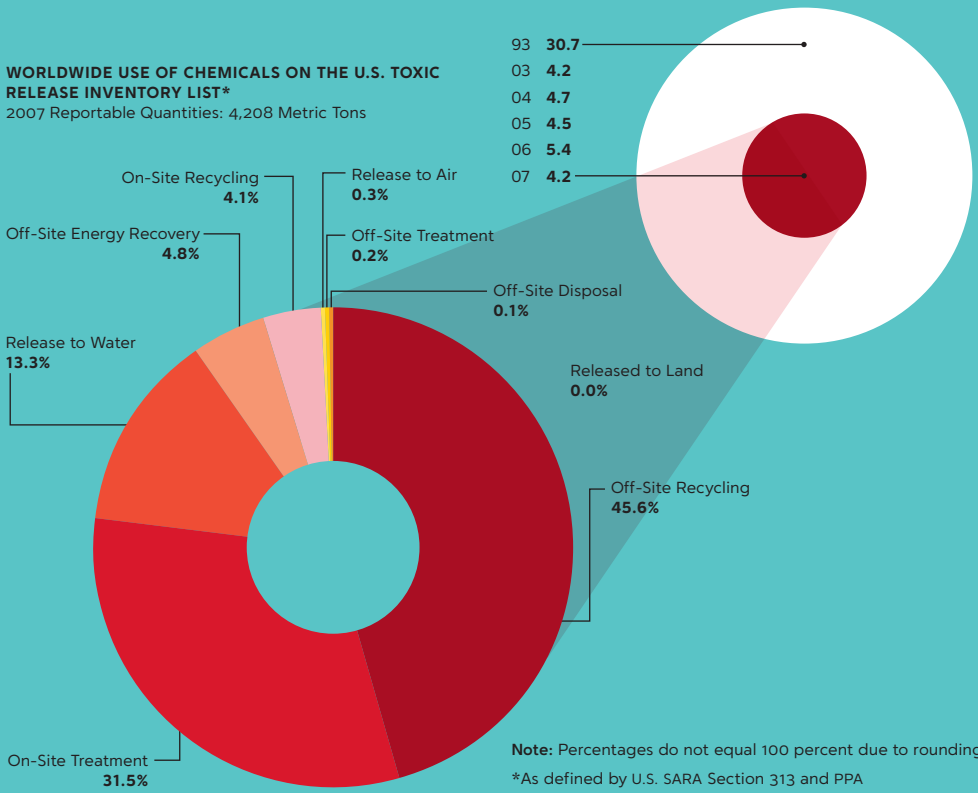
22.3%

Goal: Continual reduction in worldwide use of chemicals on the U.S. Toxic Release Inventory (TRI) list of chemical quantities.

Results: From 2006 to 2007, IBM's total chemical quantities worldwide decreased by 1,207 metric tons to 4,208 metric tons.

Commentary: Under the U.S. Superfund Amendments and Reauthorization Act (SARA) of 1986 and the U.S. Pollution Prevention Act (PPA) of 1990, companies are required to file an annual inventory of routine releases and off-site transfers in addition to recycling, treatment and energy recovery activities for more than 600 chemicals listed on the TRI list. IBM has used the TRI metric to measure its chemical quantities, releases and transfers for its operations globally since 1993. In 2007, IBM sites worldwide used 16 of these chemicals in quantities greater than the reporting threshold of 10,000 pounds (4.54 metric tons) of use per year. Since 1993, the base year of this metric, we have reduced our total TRI chemical quantities worldwide by 86.3 percent.

WORLDWIDE USE OF CHEMICALS ON THE U.S. TOXIC RELEASE INVENTORY LIST*
(Reportable Quantities in Metric Tons × 1,000)



WORLDWIDE USE OF CHEMICALS ON THE U.S. TOXIC RELEASE INVENTORY LIST*
2007 Reportable Quantities: 4,208 Metric Tons

Note: Percentages do not equal 100 percent due to rounding.

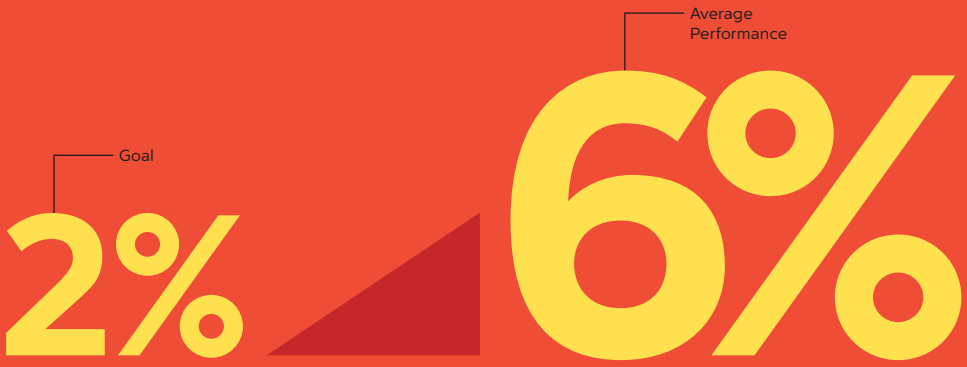
*As defined by U.S. SARA Section 313 and PPA

KEY PERFORMANCE INDICATOR

Water Conservation in Semiconductor Manufacturing Operations

WATER CONSERVATION

03 **11.0%**
04 **10.3%**
05 **3.7%**
06 **2.3%**
07 **4.1%**



Goal: To achieve an annual water savings equal to 2 percent of total annual water usage in our microelectronics manufacturing operations, based on the water usage of the previous year and measured as an average over a rolling five-year period.

Results: In 2007, water initiatives in IBM's microelectronics operations achieved a 4.1 percent savings rate, translating to a savings of 1,601 thousand cubic meters (TCM) of water. In addition, ongoing recycling and reuse activities in microelectronics manufacturing operations accounted for an additional 1,411 TCM of water conserved.

Over the past five years, IBM's microelectronics manufacturing operations had achieved an average annual water savings of 6 percent versus the 2 percent goal established in 2000.

5 Audits

Every IBM manufacturing, hardware development and research site completes a comprehensive self-assessment every year, some more frequently. Each year, certain sites are also audited for environmental, health and safety compliance by our Corporate Internal Audit staff. In addition, as part of our global registration to ISO 14001, approximately 20 sites or registered entities are audited annually by an independent ISO 14001 registrar.

6 Remedial Activity

When groundwater contamination was first discovered at one of our sites in 1977, we initiated groundwater monitoring at all of our manufacturing and development locations worldwide. Today, IBM has 2,752 monitoring and 114 extraction wells.

In 2007, 13,254 pounds of solvents from past contamination were extracted while remediating, controlling and containing groundwater at seven currently operating sites and 11 former sites in three countries. At four of these sites, an additional 546 pounds of solvents were removed by soil vapor extraction or other methods.

As a result of the U.S. Superfund law, IBM is also involved in cleanup operations at some non-IBM sites in the U.S. The Superfund law creates a retroactive responsibility for certain past actions even though they may have been technically and legally acceptable at the time and requires that companies whose waste was sent to such sites share in the cleanup costs.

As of year-end 2007, IBM had received notification of its potential liability at 109 sites. At the majority of these sites, it has been determined that IBM either never had liability or has resolved liability. As a result, IBM believes it presently may have potential liability at only 17 sites.

When investigation and/or remediation at an IBM location or an off-site facility is feasible, and its costs can be reasonably estimated, we establish accruals for loss contingency. Estimated costs connected with closure activities (such as removing and restoring chemical storage facilities) are accrued when the decision to close down a facility is made. At the end of 2007, the total accrual amount was $261 million.

7 Environmental Partnerships

We are members of many voluntary initiatives and partnerships with governmental and nongovernmental organizations. Some examples:

- U.S. EPA's ENERGY STAR, Climate Leaders and SmartWay Transport programs
- Carbon Disclosure Project
- Chicago Climate Exchange
- World Resources Institute's Green Power Market Development Group
- The Climate Group
- Pew Center on Global Climate Change
- World Wildlife Fund's Climate Savers program
- World Business Council for Sustainable Development
- World Environment Center
- Environmental Law Institute

8 Supply Chain Environmental Management

As part of IBM's global EMS, we conduct environmental evaluations of a relevant subset of our suppliers, including all our hazardous waste services suppliers, certain production-related suppliers and all our product recycling and disposal suppliers. To address concerns about recycling in the extended supply chain, we also evaluate certain subcontractors our suppliers may use to handle recycling or disposal operations.

IBM encourages its suppliers to pursue ISO 14001 registration. We have also undertaken supplier training on environmental issues such as the relevant requirements of the E.U.'s RoHS and REACH Directives and the required information for IBM's Product Content Declaration forms.

We are also members of the Electronic Industry Citizenship Coalition (EICC) and the CDP'S Supply Chain Leadership Collaboration (SCLC). These programs are helping to encourage environmental leadership in the supply chain.

Section Four
Promoting Social Responsibility with our Suppliers

OUR CHALLENGES

Extending supply chain social responsibility across a global supply chain

Improving our suppliers' ability to meet social responsibility requirements in our sourcing strategies

OUR OPPORTUNITIES

Assisting suppliers in emerging markets to develop into world-class providers

Raising the management systems capabilities of suppliers and sharing best practices

Contributing to the sustainable economic development of emerging markets

OUR STRATEGY

Identifying patterns of compliance and noncompliance through audits conducted in supplier locations globally

Facilitating learning and capacity building programs

Chairing the Electronic Industry Citizenship Coalition to promote collaboration within the industry

Including Supplier Code of Conduct in pre-sourcing activities

For an enterprise like IBM to consistently provide innovative products and services on a global basis, it must maintain a strong supply chain — especially today, with markets so diverse and dispersed. We currently have about 30,000 supplier locations in more than 60 countries.

At IBM, we understand that our supply chain is only as good as the relationship we have with our suppliers. We believe in the value of establishing long-term supplier relationships which facilitate sustained growth and opportunities for both IBM and our suppliers. To help define the parameters of the relationship, we have developed a comprehensive Supply Chain Social Responsibility initiative that underscores our belief that values define business relationships just as much as economic necessities do. This includes:

1

What We Expect of Our Suppliers

"Over the past decade, companies in many sectors have begun to address issues within their supply chains both individually and collectively. Initial efforts have resulted in some level of improved factory labor and environmental conditions through auditing procedures and subsequent remediation plans to improve compliance. However, it is time for companies to move to the next step of factory engagement in order to effect change.

Despite a decade of good intent and dedicated resource commitment, programs based on the traditional audit model have not brought sustained workplace improvement in the global supply chain. Leadership companies like IBM have begun to focus on improved capacity building and collaboration as a means of furthering on-the-ground change.

The technology sector has been one of the first to proactively address supplier issues in a consistent and collaborative way through the efforts of the EICC. Looking ahead, the industry will also need to consider:

- Stronger consistency and shared processes to reduce duplicate efforts with suppliers
- Improved communication between buyers and suppliers in order to incorporate suppliers' needs, including those related to incentives, in a more sustained manner
- Stronger engagement with local government, industry participants and NGOs to help address systemic issues, such as excessive working hours and full payment of wages and social benefits"

Wei dong Zhou,
Business for Social Responsibility China Director

The foundation of our Supply Chain Social Responsibility program is a set of Supplier Conduct Principles that outlines our expectations in regards to working hours, wages and benefits, employee health and safety, nondiscrimination, communications, the environment and ethics.

Our Supplier Conduct Principles are integrated into new and existing contracts and relationships with suppliers. We have also undertaken hundreds of on-location supplier assessments to the Code of Conduct, focusing on suppliers in emerging markets where noncompliance may be likely to occur.

By the end of 2007 we had conducted more than 450 audits with suppliers in 12 countries. Audits were conducted by third-party agencies with local personnel who specialize in social responsibility and are well versed in local law, practices, culture and customs.

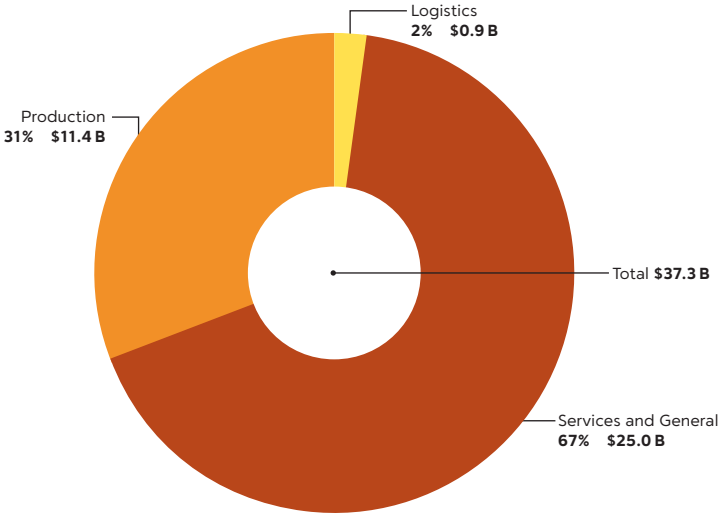
Our supplier audit program encompasses both manufacturing (production) and distribution (logistics) suppliers — which are historically where social audits are focused — as well as services and general procurement suppliers. With IBM's growth in services offerings, we believe it is important to include all of these in our program and also monitor trends specific to these categories of suppliers.

It is important to recognize the efforts of the many suppliers that are compliant with all or most of the provisions in our Code of Conduct. During our audits we strive to identify "best practices" and we commend our suppliers for demonstrating many of the following over the past year:

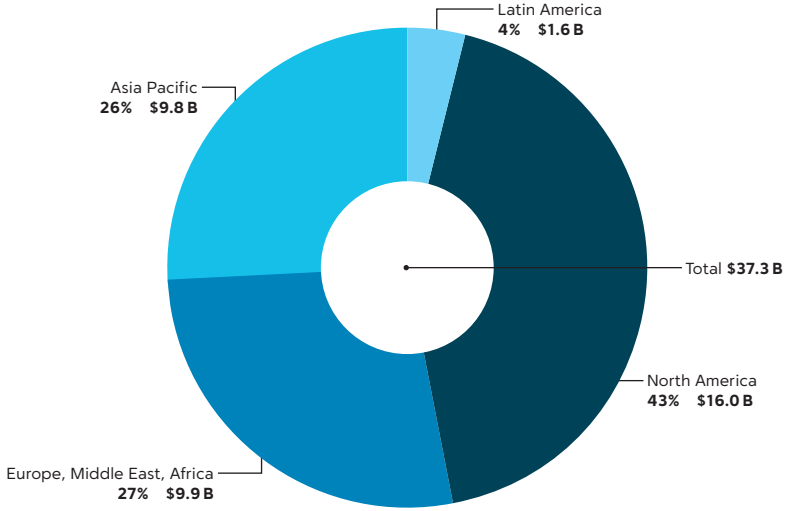
- Senior management directly involved in social responsibility
- Open management/worker communication channels
- Written policies on human resources, health and safety, nondiscrimination and ethics
- Frequent health and safety worker retraining
- Detailed pay stubs with full disclosure of calculations
- On-location worker recreational and educational programs
- Active environmental conservation programs

Supply Chain Social Responsibility
ibm.com/procurement

2007 SUPPLIER SPENDING
By Category



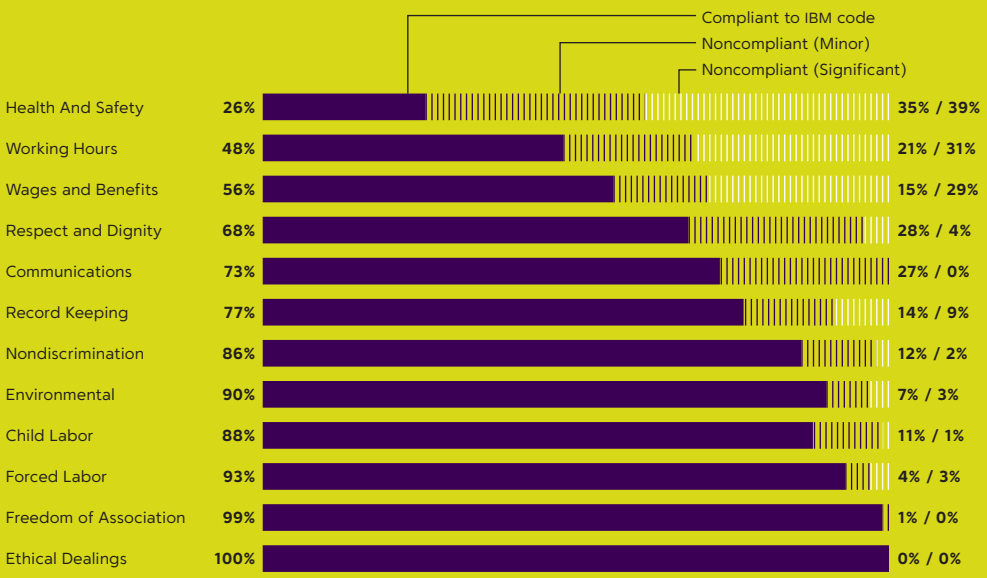
2007 SUPPLIER SPENDING
By IBM Location



KEY PERFORMANCE INDICATOR

Supply Chain Social Responsibility Audits

SUPPLIER INITIAL AUDIT RESULTS
(2004-2007)

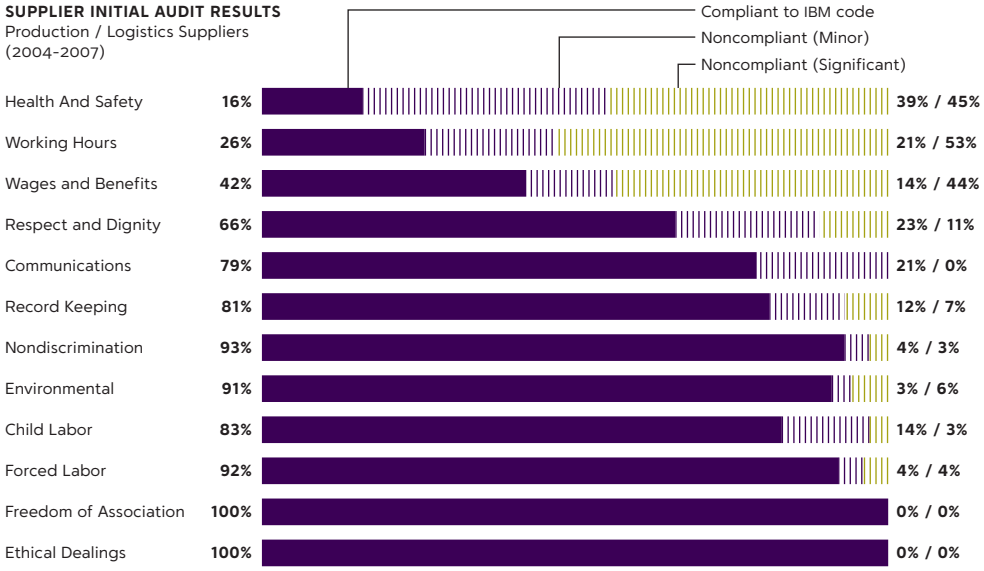


Commentary: By the end of 2007 we had conducted over 450 audits with suppliers in 12 emerging market countries. Audits were conducted by third-party agencies with local personnel who specialize in social responsibility and are well versed in local law, practices, culture and customs. ∗ Overall, these audits have provided a number of insights:

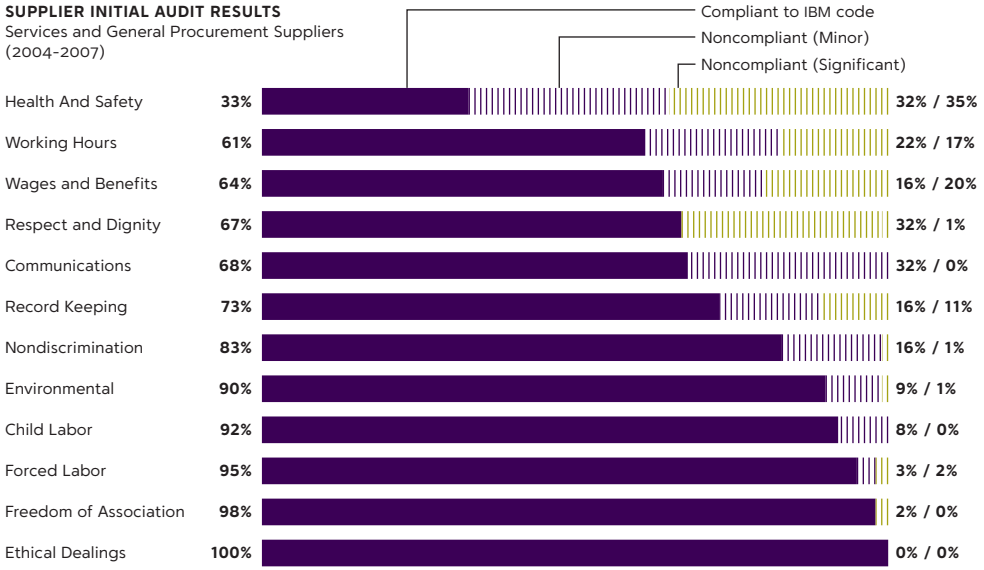
- Suppliers in emerging markets generally need to further develop their management systems in non-operational areas such as human resources, health and safety, compliance and communications.
- Local culture is a strong influencer of compliance with Codes of Conduct.
- Manufacturing and Distribution suppliers generally were found to have a larger number of non-compliances than services and general procurement suppliers.
- Our findings are similar to other companies performing supplier audits, both inside and outside the electronic sector.

Note: The graph shows the cumulative findings of assessments, including suppliers of both manufactured products and services in Brazil, China, Czech Republic, Hungary, India, Mexico, Philippines, Poland, Romania, Slovakia, Taiwan and Thailand.

SUPPLIER INITIAL AUDIT RESULTS
Production / Logistics Suppliers
(2004-2007)



SUPPLIER INITIAL AUDIT RESULTS
Services and General Procurement Suppliers
(2004-2007)



2

Continuous Improvement

We share audit results with our suppliers so that they are aware of any noncompliance with IBM's Supplier Conduct Principles. When audit findings reveal noncompliances, we require that our suppliers submit root cause and corrective action plans for our approval. We believe that this encourages them to take ownership over their own progress and devise realistic solutions that work for them. During 2007, we reviewed and accepted over 90 supplier improvement plans resulting from audits conducted during the year.

Our objective is to work with our suppliers to foster full compliance as they, in turn, apply these to the parts of their supply chain that are engaged in the production of goods and services for IBM. This interchange of audit information and improvement plans helps emphasize to our suppliers that continuous improvement is a requirement for their global supply chain as well as ours. The exchange also helps foster our suppliers' efforts to establish social responsibility as part of their own branding and daily operations.

We have also created an educational program to help our internal procurement teams become knowledgeable about IBM's Supply Chain Social Responsibility requirements as they conduct business with our suppliers on an ongoing basis. Over 700 buyers, engineers and interested employees have taken this Supply Chain Social Responsibility course since it was made available in 2005.

3

Industry Collaboration: Electronic Industry Citizenship Coalition

While we continue to advance our own IBM internal supply chain programs and trainings, we strongly believe in the value of industry collaboration. For example, we were one of the original companies to adopt the Electronic Industry Citizenship Coalition's (EICC) Code of Conduct (CoC) in 2004.

The EICC is the combined effort of more than 40 companies focused on improving industry-wide social and environmental performance through the adoption of a standardized industry code of conduct as well as consistent use of effective implementation tools and methods.

The creation and acceptance of a single common code of standards and consistent auditing and reporting procedures for the electronics industry make compliance more straightforward and efficient for all parties involved. The EICC Code covers expectations for performance across a range of issues including labor practices, health and safety, ethics and management systems, and environmental practices. And we accept the EICC Code as an equivalent to the IBM Supplier Conduct Principles.

In the three years since the EICC's inception, it has largely focused on establishing the Code of Conduct and developing implementation tools—building a foundation from which we expect to see tangible results during the next phase of implementation. The EICC offers great value in fostering peer learning and enabling access to responsible suppliers. We believe that aligning and incorporating different approaches, increasing dialogue and combining resources will lead to greater success in improved standards and consistent evaluation and performance for all.

In 2007, IBM's Manager of Supply Chain Social Responsibility, John Gabriel, assumed a post as Chair of the EICC, deepening our commitment to leadership of this initiative.

Looking Forward

A major priority will be to actively use the IBM Supplier Conduct Principles and the EICC Code of Conduct in pre-sourcing activities in emerging market countries as a means to better understand the environment and suppliers' readiness to assume social responsibility prior to conducting business. To achieve this, we will conduct pilot audits with high-potential suppliers in emerging market countries where our sourcing is in its infancy. This is a significant proactive step in moving our initiative to the forefront of sector activities in emerging markets.

Finally, we look forward to using the EICC's learning and capability training applications, joint audit activity, and database for the controlled exchange of audit reports.

4

Supply Chain Diversity

Through our sourcing practices we support a variety of diverse suppliers, including companies owned by minorities, women, people with disabilities and GLBT. In 2007 alone, we spent $1.4 billion with such first-tier suppliers in the U.S. and $2.4 billion worldwide (first and second tier diverse spend).

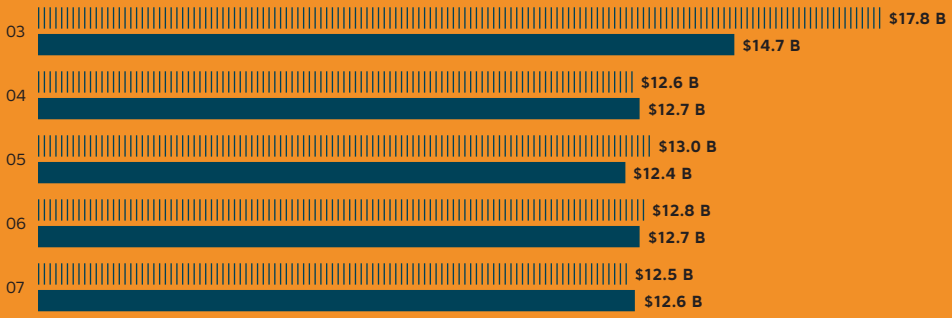
We have also established relationships with a number of organizations around the world that focus on supplier diversity programs for minority- and women-owned businesses. These organizations include, but are not limited to:

- **NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL** (NMSDC's) International Committee
- **CANADIAN, ABORIGINAL AND MINORITY SUPPLIER COUNCIL** (CAMSC) in Canada
- **MINORITY SUPPLIER DIVERSITY UNITED KINGDOM** (MSDUK)
- **ASSOCIATION OF ADVANCED KNOWLEDGE PROMOTION IN ETHNIC REGIONS** (AKPRO)
- **WOMEN'S BUSINESS ENTERPRISE NATIONAL COUNCIL** (WBENC)
- **THE U.S. NATIONAL GAY AND LESBIAN CHAMBER OF COMMERCE** (NGLCC)

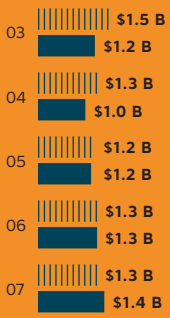
KEY PERFORMANCE INDICATOR

Supplier Diversity

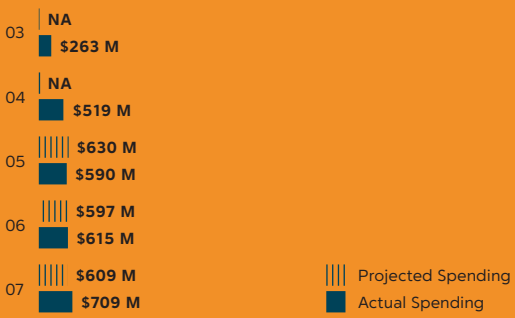
TOTAL U.S. SPENDING (First Tier)



DIVERSE U.S. SPENDING (First Tier)



DIVERSE NON-U.S. SPENDING (First Tier)



Commentary: IBM has established relationships with a number of organizations around the world that focus on supplier diversity programs for minority- and women-owned businesses. In addition to ensuring that certified U.S.-owned diverse businesses are given the opportunity to participate in the supply chain process worldwide, IBM understands the need to provide opportunities for in-country diverse owned businesses. This demonstrates IBM's commitment to the communities in which we operate around the world.

Short-Term Goals: Provide supplier diversity education to all non-U.S. members of the Global Procurement organization ∗ Participate with NMSDC in the establishment of MSD-China ∗ Identify high-quality diversity suppliers based in non-U.S. geographies

Long-Term Goals:

- Achieve $1 billion in supplier diversity spend outside the U.S. ∗ Mirror our U.S. supplier development programs in non-U.S. geographies
- Key programs include our Regional Town Meetings, Mentor Program, and Matchmakers
- Establish diverse supplier relationships in Australia and South Africa

Section Five
Collaborative Solutions: Partnering to Change the Way the World Works

OUR CHALLENGES

Providing solutions to help clients address social and environmental opportunities and issues

Developing IBM's position as a natural solutions partner in a data-rich world comprised of complex systems

OUR OPPORTUNITIES

Improving energy consumption and reducing emissions used by IT products and services

Addressing the world's most pressing challenges through collaboration, while maintaining intellectual property rights

OUR STRATEGY

Investing in greener technologies that enable our clients to reduce their environmental impact

Using the power of collaboration to develop innovative solutions to global problems

Pursuing a balanced approach to intellectual property and maintaining it as a strategic business asset, while supporting open standards

The IBM 2008 CEO Study told us that organizations are aware of the need for profound change, in order to compete in an increasingly networked and dynamic global economy. And they plan bold moves in response. However, most also felt that their organizations were not ready to carry out the level of change required.

CEOs realize that tackling these issues will require a commitment to progressive, innovation-based agendas—the ability to build organizational cultures and sustainable processes that welcome and engage in diverse and open partnerships. It will also necessitate continual adaptation, the learning of new skills. And both of these imperatives will require collaborative approaches that are larger in scale, more diverse—and inherently less predictable—than those of the past.

At IBM, we look at the challenges from several different vantage points:

1

Solutions for Corporate Social Responsibility, Energy and the Environment

According to what we learned from the IBM 2008 CEO Study, more than two thirds of CEOs take a positive view of corporate social responsibility (CSR) and plan major investments to improve their corporate social responsibility efforts.

A separate, global IBM CSR study of more than 250 senior executives showed that 68 percent of them are focusing on CSR activities to create new revenue streams, and 54 percent believe that CSR gives them a competitive advantage. In addition, CEO agendas are expanding to include new regulatory environments worldwide with stricter controls over energy consumption, greenhouse gases, and the use and disposal of hazardous substances. The CEO Study also found that executive focus on environmental issues has doubled in the past four years.

At IBM, we are already working with thousands of organizations worldwide to help them address these opportunities and challenges. We are drawing on the industry expertise we have gained through client engagements in every industry, region, and research and development capability—and on nearly four decades of environmental responsibility and CSR leadership. Here are some examples of the kinds of solutions IBM offers:

Business Process Transformation

CARBON MANAGEMENT DIAGNOSTICS

Detailed analysis of carbon impact

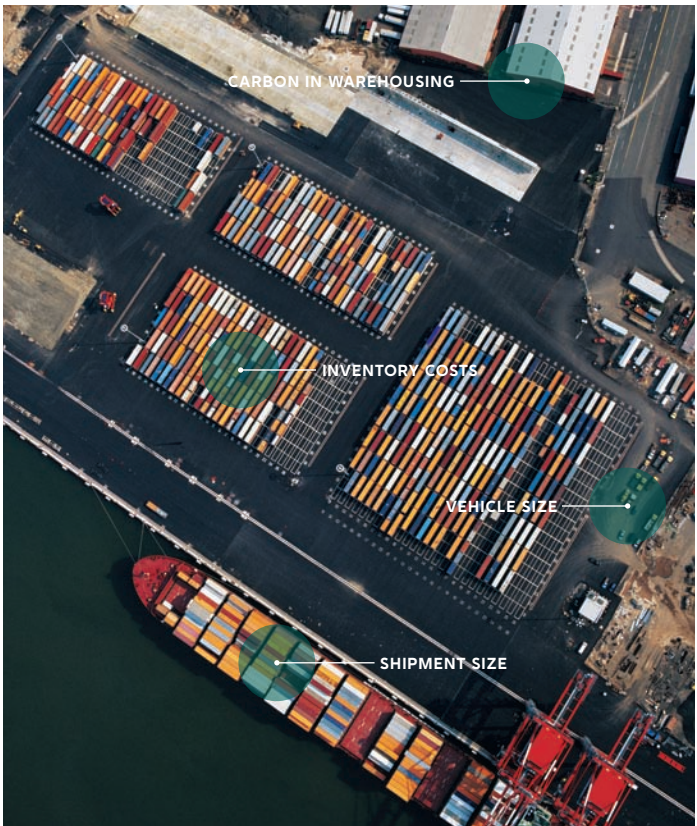
With each ton of carbon dioxide (CO_2) causing an estimated economic damage of about $85, companies and governments are taking action to address carbon emissions. And IBM is helping clients worldwide develop and implement innovative strategies to assess and reduce their levels of CO_2 emissions.

Based on IBM's Component Business Model (CBM) approach, our carbon management specialists utilize industry-specific carbon diagnostics tools to assess the current carbon management performance of organizations' activities against future best practices and benchmarks.

Using the results of the diagnostic tools, we can understand the client's performance gaps and develop realistic objectives. IBM takes into account these objectives and performance gaps, and we work with our clients to create a prioritized road map of actions to be taken to implement the most effective approaches to carbon management.

OPTIMIZING SUPPLY CHAIN EFFICIENCIES

The volume of global trade has more than doubled over the last decade, and increasingly global supply chains are contributing to the problem of carbon emissions. The trade-offs in the supply chain are no longer just about cost, service and quality—but about carbon as well. IBM's Carbon Tradeoff Modeler is designed to model the factors that drive supply chain CO_2 emissions from both a manufacturing and distribution perspective. It helps quantify the tradeoffs between CO_2 emissions and other supply chain metrics such as inventory and on-time delivery, and identifies areas where carbon dioxide emissions and costs can be reduced simultaneously.



VIRTUAL AUDITS FOR ETHICAL MANUFACTURING

Improving compliance intelligence

Virtual audits help maintain ethical manufacturing standards across a distributed supply system, based on business processes that quantify, analyze and mitigate risk. The approach uses business rules to prioritize the monitoring, engagement and education activities related to global labor practices. It also supports a system in which visibility to information can facilitate complex audit processes, the assignment of factory risks and critical business decision-making. With the help of virtual audits, factories with poor compliance scores, aging audits or other potential risks can be flagged for further action.

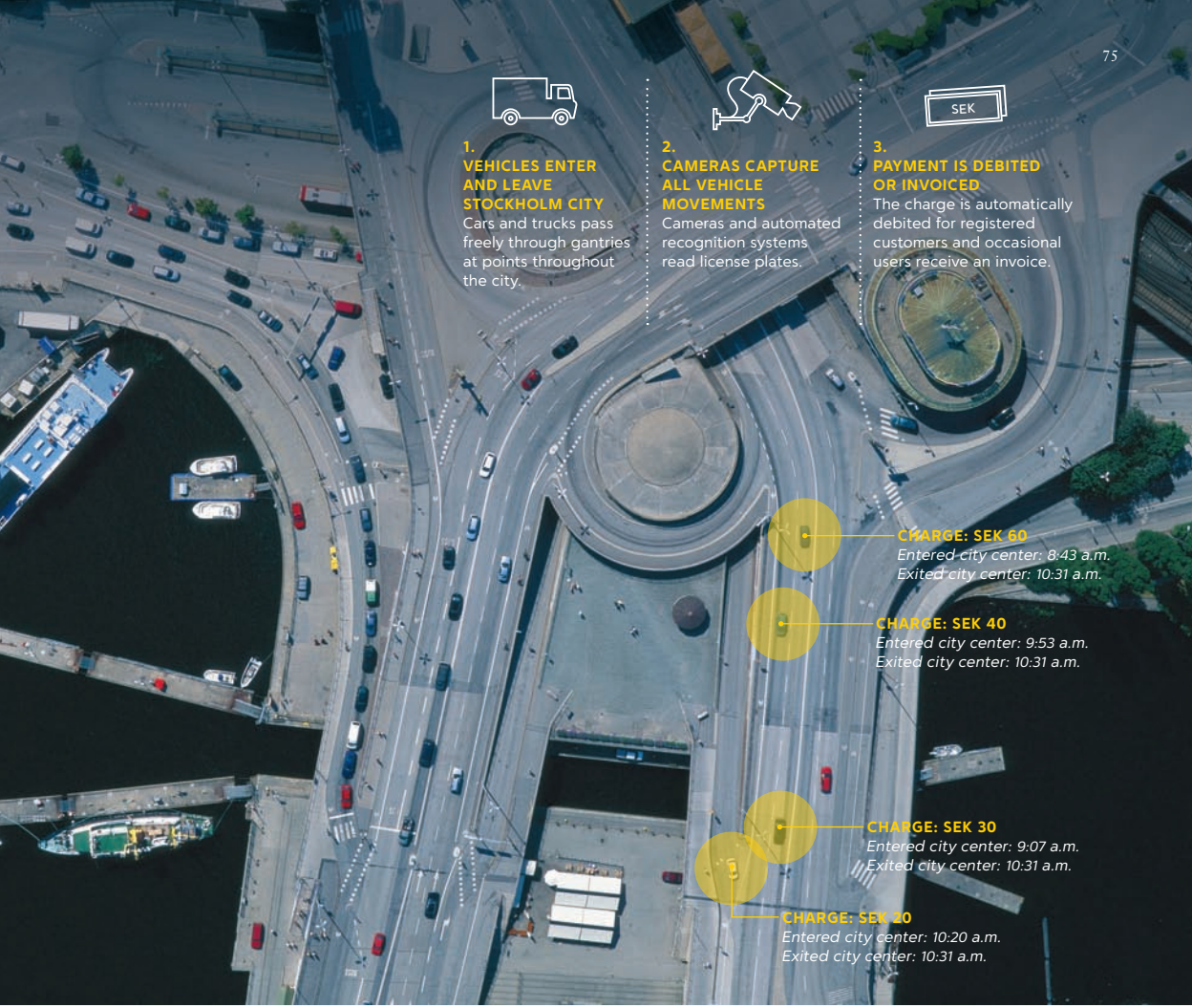
Industry Expertise

INTELLIGENT UTILITY NETWORK (IUN)

Powering an energy transformation

The IUN solution addresses traditional utility pressures such as financial expectations, regulatory compliances and aging infrastructures. This highly flexible network can also adapt to changing environmental requirements, competitive markets, supply security and aging workforce.

A combination of information architecture and infrastructure continuously monitors a utility's assets and operations as well as the electricity usage of its customers: "on demand" information that can be used to improve service, reliability and efficiency. Based on an open-standards based sensing network, it connects all parts of the utility, including equipment control systems, applications, employees and customers—reducing energy costs by up to 25 percent per household.



INTELLIGENT TRANSPORTATION SYSTEMS

Optimizing travel flows and impact

With Intelligent Transport Systems, city governments can have real-time monitoring and forecasting of congestion in major urban areas. This enables them to take real-time action to reduce it, for example, by charging drivers of vehicles for access to city centers at the point of use. The systems, which apply information and communications technology to transportation infrastructures, also provide access to analytics that can help optimize a multi-modal transportation network and reduce carbon emissions. Results from IBM's solution for Stockholm show 25 percent reduction in peak-hour traffic congestion and 15 percent reduced carbon emissions.

Technology Innovation

ENERGY-EFFICIENT TECHNOLOGIES AND SERVICES

"Greener" IT

Companies today face an Information Technology "energy crisis." Energy costs consume approximately 10 to 15 percent of most IT budgets, and are continually rising.

In May 2007, IBM announced that it was reallocating $1 billion per year to accelerate efforts to create "greener" IT. As a huge operator of data centers ourselves, we also announced our intention to double the computing capacity of IBM's global data centers by 2010 without increasing power consumption.

IBM has engaged with more than 2,000 clients to deliver hardware, software and services that have helped them reduce data center energy consumption and cut energy costs by as much as 40 percent. Here are some examples of our capabilities:

IBM DATA CENTER FAMILY™

IBM has incorporated its data center experience into pre-configured and modular energy-efficient data center designs. Our Scalable Modular Data Center can improve energy efficiency as much as 15 to 30 percent. Our Enterprise Modular Center, which is "shrink-wrapped" and standardized to create data centers ranging in size from 5,000 to 20,000 square feet, can save up to 50 percent over traditional data centers.

PORTABLE MODULAR DATA CENTER
The Portable Modular Data Center includes power and cooling systems, remote monitoring and a secure operating environment just like traditional "raised-floor" data centers.

VIRTUAL GREEN DATA CENTER
This is a 3-D virtual model of a "green" data center in Second Life. Visitors can get hands-on experience learning about energy-efficient technologies through interactive demos—including managing a simulated data center crisis in the command center.

IBM'S TRANSFORMATION
IBM has consolidated more than 3,900 UNIX servers onto 34 System z servers, and our Boulder, Colorado site was one of five finalists for Computerworld's Green Data Centers of 2008.

ENERGY EFFICIENT SERVERS AND STORAGE

The IBM Server family is designed with energy and utilization efficiency at its core. Our System z mainframe uses one-twelfth the power of a comparable sized Windows-based server infrastructure, while operating at nearly 100 percent utilization. The iDataPlex system, designed for Internet scale computing, is 40 percent more efficient than competitive systems. IBM's energy efficiency also extends to system storage. Our SAN Volume Controller helps clients improve utilization while combining storage capacity from multiple disk systems into a single reservoir of capacity.

SOFTWARE FOR BEYOND THE DATA CENTER

IBM software enables clients to manage energy consumption across enterprise applications, service-oriented architecture environments and the entire data center.

The broad portfolio includes solutions for efficiently managing information storage and retrieval, streamlining business processes for operational improvements, and managing, measuring and reporting on energy reduction for document compliance.

GREEN IT SERVICES

By focusing on energy efficiency within an IT department or organization, overall energy expenses can be lowered and existing server capacities can be optimized to free up budget for business critical solutions. IBM's energy efficient solutions are based on proven technologies that IBM and its clients utilize to realize immediate, tangible return on investment through implementation of more efficient IT practices.

2 Power of Collaboration: Innovation in the 21st Century Global Commons

In today's global economy, people and institutions are more connected than ever before. This creates major opportunities to use diversity of thought and the power of collaboration to inspire innovation—and to channel it to tackle some of this century's most significant challenges.

Global Innovation Outlook: Convening Mechanism for the Global Commons

Global Innovation Outlook
ibm.com/gio

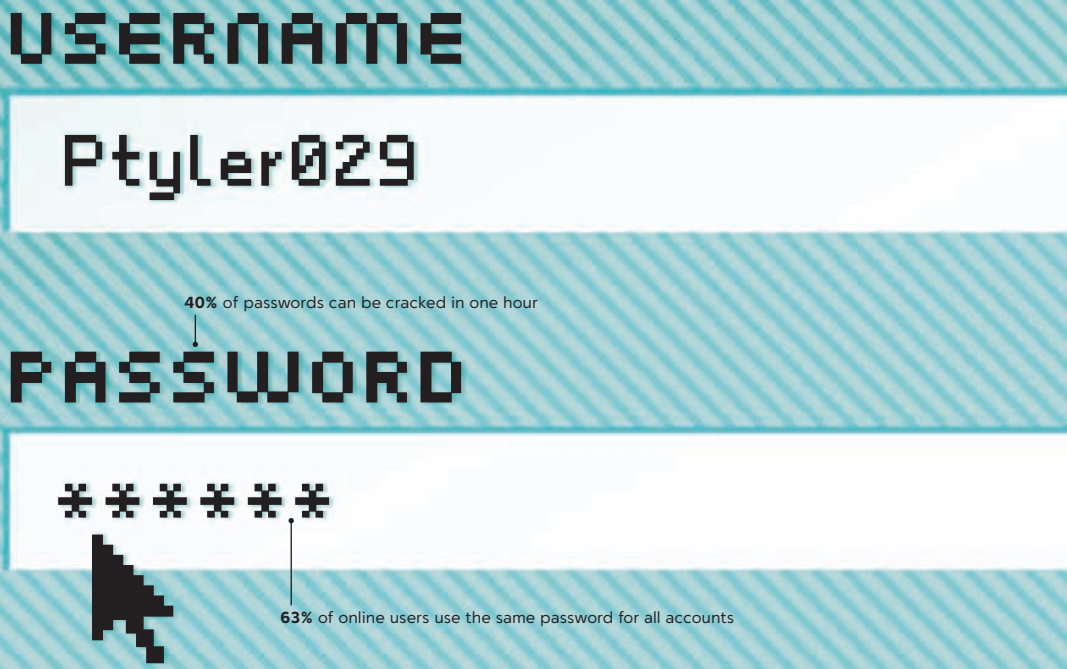
Our Global Innovation Outlook (GIO) opens IBM's technical and business forecasting processes to external thought leaders from a broad range of disciplines in a series of "deep dive" brainstorming sessions. For IBM and our ecosystem, these GIO conversations generate diverse insight into the readiness of emerging business, technical and societal trends, and how we can apply our respective capabilities to fuel collaborative innovation.

Launched in 2004, the GIO focuses on a wide range of subjects that each represent trillions of dollars in economic activity, have far-reaching societal impact and are ripe for innovation. In 2008, the GIO selected the following two focus areas:

- **SECURITY AND SOCIETY:** The challenges resulting from the changing nature of security in an inter-dependent global society
- **WATER AND THE OCEANS:** The social and economic implications of climate change and increasing pressures on water supplies and exploring the secrets of the deep ocean

Jams

Since 2001, Employee Jams have generated new ideas, identified areas for growth and improvement, and helped to shape IBM's core values. Our first Innovation Jam in 2006 involved more than 150,000 people from 104 countries. It resulted in a $100 million commitment by IBM to incubate 10 new businesses, including an environmental performance practice, automatic language translation engines, and IT solutions for the microfinance industry. The second Innovation Jam in October 2008 will focus on how organizations can prepare themselves for the massive changes ahead. IBM also now offers Jams as a service to clients.



GIO SECURITY
GIO participants are working on anonymization technology that will allow even the fiercest competitors to benefit from each other's security experience—without sharing competitive trade secrets—as well as a variety of password-protection and online protocols to improve cyber security for everyone.

3 Balanced Innovation: Open Standards and Open Source Computing

"The globalization of information production has created new opportunities to decentralize innovation. New business models are responding to market demand for more open information flows—and are capitalizing on the availability of distributed intelligence and new norms of collaborative and decentralized production.

The ongoing shift to open, rather than proprietary, standards is necessary to continue advancing the pace of information technology innovation. Companies like IBM have increasingly pursued more open business models such as open standards that promote innovation, interoperability and global economic development.

Open standards—those that are developed in a participatory and transparent process and made publicly available with minimal intellectual property barriers—enable the technical interoperability demanded by today's information society. They also promote innovation by enabling competition among products based on the standard and provide the transparency and public accountability that standards-setting organizations need to architect public policy in the global knowledge economy."

Dr. Laura DeNardis
Executive Director, Yale Information Society Project

In 2005, IBM University Relations and the Ewing Marion Kauffman Foundation joined together to sponsor the University Industry Innovation Summit. The purpose was to examine with leading research universities how research relationships and complex intellectual property practices impede innovation.

This resulted in the creation of a set of Open Collaboration Principles, which states in part that intellectual property created from open-source software collaboration should be made available free for commercial and academic use. These principles reinforce the belief that innovation is a dual-value proposition: a balanced foundation of open collaboration and proprietary invention.

We support practices that allow us to maintain a competitive advantage in the market while adopting a community-minded strategy. In this model, we view intellectual property as a strategic business asset that should not only be protected, but also shared to spur new kinds of collaborative innovation.

IBM has adopted policies and strategies that enable open computing and strong intellectual property rights to complement one another. While we lead in U.S. patents earned, we also pledged access to thousands of patents for open standards-based development. In addition, we engage with organizations that champion open standards and are members of 350 standards bodies, including oasis, W3C, Internet Engineering Task Force (IETF) and the Open Grid Forum.

Open Source Community

In 2001, IBM launched *Eclipse.org*, a community dedicated to developing open source technology. There are now 100 open source projects at Eclipse, generating millions of downloads, and it is estimated that more than 225 Eclipse-based products are now available. All technology and source code provided to and developed by this community is made available royalty-free via the Eclipse Public License.

SAHANA
Open source disaster management software allows for complete customization in real time.

Customizable maps of disaster areas can be overlaid with various data: type of disaster, casualties, shelters, etc.

Call-outs link to in-depth description pages, with up-to-the-minute statistics.

Additional data filters are instantly accessible, facilitating aid.

Open Source Software: Disaster Relief

This disaster relief effort management software helps organizers and relief agencies effectively allocate and coordinate relief supplies, manpower and equipment. It also provides detailed information on casualties, equipment, shelters, volunteers, agencies, donations and evacuations, and helps families and friends reunite by tracking names of missing and found persons. Since disaster relief efforts typically demand the coordination of individuals, organizations and countries worldwide in a timely manner, open source software has the potential to add much-needed organization to the process.

IBM is participating in the development, standardization and deployment of Sahana in collaboration with the Lanka Software Foundation and the global open source development community. IBM has helped deploy the software in natural disaster areas in Peru, Philippines, China and Bangladesh. We are part of an "incubator group" within the W3C standards body that is making an effort to turn the technology in Sahana into an open standard.

IBM Standards Policy

In September 2008, IBM engaged IT standards experts globally to discuss reforms that will help produce truly open interoperability standards. As a result, IBM instituted a first-ever corporate governance policy for its participation in the open standards community. The policy articulates our commitment to the needs of growth markets, the open source community, balanced intellectual property policies, and our support for high-quality and transparently-produced standards.

BlueSky Open Source Instructional Portal

In partnership with Xi'an Jiaotong University in China we have developed an instructional portal to support teachers that is being deployed by the Chinese Ministry of Education throughout China. BlueSky was built on open source tools and the portal has now been opened and accepted by the Apache Foundation for support.

"Over the past three decades, with open reform policy—and an extraordinary economic transformation—China has made impressive strides in education. However, with a population of more than 1.3 billion, our country still needs to improve its ability to foster innovation in higher education, reduce the education disparity between developed regions and rural regions, and meet the requirement of skill training for millions of workers.

IBM is helping us reinvent education here in China, cooperating with our country's Ministry of Education and various institutions of higher education. For example, here at the Xi'an Jiaotong University, the company worked with us to develop BlueSky Open Platform, which has become China's first e-learning platform based on pure open source technologies and solutions—facilitating free information access throughout our country.

BlueSky won the 2006 China National Science and Technology Progress Award, and is now being introduced all over Asia Pacific to benefit thousands more schools and students."

Professor Zheng Qinghua
Xi'an Jiaotong University

IBM Patent Policy and Practices

As the U.S. patent leader for the last 15 years—with 3,125 patents earned in 2007 alone—we also aim to be a leader in progressive patent policy. Our corporate patent policy is designed to foster integrity, a healthy environment for innovation and mutual respect for intellectual property rights.

To stimulate commercial and social innovation, we have pledged thousands of patents to the environmental, healthcare, education, and open source and open standards communities.

Eco-Patent Commons

Initiated by IBM and the World Business Council for Sustainable Development and launched in January 2008 with Nokia, Pitney Bowes and Sony, the Eco-Patent Commons is a unique opportunity for global business to make a difference—sharing innovation to foster sustainable development. The Commons is an online collection of environmentally beneficial patents pledged by companies for free use by anyone. An idea born out of our Global Innovation Outlook conversations, it is designed to facilitate the use of existing innovation to protect the environment and encourage collaboration for new innovation. Bosch, DuPont and Xerox joined the Commons in September 2008.

Examples of the environmental benefits of patents that may be pledged to the Eco-Patent Commons include:

- Energy conservation or improved energy or fuel efficiency
- Pollution prevention (source reduction, waste reduction)

› Use of environmentally preferable materials or substances
› Water or materials use reduction
› Increased recycling opportunity

Member companies pledge their patents, and any individual or company pledging one or more patents is eligible for membership. To date, IBM has pledged 27 patents to the Eco-Patent Commons and looks forward to future exchanges to help protect the planet.

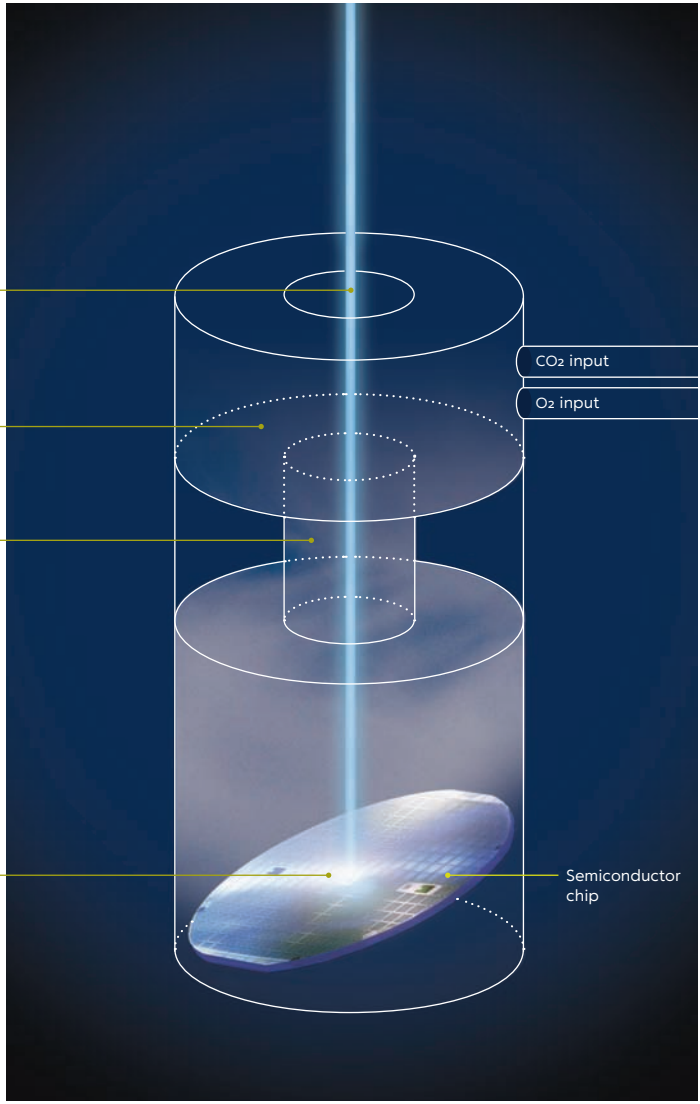
A CLEANER WAY TO CLEAN
A unique IBM technology, recently released into the Eco-Patent Commons, utilizes laser technology to generate ozone gas in a sealed chamber. Ozone is an effective cleaning agent that leaves no residue. This process promises to cut dramatically the use of toxic chemicals in technical cleaning operations.

1. LASER ACTIVATION
Laser first enters sealed chamber filled with CO_2 and O_2 gases to activate ozone gas production.

2. OZONE CREATION
CO_2 and O_2 gas mixture becomes activated by laser, causing a chemical conversion to ozone gas.

3. OZONE RELEASE
After being generated, the ozone gas is released into the second sealed chamber in controlled amounts, depending on the cleaning need.

4. CHEMICAL-FREE CLEANING
Ozone gas cleans semiconductor surface, positioned at the bottom of the second chamber; the laser also functions as a plane, removing defects from the surface of the chip.



Section Six
Governance: Managing Integrity and Citizenship in a Globally Integrated Enterprise

OUR CHALLENGES

Maintaining the highest standards of ethics and corporate governance wherever we operate

Ensuring privacy protections in the context of technological advances

OUR OPPORTUNITIES

Integrating diverse stakeholder perspectives into our decision-making

Improving our efficiency and security as an organization

Responding to market needs for security- and privacy-related capabilities

OUR STRATEGY

Developing innovative approaches to stakeholder engagement

Aligning our public policy and corporate citizenship approaches

Positing IBM as a resource to those developing laws and practices that govern information use and protection

Managing disparate operations, expertise and capabilities in order to connect more intimately with partners, suppliers and customers is not an easy proposition for any global enterprise. This includes the challenge of how to sensibly regulate intellectual property worldwide and maintain trust even when business models become increasingly distributed and dispersed.

At IBM, we believe that maintaining the highest standards of global corporate governance is essential to our growth worldwide, especially in emerging markets. And we maintain a disciplined approach to corporate governance that shapes decisions in four areas:

1 Public Policy

In July 2007 IBM Chairman Samuel Palmisano launched a dialogue with about 500 leaders from government, business, universities, nonprofits and other leaders from across the U.S. at IBM's first-ever Forum on Global Leadership in Washington D.C. This dialogue, which continued at a second forum in London in May 2008, considered the implications of two overarching realities that face every organization today: the need for global integration and the imperative of innovation. We are witnessing how the convergence of information technology, global economic integration and innovation are opening up all sorts of new opportunities and challenges. IBM believes that the best way to respond to today's economic, social and environmental challenges is by working collectively with partners throughout the world.

As a globally integrated enterprise, IBM maintains an approach to public policy that is both globally consistent and locally relevant. We work with governments, regulators and standard setters at global and local levels on key economic, governmental and societal issues, and we are dedicated to policy approaches that foster innovation, enable growth and address key societal challenges.

IBM executes public policy in compliance with applicable laws and IBM's Business Conduct Guidelines, which provide direction on Political Contributions and Employee Participation in Politics. We do not make contributions or payments—or give any endorsement of support—that would be considered a direct or indirect contribution to political parties or candidates, including intermediary organizations such as political action committees or campaign funds.

During 2007 we had eight public policy focal points:

INTELLECTUAL PROPERTY REFORMS AND OPEN STANDARDS

As prolific creators of intellectual property, we believe in a strong and global intellectual property system that fosters innovation. To be effective, such a system must strike the appropriate balance between protecting the economic rights of inventors and advancing the progress of science.

At IBM, we strongly support the development of open industry standards as a key to competition and innovation in the IT sector. We believe that IP laws should further that goal—and that open source and commercial software are both important parts of a contemporary IT marketplace. (For details on how we are implementing open approaches to IP, see pages 80-81.)

POLICY-DRIVEN GROWTH

We identify the most challenging social and economic policy issues facing governments and societies today, and then determine how and whether IBM is in a position to help address them. We are currently focused on policy-related projects for healthcare, energy and utilities, and traceability.

INNOVATION LEADERSHIP

Innovation is the means by which new industries are created, science is advanced and societal goals are served. Advancing innovation in the integrated global economy requires a flexible, highly skilled and technologically adept workforce that is supported by continuous learning and market-oriented transition assistance. Businesses and communities will benefit if their workforce has the skills, creativity and flexibility to respond to a world of competition. For this reason we believe that the public and private sector should work together to ensure the proper investment in human capital.

GLOBAL WORKFORCE FLEXIBILITY

Rapid changes in technology and international trade are reshaping contemporary business and the 21st century workforce. To respond to global workforce challenges, we focus on: formulating human resources policies that reflect IBM's changing workforce; driving global strategies to improve regulatory frameworks supporting workforce flexibility; enabling IBM's transition to a globally integrated enterprise with flexible sourcing options by preventing new national barriers; and winning support for IBM investments.

OPEN MARKET AND GLOBAL INTEGRATION POLICIES

To better serve our global clients, we must be able to locate and operate in close proximity to them. Trade barriers, cumbersome customs procedures, unnecessary supply chain or other regulations, and underdeveloped telecommunications infrastructure can deny access to, or artificially raise, the cost of our services.

EXPORT COMPLIANCE

We devote significant resources to comply with a complex system of export controls that are administered by the U.S. and other nations. Given the breadth of our global operations and dependence on exports, it is vital that we conduct operations with minimal delays.

ENTERPRISE PRIORITIES

We believe that green technology can help governments address global environment and energy challenges, so we advocate policies that promote energy efficient information technologies.

We also support tax policies that promote technological advancements that enhance the overall well-being of society and help to create an expanded network of bilateral income tax treaties, particularly in high growth markets.

Our other areas of focus include corporate social responsibility, corporate governance, financial reporting requirements, health and safety issues, and issues related to business transactions, strategic business locations and business incentives.

Governmental Programs
ibm.com/ibm/governmentalprograms

GOVERNMENT RELATIONS AND MARKET SUPPORT

Our goal is to increase the overall capability, capacity and effectiveness of our government relations in diverse political environments around the world such that we achieve our worldwide policy priorities. We also work with governments to determine the most contemporary and constructive public policy related to public sector procurement of information technology, services and products.

Industry Associations

We only belong to organizations whose priorities reflect IBM's values and priorities, as outlined above. Our Industry Association memberships include: the Business Roundtable, Information Technology Industry Council, Technology CEO Council, and American Chambers of Commerce around the world.

2 Corporate Governance

Members of our Board of Directors collectively represent a variety of skills, backgrounds and perspectives. We consider this diversity to be essential to the growth and success of our company in an integrated global economy.

More information about our corporate governance can be found on our Website, including:

- Membership of Board of Directors
- Board Committees
- Director Compensation
- Executive Compensation
- Director Independence Standards
- Business Conduct Guidelines
- Corporate Governance Guidelines

Corporate Governance
ibm.com/investor/governance

Business Conduct Guidelines

Our Business Conduct Guidelines define the standards of business conduct, ethics and integrity for all of our directors, executive officers and employees worldwide.

These guidelines address more than just compliance with the law and general standards of ethics. They also guide our actions to ensure that our relationships with clients, investors, colleagues and communities are built on trust. As such, they are a tangible example of our values and an expression of the responsibility of every employee to uphold them. For this reason, IBM employees globally are asked to certify to the Business Conduct Guidelines. In addition, we provide an online Business Conduct Guidelines course that more than 325,000 employees have successfully completed each year for the past two years.

As we grow in emerging markets and develop new products and services, however, our compliance risk profile also changes. Our employees must have the confidence to report concerns about legal violations or practices that are contrary to our Business Conduct Guidelines—without fear of retaliation. They must also know that appropriate remedial action will be taken as a result of such violations.

Prompt corrective action and discipline by IBM are critical. For this reason, during 2007 IBM launched an enhanced Web-based "Concerns and Appeals" program through which employees can raise their concerns at any time. This includes:

- **CONFIDENTIALLY SPEAKING:** A channel for employees to communicate concerns when they believe the Business Conduct Guidelines have been violated. This online program is the latest evolution of IBM's 45-year-old Speak Up program.
- **OPEN DOOR:** A channel for employees to request reviews of management actions that have personally affected them, such as pay or discrimination.

3 Governance of Corporate Responsibility

IBM Senior Management is ultimately responsible for our economic, environmental and social performance, as well as compliance with the law and our various codes of conduct. The IBM Board and its Committees oversee these efforts and review performance and compliance periodically.

Corporate citizenship at IBM is integrated across the business through the following two forums:

CORPORATE CITIZENSHIP STEERING COMMITTEE

Our Corporate Citizenship Steering Committee is comprised of senior executives from functional areas across the business and chaired by the vice president for Corporate Citizenship. The Committee meets periodically to provide leadership and direction on key citizenship issues. Each functional area is responsible for the development of its own corporate citizenship goals and strategy, with organizational-wide goals approved by the Steering Committee.

CORPORATE CITIZENSHIP WORKING GROUP

Our Corporate Citizenship Working Group consists of representatives from 11 functional areas (including global representation) and meets at least monthly to manage IBM's corporate citizenship activities, reporting and stakeholder engagement across the company. The Working Group reviews key policy and strategic decisions with the Steering Committee throughout the year.

On a day-to-day basis our activities are managed in a vertical organization called Corporate Citizenship & Corporate Affairs, which reports to the senior vice president for Communications and Marketing.

Stakeholder Engagement

Stakeholder engagement is about far more than communications or consultation. It is fundamentally about partnership and collaboration. It is how we work shoulder to shoulder with communities, governments and the social sector. A few examples:

- Our Global Innovation Outlook brings together a significant number of thought leaders from business, academia, government and the social sector to uncover breakthrough opportunities for business and societal partnerships.
- Jams, our large-scale electronic conversations, garner stakeholder input and engagement on a scale previously not possible in real time, accelerating the development of new business and societal solutions to problems such as water quality or healthcare.
- We use a variety of social media to help us more deeply engage with our extended IBM workforce and community. This includes our retirees through the IBM On Demand Community, our online system of community engagement, and a range of in-depth social partnerships as we beta test technology breakthroughs with community organizations, teachers, students and parents worldwide.

We actively seek out organizations that are taking similarly innovative, global, open and collaborative approaches to corporate citizenship and sustainability. Our memberships include:

- Boston College Center for Corporate Citizenship (IBM is a Board Member)
- Business for Social Responsibility
- China Corporate Citizenship Committee
- Chinese Federation for Corporate Social Responsibility
- Confederation of Indian Industry National Committee on CSR
- AmCham-China CSR Committee
- CSR Europe (IBM is a Board Member)
- Electronic Industry Citizenship Coalition (IBM is the Chair)
- European Academy of Business in Society (IBM is a Board Member)
- Global Leadership Network (IBM is an initiator and founding member)
- World Business Council for Sustainable Development

4 Privacy and Security

Privacy-related challenges cross policy, business and technology domains. Advances in technology, such as those that enable individuals to publish and disseminate information widely, are driving heightened interest in privacy. The distribution of business processes among multiple entities—and frequently across legal jurisdictions—has accentuated this trend.

As a global company that helps organizations make the most of technology, we have a leadership role to play in engaging with the private, public and civil sectors to develop new thinking and practices that help meet society's expectations of privacy and data protection—and to set exemplary policies and practices within our own enterprise. At the same time, we recognize that privacy is a responsibility that is shared by everyone—governments, industry and individuals.

IBM as a Privacy Leader

A variety of external groups have recognized IBM as a privacy leader. In 2007 our chief privacy officer won the Vanguard Award for leadership and innovation in privacy, and a consumer survey by TRUSTe and the Ponemon Institute ranked IBM as the top business-to-business brand for privacy in the U.S. Our objective is to drive sustainable progress via a mix of internal programs, technological innovations and external engagement.

PROGRAMS

- Establishing global policy and supplemental guidelines and standards for the collection, use, disclosure, access, storage, retention and protection of personal information
- Achieving qualification under the E.U.-U.S. Safe Harbor for cross-border data transfer as it relates to certain IBM operations
- Requiring all IBMers to regularly review our business conduct guidelines, including those related to privacy and security

- Making privacy and security education and training available to all employees, and requiring their participation depending on their specific job responsibilities
- Providing an online privacy self-assessment tool for all our business process owners, including information about each country's relevant privacy regulations
- Supporting advanced research and development in "privacy-by-design" and privacy-enabling technologies
- Applying a data-incident response process to all operations

PRIORITIES

- *Operating as an efficient and trusted globally integrated enterprise*
  Increasingly the data necessary for business operations is exchanged and processed across multiple organizations and national borders. This requires an ability to dynamically access and move information across borders. It also demands a globally consistent approach to data protection—and laws that minimize procedural restrictions while expecting accountability. Via its internal programs and external engagement, IBM is working toward strengthening international standards for data flows.
- *Enabling the privacy and security of "cloud computing" and social software*
  New models of computing are emerging: In "cloud computing" personal data can be processed by computing capability that may reside in various places—and often in countries far from the location of the person or entity processing the data. With Web 2.0, "social software" enables individuals to collaborate—and share data—more easily and fluidly than ever before. All stakeholders must work together to enable privacy and security as these models mature.
- *Protecting IBM, clients and individuals from data breach-related risk*
  IBM recognizes that, due to regulatory and cyber-crime trends, the risks associated with the collection and use of personal information have increased. Via our internal programs and collaboration with clients, partners and vendors, we are committed to continuous improvement in data protection.
- *Responding to market opportunities*
  Institutional focus on security and data protection is increasing as organizations confront regulatory and societal expectations for privacy and security of all kinds. IBM has invested billions of dollars in our technology and capabilities so that we can be a valued partner to clients and society at large in addressing these challenges.

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Key Performance Indicators

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