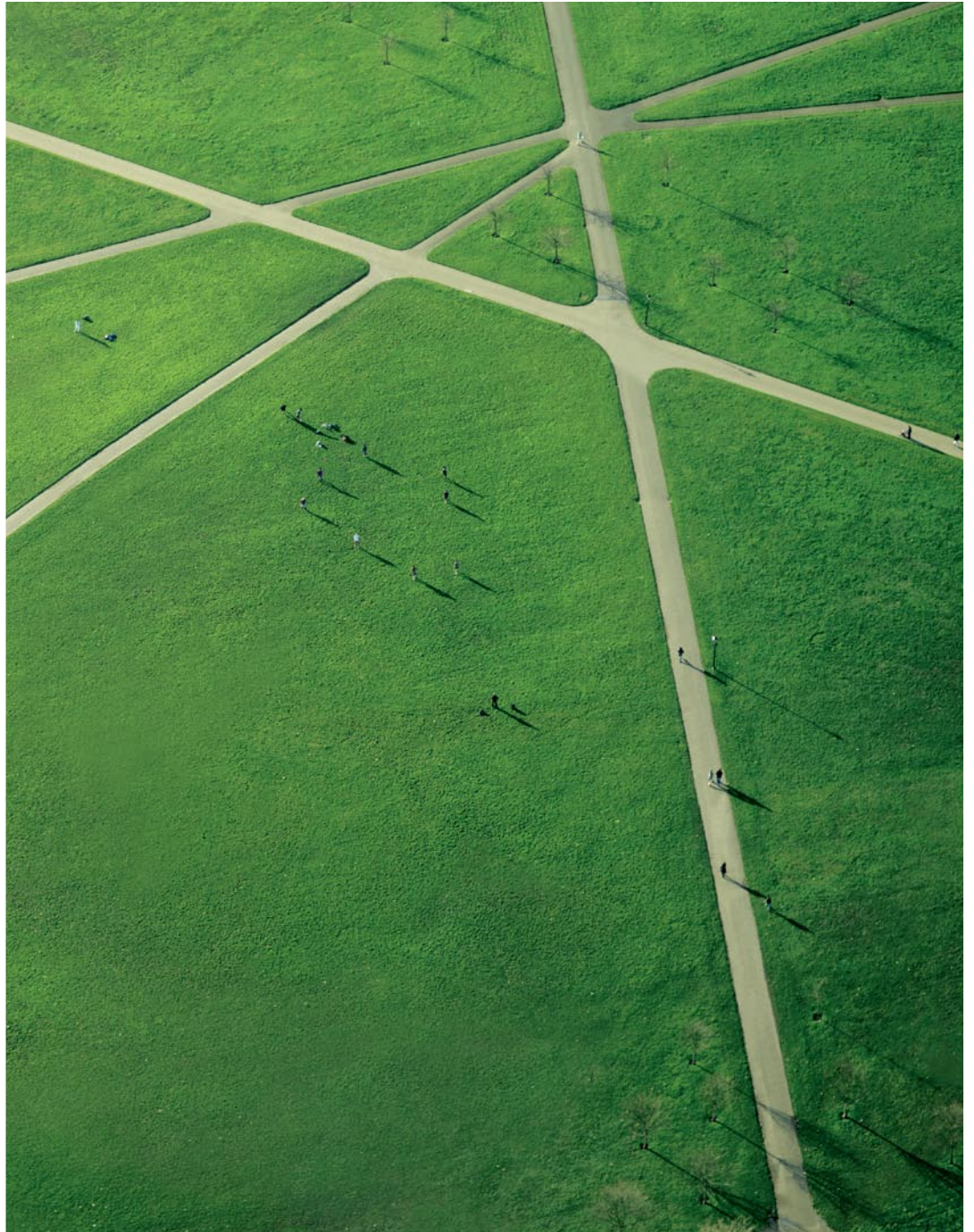
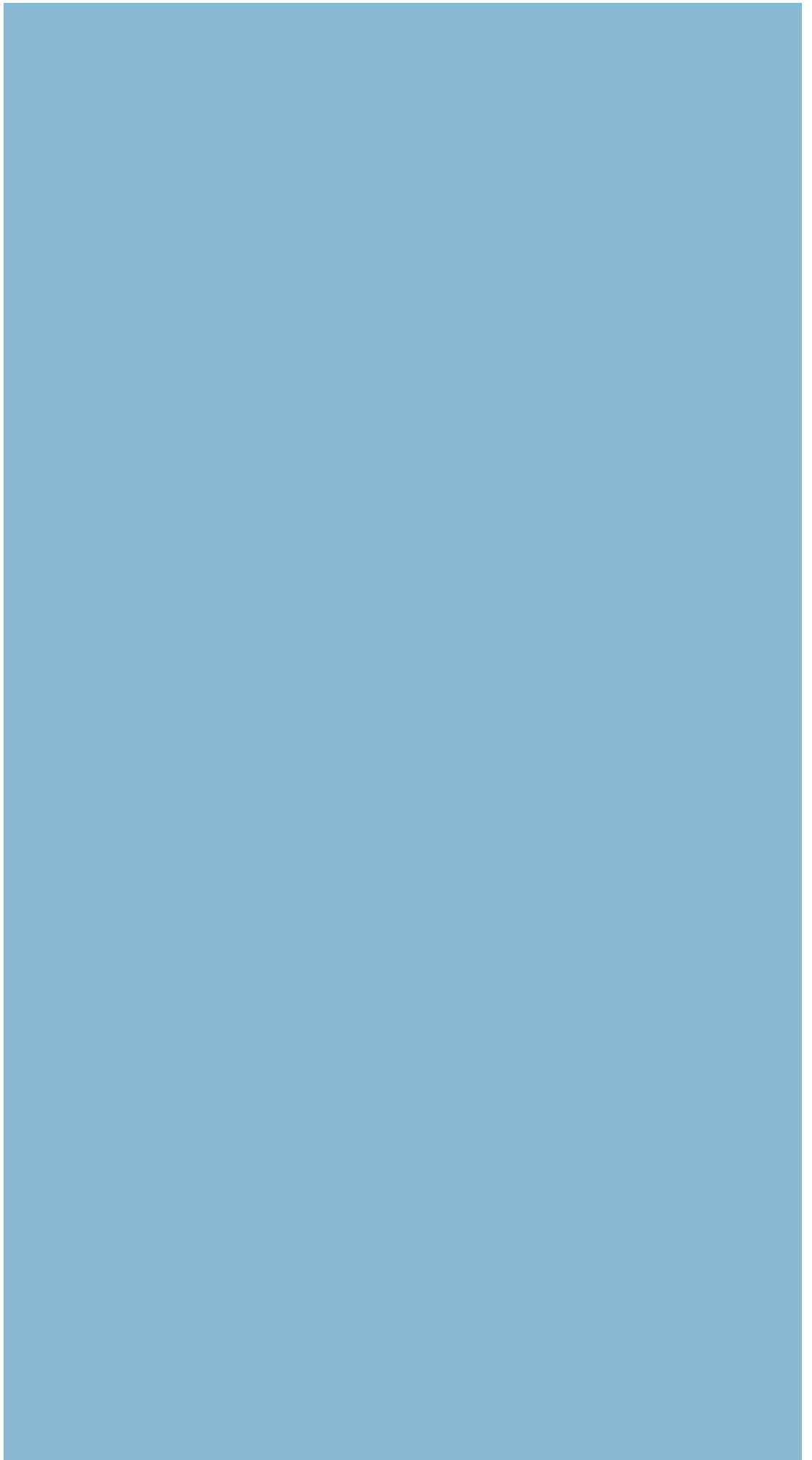


GLOBAL CITIZENSHIP

of **INDIVIDUALS**
among **ORGANIZATIONS**
across **SOCIETY**



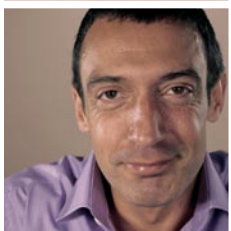
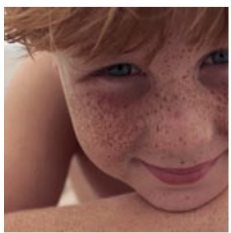
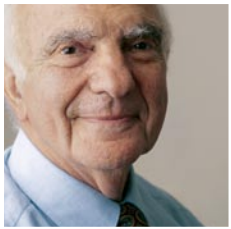


We are surrounded today by

VAST NEW POSSIBILITIES.

To achieve them, we must come
together in new ways, and assume

NEW RESPONSIBILITIES.





The increasingly global, networked economy of the 21st century is unleashing new economic opportunities, spawning new kinds of institutions and offering hope to many more of the world's people. But achieving this potential and extending it broadly will take more than technology, or enhanced productivity, or higher profit margins. It calls for innovation that runs much deeper: new workforce models, new management systems and new curricula, along with progressive 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.

Let us tell you what this means to IBMers.

We are entering an era that promises more fundamental, rapid and multifaceted disruption than our planet has experienced since the Industrial Revolution. I believe it presents both profound opportunities and daunting challenges to every business, government, community and individual in our rapidly “flattening” world.

We experience this every day at IBM, in our labs and in our work with clients and the community. And I hear it constantly in my conversations with CEOs, heads of state and leaders of academia, communities and nongovernmental organizations from every part of the world. Major forces — most importantly the digital network revolution and the onrushing reality of globalization — are creating new levels of competition, new forms of innovation and far deeper integration of technology, business and society than the world has ever seen.



SAMUEL J. PALMISANO
IBM Business Leadership Forum, St. Petersburg, Russia, June 2007

One very visible impact is a change in the form of the corporation itself. The 20th century “multinational” is giving way to a new kind of institution, what we at IBM call the *globally integrated enterprise*. This is a very different organizational architecture and way of operating any business or institution. Most importantly, it offers hope for a new kind of progressive globalization — one that not only generates new opportunity for innovation and growth, but also extends that opportunity to many more regions and people.

.....
“Only aggressive innovation will get us through—*innovation that changes the enterprise from top to bottom and that engages it far more intimately with a broad societal ecosystem of businesses, communities and institutions.*”
.....

However, we must not be naïve or complacent. We will not achieve these benefits or navigate our organizations through this disruptive change by operating the way we have in the past. *Only aggressive innovation will get us through* — innovation that changes the enterprise from top to bottom and that engages it far more intimately with a broad societal ecosystem of businesses, communities and institutions.

Let me give you one example of this kind of innovation at IBM. We all hear a lot today about how companies, institutions, countries and regions are learning to succeed in a globally integrating environment. But how does the *individual* compete and win in a flat world? Frankly, this is what makes globalization such an emotional and polarizing issue to many people.

I believe that the answer for the individual is similar to the answer for companies and nations — expertise, skills, knowledge. But simply saying that doesn’t really solve the problem — in fact, it just begins the discussion, because the nature of expertise itself is changing.

In the past, to become an “expert,” you went to school, you studied a body of knowledge, received a degree or certification and then went to work, usually with the expectation that you would stay in your chosen profession or career track for a lifetime. However, the nature of competition and the forces of innovation are shifting the frontiers of science, business and technology continuously. Expertise today is not static. To be competitive, any individual — like any company, community or country — has to adapt continuously, learning new fields and new skills. This is true within any given job, and it’s true across the span of an entire career.

Well, who is in the best position to shape that learning? At IBM, we believe it’s the individual. No corporate headquarters can possibly adapt as rapidly or as specifically as a global marketplace requires. And we believe that this, in turn, requires nothing less than a new relationship among the company, the individuals who make it up and society at large.

At IBM, we've begun our own journey toward this new model, toward empowering and enabling our people to make decisions and to act. We call it "lowering the center of gravity" of the company — that is, trusting IBMers and pushing decision-making authority out and down. This has changed everything from how we manage our client relationships, to our R&D, to our approach to employee learning. It has also changed how we think about volunteerism. On Demand Community, for example, encourages and equips IBMers and retirees to be effective and engaged volunteers in their communities. They have contributed more than 6 million hours since the program launched in 2003, and On Demand Community marked its 100,000th registrant in 2007.

More choice, more control, more responsibility in the hands of the people who are in the best position to call the shots — not headquarters, but the individual IBMer.

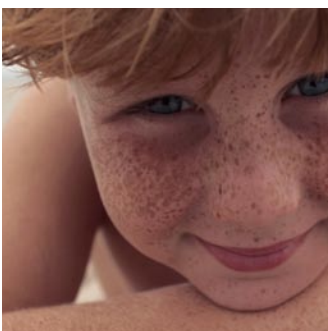
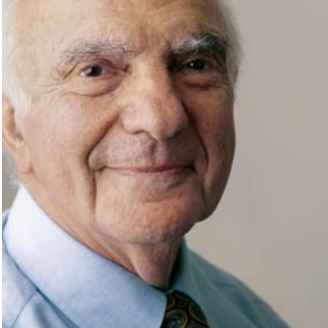
We took another step in 2007 with the introduction of something we call the IBM Global Citizen's Portfolio. This new framework is aimed at enabling current and future IBMers to position themselves advantageously as global professionals and global citizens. You can read about its initial programs — focused on skills, leadership development and career transitions — in this report.

We're convinced this is the right path forward for individuals, communities and organizations, but we know it will require some unconventional approaches — innovations that will be every bit as meaningful as the discoveries coming out of our labs. But, then, that's exactly the kind of challenge IBMers were thinking about when we came together to shape our core values four years ago, including "Innovation that matters — for our company and for the world."

This report describes how this new model of global citizenship and the values on which it rests are shaping IBM's point of view on corporate responsibility in the 21st century. It also touches on some of the many ways we're making that vision real. I hope that you will find it informative. And I also hope that it encourages you to join with us in advancing the kind of progressive innovation that is so excitingly possible — and so urgently necessary — in today's world.



Samuel J. Palmisano
Chairman, President and Chief Executive Officer



GLOBAL CITIZENSHIP OF INDIVIDUALS

- 1_ THE NEW SKILLS PARADIGM
- 2_ THE NEW LEADERS
- 3_ THE NEW WORKPLACE MODEL

For every one of us, the digital network revolution and global integration make possible new forms of work, innovation and personal fulfillment. But to capture these new opportunities, we must exercise our own judgment and creativity.

At the same time, companies realize that unleashing their people is the key to innovation and growth. Indeed, IBM's own research among CEOs revealed that they see their employees as the top source of innovation for their companies.

Put them together, and it constitutes a new relationship between the enterprise and the individual, which is taking shape in some specific and exciting forms.

The tough part is how to make it real.

1_ THE NEW SKILLS PARADIGM:

The changing nature of expertise

In a world where high-value skills shift constantly, every company, community and country must continuously master new fields and acquire new kinds of expertise. Most importantly, so must each one of us. For instance, according to the U.S. Department of Labor, most Americans will hold between five and 10 jobs in various professions or industries over the course of their lifetimes.

Who is in the best position to shape an employee's learning—not just for his or her current job, but for the next one, or two, or three? IBM believes it's the individual.

In 2007 we announced the IBM Global Citizen's Portfolio, a new way to empower IBMers to chart their own future career paths. One program under this framework is the **Matching Accounts for Learning**. This first-of-a-kind initiative, to be piloted in the U.S., enables IBMers to contribute up to \$1,000 a year to an interest-bearing account. IBM will match half of the employee's contribution. The combined funds are then the IBMer's to use for a wide range of educational expenses. Perhaps the individual wants to finish a degree, plan for a second career in an unrelated field or learn a new language. The choice is his or hers. IBMers can take advantage of the fund during their time at IBM or long after we've parted ways.

This ceding of control might seem risky—but IBM believes that recognizing and enabling IBMers' autonomy and choice is not only the right thing to do, but also the best way to attract and retain the brightest and most innovative employees in the world.

As globalization expands and new economies emerge, IBM is positioning itself

and its employees to lead. Following the Global Citizen's Portfolio announcement, thousands of IBMers flooded the company's intranet to post their responses. Said one, "I thought I could not be more excited about being an IBM employee at this time in history. I was wrong. This is superb!" And leaders from academia and government have responded enthusiastically as well.

"In the age of globalization, both skill and education requirements will be constantly changing.

The IBM Matching Accounts for Learning, where the company and the individual contribute toward the creation of a flexible account to respond to these changes, is a very intriguing and positive response."

Robert B. Reich, Professor of Public Policy at the Goldman School of Public Policy at the University of California at Berkeley; former U.S. Secretary of Labor; author, Supercapitalism

\$682 MIL

IBM'S MATCHING ACCOUNTS FOR LEARNING ADD TO THE COMPANY'S EXISTING INVESTMENT EACH YEAR IN EMPLOYEE EDUCATION AND TRAINING—WHICH WAS \$682 MILLION IN 2006.

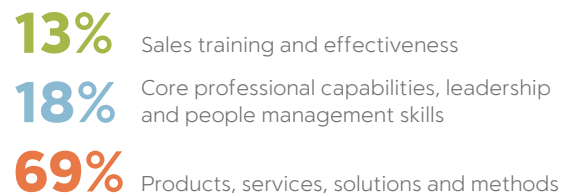
Work today is a continuum of opportunities to learn, grow and advance. And that means bringing learning to the individual.

One example is **Learning@IBM**, a collaborative, personalized portal that delivers relevant content and tools to employees anywhere, anytime. It helps them find one another to share expertise, skills and best practices. In addition to its emphasis on collaboration, the portal enables each IBM employee to develop his or her own individualized learning plan.

Averaging 727,000 visits a month, the IBM Learning sites provide a wide variety of career-expanding industry and technical information that is tailored to the employee's job role and interests. Employees can acquire new skills and disciplines, from nanotechnology to the latest "green" technologies, and successfully reposition themselves within a growing and changing marketplace.

IBMers are also learning from each other through social networking technology such as blogs, wikis and instant messaging. New technologies automatically alert employees when experts in any given area of the business are available online to help them. This reduces their sense of isolation and enables IBMers to reach out to colleagues for advice.

MORE THAN 30,000 ONLINE COURSE OFFERINGS ARE AVAILABLE TO EMPLOYEES.



A global solution to develop employees, match them to opportunities and recruit new talent.

IBM's Workforce Management Initiative (WMI) enables employees to showcase their expertise, manage career-related tasks and find new jobs, projects or mentors through a personalized intranet tool, "Your career," integrating with our global employee directory, BluePages.

By providing their resumes and completing skills assessments, employees showcase their expertise to managers and leaders worldwide, enabling the company to match people to projects, engagements and job opportunities. And through Learning@IBM Explorer, IBMers can create a dynamic plan to sharpen their skills for professional growth.

WMI's skills database is available to managers and leaders in 63 countries through Professional

Marketplace — a project engagement application that matches supply with demand and included more than 153,000 IBM professionals' skills and expertise in October 2007. IBM's Global Opportunity Marketplace (GOM) allows 20,000 interview invitations to be sent to uniquely qualified candidates within the company in six business days. Using GOM, India processed more than 376,000 applications in the tool's first nine months of use.

2_THE NEW LEADERS:

Shaping the skills of a diverse, global generation

Businesses know how to develop “multinational” leaders. But who will emerge as the next generation of leaders for *global* enterprises? The business model is new, and so are the skills required. What companies, countries and communities will best nurture and attract them?

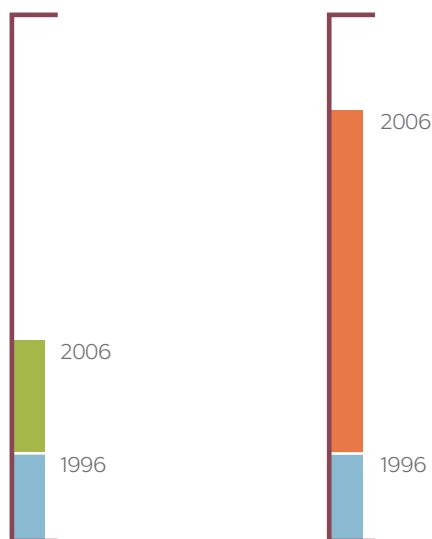
Diversity isn't just the right thing. It's also the smart thing.

IBM long has recognized that a diverse workforce is good business, and has been a pioneer for nearly a century in fostering equal opportunity for all. Today, more than ever before, a company based upon innovation needs skilled people from all backgrounds—because it takes the broadest spectrum of experience, expertise and ways of thinking to unearth the truly breakthrough ideas.

As a globally integrated enterprise, IBM applies the principles of our first written Equal Opportunity Policy, established more than 50 years ago, to the many social and cultural environments in which we do business. We continue to cultivate diversity in our management and executive ranks as a strategic priority, as well as in our business ecosystem of suppliers (see p. 25). Diversity network groups within IBM have introduced novel programs like reverse mentoring (where less-tenured professionals “mentor” more senior ones) and international mentoring. And we are bringing the management of diversity into the future, with the addition of the individual's genetic information to the list of protected characteristics under IBM's Equal Opportunity Policy.

OVER THE LAST 10 YEARS, IBM'S U.S. AFRICAN AMERICAN EXECUTIVE POPULATION HAS GROWN BY 130%.

OVER THE LAST 10 YEARS, IBM'S U.S. WOMEN EXECUTIVE POPULATION HAS GROWN BY 393%.



In a globally integrated enterprise, leaders must be far more collaborative, adaptable and attuned to cultural differences.

How will we develop global professionals and global citizens for a new era and model? Consider IBM's **Corporate Service Corps**, a program within the Global Citizen's Portfolio (see Chairman's Foreword, p. 7).

When it launches in 2008, Corporate Service Corps will gather teams of IBMers with a diversity of skills, drawn from different countries and business units. They will work on projects of significant value in developing countries, in four-week assignments. These teams will tackle real societal, educational and

environmental challenges, while at the same time experiencing a diverse cultural perspective. The result will be a new sort of on-the-ground education, on the front lines of business and society, for a new generation of truly global leaders.



3_THE NEW WORKPLACE MODEL:

From “work/life balance” to work/life integration

In today’s fast-changing world, the most skilled and creative professionals expect to take charge of their own integrated lives. To win the “war for talent,” companies must be just as creative and progressive.

Twenty years ago, IBM introduced “flex time,” allowing employees to adjust their office hours by 30 minutes. But the workplace we knew then, or even five years ago, no longer exists.

More than 70 percent of IBM managers now supervise employees who work somewhere else. Nearly half of IBMers work in a location other than a traditional IBM office — including 54,000 who work from home (up by half since 2004). Today, the interactions of a global workforce — with 24/7 activity spanning the world’s time zones and accommodating a range of local holidays — require a far more flexible environment.

Flexibility matters just as much to individuals. Our 2007 Global Work/Life Survey confirms that as IBMers’ flexibility increases, their difficulty in balancing work and personal life decreases. And we’ve also learned that flexibility is a key reason people choose to remain at IBM. So we are innovating again.

IBMers now have a range of flexible work options, called **Flexibility@Work**, enabling them to create the lives they want by devising individual work schedules and integrating their professional and personal responsibilities. Our Global Work/Life Fund provides IBMers’ families with resources such as day care, elder care and summer camps. We’re doing more to enable IBMers to find new assignments with fresh challenges. And with many of us no longer seeing each other daily, the online IBM Club encourages activities and events to stay connected with colleagues.

40% OF IBM’S EMPLOYEES WORK REMOTELY.



PERCENT OF IBMERS WHO SAY THAT FLEXIBILITY HAS A POSITIVE INFLUENCE ON:

79%
Productivity

78%
Work/life balance

72%
Job satisfaction

76%
Morale/motivation

73%
Work

A corporation has financial experts to manage its money. We believe the individual deserves the same kind of help.

A first-of-its-kind initiative for a major corporation, **IBM MoneySmart** sets a new standard for enabling employees to manage their own financial future. This comprehensive program, offered at no cost to U.S. employees until the end of 2008, provides IBMers with access to expert and objective information to inform their financial decisions.

Topics include reducing debt, building an emergency fund, investment strategies and retirement planning. More than 53,000 IBMers have signed up, and thousands are participating in one-on-one

sessions with personal MoneySmart coaches — enriched by live seminars and Web conferences that include spouses or domestic partners, and by a robust Web portal that includes a library of financial topics and interactive tools to guide financial education. The program's coaches are knowledgeable about IBM's compensation and benefits programs. Collaborating with IBM on MoneySmart are Fidelity Investments and The Ayco Company, two of the nation's leading financial services firms.

Supporting a culture of health around the world

IBM's centralized Well-Being Management System (WBMS) links the skills of the company's Global Well-Being Services and Health Benefits organizations, including occupational medicine, safety engineering, industrial hygiene, case management, wellness, ergonomics and health benefits design. The WBMS uses "plan-do-check-act" principles to monitor planning, compliance, measurement and continual improvement for employee well-being. In 2007 there were 181 improvement plans targeting global objectives.

IBM fosters a culture of healthy behavior by providing financial incentives, programs and tools for employees to quit smoking, exercise regularly and obtain preventive healthcare. This pioneering approach has so far resulted in more than 700,000 **Healthy Living Rebates**. And a new program, launched in the U.S., extends these benefits by encouraging IBMers'

children to eat right, exercise and adopt healthy weight habits.

IBM's Healthy Living Rebate initiatives are taking root in more than 30 countries, such as Brazil, where IBM hires independent coaches to train employees to run in marathons; Russia, where IBM employees who work to reduce risks of cardiovascular disease and obesity can receive a 5 percent reduction in health benefit costs; and India, where IBM was named the top employer for women, based on its comprehensive workplace and leadership programs, including rebates for participating in health programs. And Wellness for Life tools on the Web enable IBMers worldwide to assess their health, plan new goals for healthy living and take action through a variety of evidence-based resources — including the Women's or Men's Health Optimizer tool launched in the U.S. to assist employees on gender-specific health concerns.

IBM's workplace safety record continues to be among the best in the IT industry, as documented in the rates of illness and injury that are measured by the U.S.

“As the first major corporation to obtain health benefits for employees with HIV/AIDS in China, IBM is again demonstrating a commitment to employees that is strong enough to break down long-term cultural barriers.”

*Helen Darling, President,
National Business Group on Health*

Occupational Safety and Health Administration (OSHA), as well as our participation in OSHA's Voluntary Protection Programs.

And as part of our long-term commitment to help fight HIV/AIDS with IBM research and technology, IBM became the first employer in the People's Republic of China to negotiate successfully with insurance carriers to provide private healthcare coverage for employees with HIV. The new benefit is part of a comprehensive IBM program to raise awareness about HIV/AIDS in China and provide IBMers with education to prevent infection.



GLOBAL CITIZENSHIP AMONG ORGANIZATIONS

- 1_THE NEW SCIENCES
- 2_THE NEW DIALOGUE
- 3_THE NEW STANDARDS

Rapidly transforming organizations are both competing and collaborating in new and far more complex ways.

This changes everything from how agreements are formed, to new forms of ownership, to the way organizations innovate together. In a word, relationships among enterprises and institutions are becoming far more open, fluid and multi-directional. Which is what we would expect, when the goal is collaborative innovation.

But that's just the first step. How do you build lasting relationships grounded in trust?

1_THE NEW SCIENCES:

Innovation across disciplinary boundaries

More and more today, the most important innovation is to be found at the intersections of complementary expertise, spanning different disciplines and experiences. The major breakthroughs for both business and society are increasingly found not within established institutions, but among them.

Services now account for 64 percent of the world’s gross domestic product. But university curricula and frameworks are still largely based on manufacturing paradigms.

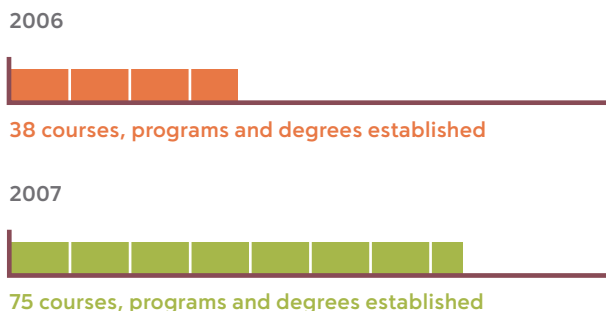
To fill this major gap, IBM is collaborating with nearly 120 universities in 32 countries to develop a new academic discipline called **Service Science, Management and Engineering**. SSME applies cross-disciplinary knowledge — about business strategy, operations, information technology and human factors — to the management of a high-value services operation. IBM, as the world’s largest services company, is sharing its research and expertise with scholars developing services curricula, methods and applications. The program is part of the IBM Academic Initiative, which provides faculty worldwide with a broad range of IBM products and educational resources to help students develop skills in open standards computing.

Just as IBM’s collaboration with universities more than 50 years ago spawned the field of computer science, we expect SSME education to help today’s students build rewarding careers in a global services economy — and in the process, foster a new generation of business leaders for the 21st century.

“China is in a new process of developing its workforce and strengthening its economy through scientific research and education. I believe our collaboration with IBM in establishing SSME programs at universities throughout China will have a long-lasting impact on our economic and social development.”

Dr. Zhou Ji, China Education Minister

SSME-INFLUENCED COURSES, PROGRAMS AND DEGREES ESTABLISHED IN 24 COUNTRIES:



Innovation itself is changing, and its impact on the world is growing. Are communities, schools and nations keeping pace?

IBM is working to help develop new guidelines for innovation — not just in business and technology, but in society — built upon new forms of collaboration and open approaches. Two years ago, IBM and the Georgia Institute of Technology co-chaired the National Innovation Initiative in the U.S., working with the Council on Competitiveness and hundreds of thought leaders from across business, academia, government and civil society to create a new research and policy framework for 21st century innovation. At the same

time, IBM University Relations invited experts from universities, private foundations, government agencies, and other IT companies to join the **University-Industry Innovation Summit**. Established in 2005, the Summit provides a forum for discussing impediments to collaboration, many involving how to treat intellectual property developed in collaborative research. The group has developed principles in two areas:

- **Open Collaboration**, from which the results will be available to anyone free of charge (announced in December 2005).
- **Free Participant Use**, from which results are free for participants and available to others under reasonable terms (announced in June 2007).

IBM has adopted these high-level guidelines to direct many of its research projects with universities worldwide, and to foster a more open, collaborative environment for innovation.

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*“We are pleased to endorse these collaborative principles, which demonstrate that **both industry and universities recognize effective collaboration as key to the nation’s ability to innovate and to compete globally.**”*

Juan M. Sanchez, Vice President for Research, The University of Texas at Austin

Teaming with the National Geographic Society and the public at large to determine our origins

More than 250,000 people from 125 countries have donated DNA to the **Genographic Project**, a collaboration between IBM Research and the National Geographic Society to analyze the variations passed down through generations and to chart the record of human migration.



2 THE NEW DIALOGUE: Approaches that open up the game

To address the most pressing issues facing society today demands new, multidisciplinary approaches to innovation. Collaborating across sectors allows organizations to exchange valuable insight from disparate fields of knowledge.

**Breakthrough innovations typically appear at the intersections.
So IBM is taking our ecosystem on deep dives across some old boundaries.**

Since its inception in 2004, IBM's **Global Innovation Outlook** (GIO) has used multidisciplinary collaboration to seek breakthrough solutions to some of the world's most vexing problems. The first two GIOs took on issues from healthcare, to the environment, to transportation and the future of the enterprise. GIO 3.0, in 2007, focused on two areas:

- The challenges facing Africa in a globalizing economy, including how technology-based innovation might spur investment, partnerships and entrepreneurial opportunities for Africa's 930 million people.

- The future of media, content and messaging, in light of technology that sends ideas and information around the globe instantly, democratizing content and changing the ways we learn, play, work and communicate.

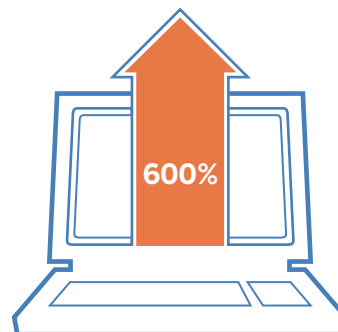
This year, 264 leaders from business, academia, the public sector and IBM participated in 18 GIO sessions held in 11 countries, an innovative model of stakeholder engagement. As in the past, IBM is openly sharing the resulting insights and investing with participants, not just to get their views, but to transform ideas into initiatives.

A NEW MEDIA ECOSYSTEM

CAMERA PHONES ARE NOW THE MOST WIDESPREAD IMAGE-CAPTURE DEVICES IN THE WORLD. AT CURRENT GROWTH RATES, THERE COULD BE

**ONE BILLION
CAMERA PHONES
IN USE WORLDWIDE
BY 2008.**

TEENS IN THE U.S. SPEND 60 PERCENT LESS TIME WATCHING TV THAN DO THEIR PARENTS AND 600 PERCENT MORE TIME ONLINE—INTERACTING WITH, INFLUENCING AND BEING INFLUENCED NOT BY INSTITUTIONS, MARKETERS OR PROFESSIONAL COMMUNICATORS, BUT BY THEIR PEERS.





A NEW ERA FOR AFRICA

“I think the climate for business in Africa has never been better than it is right now, with opportunities for productive, long-term investment and public-private partnerships that will facilitate and sustain economic growth and development. Africa is now being taken seriously within the global economic community—and that community won’t be disappointed.”

Bamanga Tukur, Chairman, New Partnership for Africa’s Development (NEPAD) Business Group

Most people today do not plan to spend an entire career with any one company. How do we leverage this multi-career reality for both individual growth and societal benefit?

Enhanced Transition Services is a program in IBM's new Global Citizen's Portfolio (see Chairman's Foreword, p. 7). It expands on IBM's successful Transition to Teaching program, launched in 2005, which draws on many IBMers' strong math and science backgrounds to help meet critical shortages in our schools. Piloted in the U.S., this innovative program has since expanded and is poised to launch in Australia and the U.K.

Enhanced Transition Services will bring to bear the same approach in addressing the needs of governments, nonprofits and educational and economic development agencies. Work is now underway to target needed skills, to create collaborations and to support employees as they transition to their new careers.

"It's critical that we take action now and get enough qualified and experienced teachers into our classrooms as soon as possible. We must make sure California's students have a strong foundation and are well prepared with the skills they need to take on the challenges of the 21st century."

California Governor Arnold Schwarzenegger



IBM REIMBURSES TRANSITION SERVICES PARTICIPANTS UP TO **\$15,000 FOR TUITION** AND STIPENDS, AND PROVIDES UP TO A FOUR-MONTH LEAVE OF ABSENCE WHILE THEY STUDENT-TEACH.

Intellectual property protection is vital to the future of innovation — but *policy innovation* is just as vital to the future of intellectual property.

The need for change is urgent. The IP regime that was inherited from the Industrial Age is being strained to its limits by the changing nature and sheer volume of innovation in the 21st century. Among the most damaging results: bad patents that are motivated more by litigation than real invention; and policies that inhibit the very kinds of collaborative innovation that hold the most promise for business and society.

IBM has taken multiple steps to address these significant societal issues — and we do so from a position of deep knowledge and respect for intellectual property. IBM has been the world leader in U.S. patents for 14 consecutive years.

- IBM has granted access to its entire 40,000-strong patent portfolio to anyone implementing more than 150 standards needed for universally compatible software. IBM has also opened hundreds of its patents to the open source software community and to the healthcare and education industries.
- IBM has substantially reduced its patent filings for “business methods” and other nontechnological ideas — as well as putting 100 of these patents into the public domain. This pledge is part of IBM’s corporate IP policy, announced in 2006,

the first such policy based on the tenets of responsibility of a patent applicant to promote quality and transparency.

- In 2006 to curtail the flood of meritless patents, IBM organized a consortium including the United States Patent and Trademark Office, leading universities and other vendors, to establish a new Web-based peer review program. Called “Peer-to-Patent,” the project for the first time opens the patent application examination process to the public, enabling expert volunteers to help government patent examiners by commenting on the merit of patent applications and alerting them to the existence of “prior art.”
- After its first six months of operation, Peer-to-Patent received 166,000 page views from 29,000 unique visitors in 117 countries — and cited nearly 100 instances where an idea potentially duplicates a previous invention.

These are just a few of the IP policy innovations IBM is leading. For us, this is an essential form of innovation and one that we are committed to pursuing.

Facilitating communication where dialogue is most urgent

For the first time ever, thanks to the IBM Speech to Speech Translator, also referred to as MASTOR, measurable improvement in natural two-way conversation is helping in a key geopolitical hotspot. It is assisting U.S. civilian and coalition personnel and Iraqi-Arabic speakers to overcome barriers like dialect,

accents and even slang — obstacles that had previously beset machine-translation technology. The IBM system “understands” conversation and translates the general meaning both audibly and in text. And to help unleash the collaborative opportunities of global integration — where cross-language communication has never been more urgent — IBM Speech to Speech Translator is also available in Mandarin Chinese, with plans in the works for more European and Asian languages.

IBM FILED MORE THAN 10 PATENTS DURING THE RESEARCH AND CREATION OF IBM SPEECH TO SPEECH TRANSLATOR.

IN 2007 IBM PROVIDED
**1,000 TWO-WAY
AUTOMATIC
TRANSLATION
DEVICES** AND 10,000 COPIES OF THE SOFTWARE TO THE U.S. GOVERNMENT FOR USE IN IRAQ.

3 THE NEW STANDARDS:

Integrity and transparency in an open world

As an organization's operations become increasingly collaborative, transparency is essential to maintaining trust—with partners, clients and society at large, and within the company itself.

Trust has always been vital to corporate governance—but today it means something more. In a globally integrated economy and society, the need for trust goes far beyond ethics and compliance.

IBM has a long history of leadership in governance policies. In 1993 the company's board of directors established its Directors and Corporate Governance Committee, paving the way for the future of corporate governance almost a decade before companies were required by law to have these committees. A year later the board formalized its long-standing policy of requiring a majority of independent, non-management directors.

In addition to policy, we believe strong governance requires the integration of controls and compliance programs into a business's daily operations. In 2007 IBM launched its globally integrated, on demand solution for compiling and analyzing controls data—helping the company proactively identify strengths, opportunities and risks. Likewise, Confidentially Speaking—a global online conduit for employees to raise concerns, also

introduced in 2007—extends and innovates a 45-year heritage of similar programs.

A key step in building trust into the company's management systems was the October 2006 establishment of IBM's Corporate Trust and Compliance office. In addition to overseeing legal and regulatory compliance, the office is helping IBM's leadership to anticipate changes in society, markets and technology—and thus to take progressive steps to maintain and foster IBMers' core value of trust and personal responsibility throughout the company.

Ultimately, trust rests upon a foundation of worldwide employee engagement. In 2007 more than 350,000 IBMers around the world completed online education on the company's Business Conduct Guidelines and, as they do every year, certified online their reading and understanding of the Guidelines.

*“In the fast-paced age of globalization, values and principles take on an even greater importance, and **vanguard companies like IBM have recently redoubled their efforts** to bring them front and center—and to do so in collaborative fashion. Not only does this approach enable IBM to unify geographically and culturally a diverse set of people and guide their daily decision-making, but it inspires higher levels of creativity, leading to more breakthrough innovations for the company and for society.”*

Rosabeth Moss Kanter, Ernest L. Arbuckle Professor of Business Administration, Harvard Business School

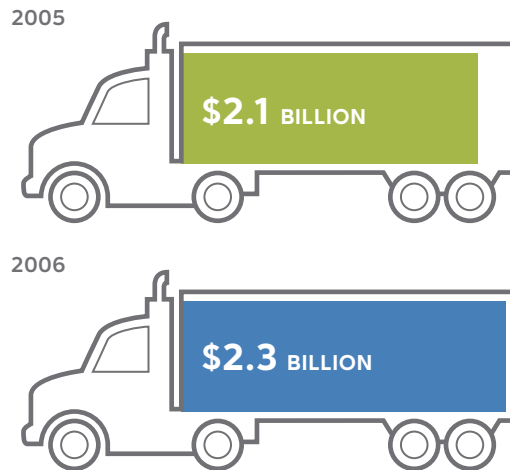
As the backbone of a globally integrated enterprise, a supply chain has to deliver both operational efficiency and social responsibility.

IBM continued expanding its supply-chain social responsibility program in 2007 with supplier assessments in Eastern Europe and China. Since 2004 IBM has audited more than 400 locations in a dozen countries to measure compliance with our code of conduct. Audits include manufacturers as well as suppliers of software, services, facility management and distribution. When an audit finds noncompliance, suppliers must respond by identifying causes and creating a plan for improvement; IBM reviewed and accepted more than 90 plans for suppliers assessed during 2007.

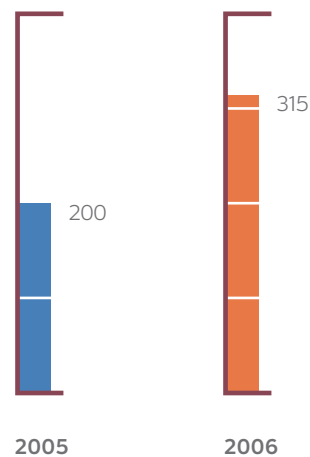
IBM is a founding member of the Electronic Industry Citizenship Coalition, which now includes more than 30 suppliers of components, higher-level manufacturers, OEM brands and even a major electronics retailer — putting it in a strong position to work together toward a cohesive, sector-wide approach on issues of social responsibility throughout our industry's supply chain.

Another key element of supply-chain social responsibility is to expand the range of the company's suppliers. IBM's supplier diversity program began in 1968, and in 2000 we became the first IT company to spend \$1 billion with diverse-owned businesses. In 2007 the total exceeded \$2.3 billion with more than 350 suppliers worldwide. IBM participates in the international committee of the National Minority Supplier Development Council (NMSDC), and has been a founding member of every organization it has established internationally, including those in Brazil, Canada and the United Kingdom. The NMSDC named IBM's Michael Robinson its National Supplier Development Leader of the Year in 2007. IBM also works with the Women's Business Enterprise National Council to create similar organizations in other countries.

GLOBAL DIVERSE SUPPLIER SPENDING:



SUPPLY CHAIN SOCIAL RESPONSIBILITY AUDITS:





GLOBAL CITIZENSHIP ACROSS SOCIETY

1_ THE NEW ENVIRONMENTAL IMPERATIVE

2_ THE NEW MARKETPLACE

3_ THE NEW ARENA OF COMMUNITY

So far in this report, we've discussed how empowered individuals and collaborative organizations are changing business and society. But those organizations and individuals are also part of something larger than any industry, nation or "business ecosystem."

We're witnessing the emergence of a *global commons*—of information, innovation, opportunity and societal responsibility. Which raises a question for both enterprises and individuals:

What does it mean to be a "global citizen" today?

1_ THE NEW ENVIRONMENTAL IMPERATIVE:

Innovation for sustainability

There is little debate today that the impact of environmental degradation is real and quantifiable. And there is also a growing consensus that the health of our planet must be addressed if human society is to develop in a sustainable manner. Doing so will not be easy. To preserve our resources requires the development of new systems to monitor environmental impacts and new solutions to limit them.

From the escalating cost of energy to growing concern about climate change, energy efficiency has become a critical global challenge—creating both an imperative and an opportunity for IBM innovation.

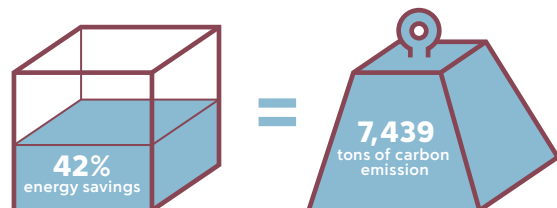
For every dollar spent on computer hardware, 50 cents are spent on power and cooling—and that ratio will increase to 1:1 by 2012. IBM, with the world's largest commercial IT infrastructure—8 million square feet of data centers on six continents—is already innovating on multiple levels. By 2010, we expect to double our computing capacity without increasing our data centers' power consumption, saving 5 billion kilowatt-hours of energy per year. We will do this through initiatives such as:

- Project Big Green: An initiative announced in May 2007 to devote \$1 billion annually to products and services that can increase the energy efficiency of the average data center by as much as 42 percent.
- Cool Blue Portfolio: Technologies and solutions that reduce the heat servers produce, improve management of their energy use and more.
- Microprocessor innovation: Our newest POWER6 chip can double performance at virtually unchanged power usage. A new "airgap" manufacturing process can make our next-generation chips 15 percent more efficient.

THE "COOLING DOORS" OF IBM'S REAR DOOR HEAT EXCHANGER CAN REDUCE SERVER HEAT OUTPUT IN DATA CENTERS UP TO 60%. CHILLED WATER DISSIPATES HEAT GENERATED BY THE SERVER WHILE REQUIRING NO ADDITIONAL FANS OR ELECTRICITY.



PROJECT BIG GREEN CAN PROVIDE THE AVERAGE 25,000 SQUARE-FOOT DATA CENTER WITH UP TO 42% ENERGY SAVINGS, EQUAL TO 7,439 TONS OF CARBON DIOXIDE EMISSIONS PER YEAR, BASED ON THE ENERGY MIX IN THE U.S.



IBM's comprehensive energy and climate programs are designed to increase the energy efficiency and reduce the greenhouse gas emissions associated with our operations.

Our planet's changing climate is a critical challenge facing all of us, and business, government and individuals must collaborate in finding solutions. IBM's leadership on these issues spans four decades, starting with our first formal environmental and conservation policies in the early 1970s.

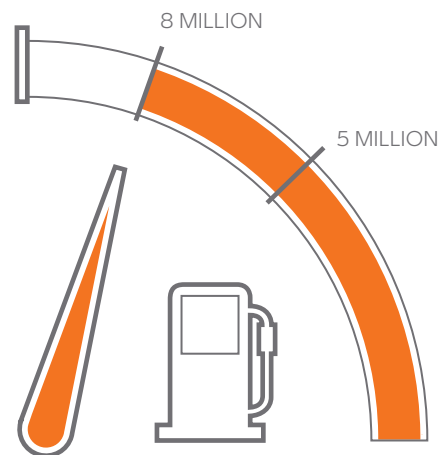
IBM's commitment to energy efficiency and climate protection includes:

- Conserving energy
- Using renewable energy
- Reducing PFC emissions from semiconductor operations
- Supporting alternate commuting options for employees
- Increasing the efficiency of its logistics

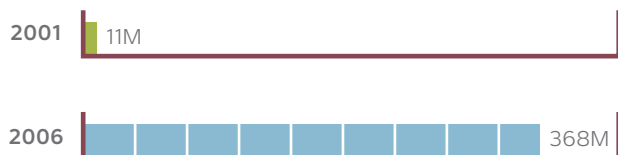
IBM has also been a leader in reporting its performance in this area. We were among three manufacturers to begin voluntarily reporting greenhouse gas emissions under the U.S. Department of Energy program when it was established in 1995, and have participated in the Carbon Disclosure Project since its inception in 2002.

FROM 1990 THROUGH 2006, THROUGH ITS ANNUAL ENERGY CONSERVATION ACTIONS, **IBM SAVED 4.5 BILLION kWh OF ELECTRICITY,** AVOIDED NEARLY 3 MILLION METRIC TONS OF CO₂ EMISSIONS (EQUAL TO 44% OF THE COMPANY'S 1990 GLOBAL CO₂ EMISSIONS) AND **SAVED MORE THAN \$290 MILLION.**

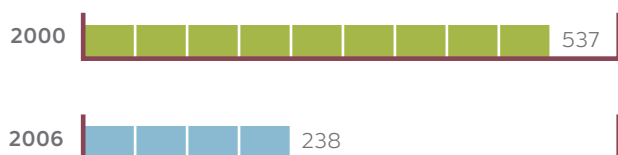
IBM ESTIMATES THAT ITS WORK-AT-HOME PROGRAM IN THE U.S. ALONE CONSERVED APPROXIMATELY 8 MILLION GALLONS OF FUEL ASSOCIATED WITH EMPLOYEE COMMUTING IN 2006.



IBM'S PROCUREMENT OF RENEWABLE ENERGY AND RENEWABLE ENERGY CERTIFICATES INCREASED FROM 11M kWh IN 2001 TO 368M kWh IN 2006. IT NOW ACCOUNTS FOR 7.3% OF IBM'S GLOBAL ELECTRICITY PURCHASES.



FROM 2000 TO 2006, IBM REDUCED PERFLUOROCOMPOUND (PFC) EMISSIONS FROM ITS SEMICONDUCTOR MANUFACTURING BY 55% (IN METRIC TONS OF CO₂).



Leadership in environmental protection requires a multidisciplinary, collaborative approach to innovation, with people and companies whose expertise complements our own.

- Pacific Gas and Electric Company joined with IBM Research to develop a system that measures data centers’ temperature distributions in three dimensions, identifying hot spots, air leakages and other inefficiencies. IBM now offers this Mobile Measurement Technology to help other clients improve energy efficiency.
- In Stockholm, IBM worked with the Swedish Road Administration to develop, implement and run Europe’s largest road charging system. Traffic congestion is down, public transport use is up (by 40,000 commuters daily), and air pollutants have fallen by 12 percent. IBM previously helped develop the world’s first such system, in Singapore.

- IBM established the Intelligent Utility Network Coalition in April 2007 to accelerate the adoption of systems for monitoring and managing electric grids using data transmitted over power lines — helping to improve service, reliability and efficiency. CenterPoint Energy (Houston) and Pepco Holdings (Washington, D.C.) are the group’s first members.
- The Fresh On Demand project in the Netherlands includes IBM, five universities, the Dutch government and companies across the food industry, with a goal of reducing waste in the food supply chain by 40 percent. The collaborative effort incorporates intelligent ordering and supply forecasting, and tracks food from its source using radio tags that monitor temperature and humidity.



AFTER ONE MONTH OF OPERATION FOR STOCKHOLM'S ROAD-CHARGING SYSTEM:

- 1** TRAFFIC HAD BEEN **REDUCED BY 25%.**
- 2** THE NUMBER OF TRAIN AND TRANSIT PASSENGERS HAD **INCREASED BY 40,000 PER DAY.**
- 3** THE NUMBER OF PARKING FINES HAD BEEN **REDUCED BY 29%.**
- 4** TIMETABLES FOR INNER-CITY BUS LINES HAD TO BE REDESIGNED TO REFLECT **INCREASED AVERAGE SPEED.**

Product design is not just about function and form. IBM long has offered products that are also protective of the environment.

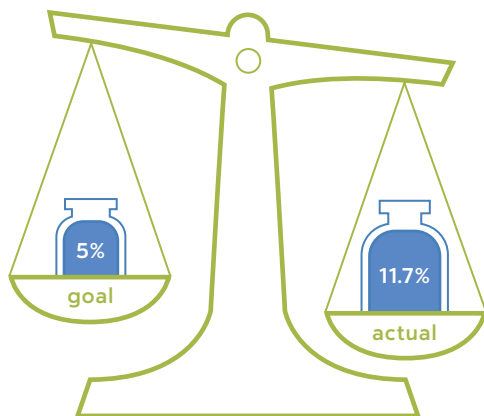
IBM's product stewardship program, formalized in 1991, includes objectives for developing, manufacturing and marketing products with improved energy efficiency that can be upgraded to extend product life and that incorporate recycled content and environmentally preferable materials and finishes.

ACCORDING TO THE INAUGURAL *GREEN500* LIST (GREEN500.ORG, NOV 2007),

NINE OF THE TOP 10 MOST ENERGY-EFFICIENT SUPERCOMPUTERS IN THE WORLD ARE IBM COMPUTERS.

THE *GREEN500* LIST PROVIDES THE ENERGY EFFICIENCY RANKING AS A COMPLEMENTARY VIEW OF THE TOP500 LIST.

OF THE PLASTICS IBM PROCURED THROUGH ITS CORPORATE CONTRACTS IN 2006, 11.7% BY WEIGHT CAME FROM RECYCLED MATERIALS—VERSUS OUR GOAL OF 5%.



Consistent with its precautionary approach, IBM prohibited the use of many hazardous substances years before they were subject to regulatory restrictions. Examples include asbestos, polychlorinated biphenyls (PCBs), polybrominated diphenyl ethers (PBDEs) and ozone-depleting substances, all of which were prohibited in the early 1990s. Recent initiatives in our commitment to using environmentally preferable materials include:

- Prohibition on the use of polyvinyl chloride (PVC) in IT system enclosures for newly released products.
- Prohibition on the use of nonreactive tetrabromobisphenol-A (TBBPA) flame retardants in IT system enclosures for newly released products.
- Prohibition on the use of specific perfluorinated compounds (PFOS and PFOA) in any new IBM manufacturing, development and research processes. In addition, IBM is banning their use in any known application in existing processes after December 31, 2009. The company has an active program to identify appropriate alternatives for their existing uses.

IBM was an early leader in the environmentally responsible and cost-effective management of products at the end of their useful lives.

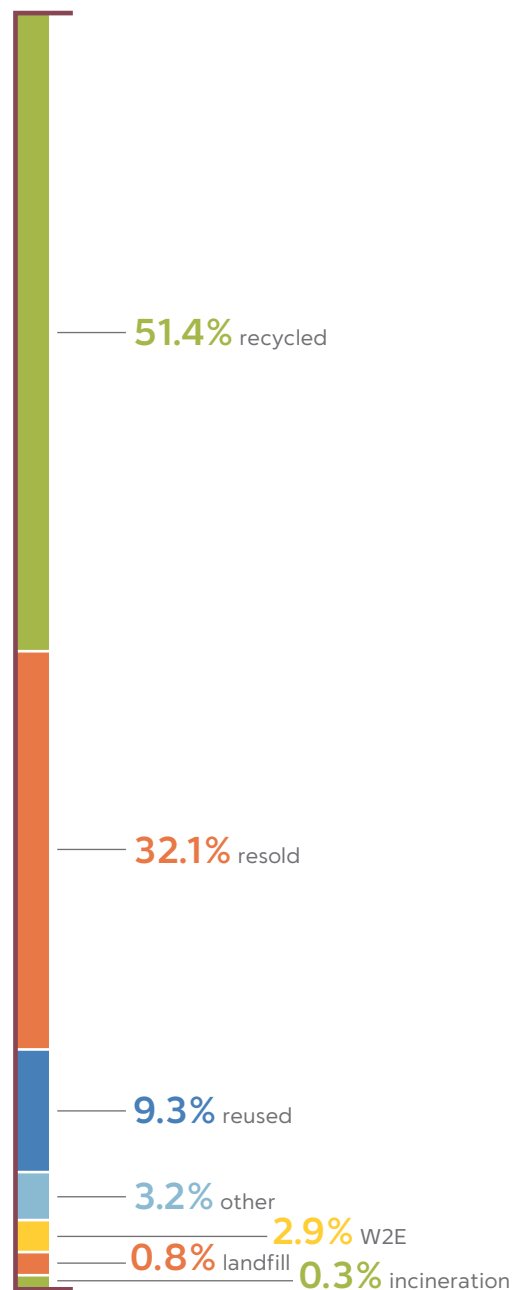
As the use of IT products has grown and communities have become increasingly concerned about waste management, there has been increased public and business interest in the environmentally safe, responsible and cost-effective management of electronic equipment when it no longer meets the needs of its owners or otherwise has reached its end of life.

IBM long has focused on recycling its own IT products. To help our clients participate in this recycling effort, we began offering product take-back programs in Europe in 1989 and expanded and enhanced them over the years. IBM now offers Asset Recovery Solutions to clients in 57 countries. Additionally, in many countries, IBM offers solutions to household consumers for the end-of-life management of computer equipment, either through voluntary IBM initiatives or country programs in which the company participates.

THE COMPANY'S EARLY LEADERSHIP IN PRODUCT REUSE AND RECYCLING HAS ACHIEVED SIGNIFICANT, INDUSTRY-LEADING RESULTS: SINCE 1995, IBM HAS RECOVERED AND PROCESSED

MORE THAN 1.4 BILLION POUNDS OF PRODUCT AND PRODUCT WASTE WORLDWIDE.

IN 2006 IBM'S PRODUCT END-OF-LIFE MANAGEMENT (PELM) OPERATIONS WORLDWIDE PROCESSED 49,083 METRIC TONS OF IT PRODUCTS AND PRODUCT WASTE. OF THE TOTAL PROCESSED, THE PELM OPERATIONS SENT ONLY 0.8% TO LANDFILLS.



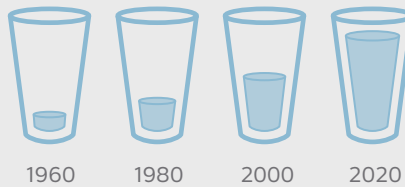
Preserving Earth's water supply one river at a time

According to the United Nations, more than 1 billion people on Earth already lack access to fresh drinking water. If current trends persist, as much as two-thirds of the planet will be living with serious water shortages by 2025. And yet today, we do not know what impact construction of a new dam will have on a major river system, on a village downstream, or on the surrounding region.

Such questions can now have real answers, thanks to IBM's and The Nature Conservancy's **Great Rivers Partnership**. Using IBM's expertise in science, modeling and understanding of complex systems, the collaboration will produce a new computer-modeling framework

that will help users to simulate the behavior of river basins around the world. This will enable water conservation stakeholders to see the benefits and costs of proposed activities in and around major rivers. The project will launch using data from the Paraguay-Paraná River basin in Brazil and extend to the Yangtze River in China.

GLOBAL WATER CONSUMPTION IS DOUBLING EVERY 20 YEARS—MORE THAN TWICE THE RATE OF HUMAN POPULATION GROWTH.



“The lack of suitable water for people and for nature is a growing international crisis, especially within impoverished communities. Our collaboration with IBM represents the kind of innovation and creativity necessary to preserve freshwater systems at scales that can really make a difference.”

Stephanie Meeks, Acting President and CEO, The Nature Conservancy

IF CURRENT TRENDS PERSIST, AS MUCH AS TWO-THIRDS OF THE WORLD'S POPULATION WILL BE LIVING WITH SERIOUS WATER SHORTAGES BY 2025.



2007
1/6 of the world's population is living without fresh water.



2025
2/3 of the world's population could be living without fresh water.

2 THE NEW MARKETPLACE:

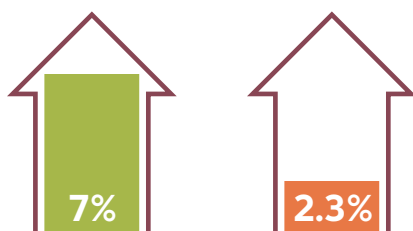
Small businesses and global ambitions

If global integration is to bridge the gap between the developed and the developing worlds, individuals and businesses in emerging markets need the right tools, infrastructure and skills to bring their expertise to the global economy.

Small businesses are already the growth engines of nearly every market. And their future can be brighter yet—with some help.

To access world-class skills and resources on a global scale, you no longer have to be big. IBM has teamed with IFC, part of the World Bank Group, to improve and relaunch the online **Small Business Toolkit** (smetoolkit.org) — more than 500 tools and resources, free of charge, to help small businesses around the world succeed and grow. The Small Business Toolkit is available in a dozen languages and 22 countries, including emerging markets such as India, Vietnam and South Africa. In the United States, the project targets women- and minority-owned businesses. The global collaboration relies on a partner in each country to customize content for local needs. IBM invested \$1.6 million to rebuild the portal on an open source platform, adding collaboration tools, online chat, a business directory and a range of content management solutions.

SINCE 2001 EMERGING ECONOMIES HAVE SEEN NEARLY 7% ANNUAL GROWTH, COMPARED TO 2.3% GROWTH IN DEVELOPED ECONOMIES.



IN THE UNITED STATES, SMALL BUSINESSES ACCOUNTED FOR **60%-80% OF JOB GROWTH** IN THE LAST DECADE.

*“Small and medium enterprises generate a significant share of jobs and economic growth, especially in emerging markets. Their impact can be even greater with access to good business management practices. **Giving entrepreneurs the information and new collaborative technologies they need** will help them grow and be successful.”*

Lars Thunell, IFC Executive Vice President and CEO

An estimated 774 million nonliterate adults around the world face a daunting barrier to participation in the global, information-based economy. New technology can help.

IBM's **Reading Companion** is yet another example of the company's high-impact technology innovation for the classroom. Reading Companion's advanced speech recognition technology, delivered over the Web, "listens" to new readers and can provide individualized feedback for children or adults learning to read English for the first time — helping teachers track students' progress and identify areas for extra practice. And the program's "Book Builder" software actually enables users to create new books, relevant directly to them — such as volumes on job skills for adult learners at workforce development sites. Children in Philadelphia, Pennsylvania, authored 40 books for kids, which are now part of Reading Companion's virtual library.

Reading Companion grew out of IBM's flagship Reinventing Education program, which has an investment of \$75 million worldwide and a record of innovative education tools and documented improvements in student achievement. Reading Companion, launched in 2006 at more than 220 schools

and nonprofit organizations around the world, grew to more than 450 sites in 2007 and is being expanded globally. In South Africa, where an estimated 30 percent of adults do not have basic reading skills, plans are underway to expand the program to 1,000 schools over the next three years.

*"I am impressed with the program's voice recognition software and diagnostic and reporting tools. Above all else, **this makes Reading Companion unique** and is making the biggest difference in schools where learners are struggling with literacy."*

Aysba Kamalie, Facilitator, Khanya Project South Africa

ABOUT 10 MILLION CHILDREN IN THE U.S. HAVE DIFFICULTY LEARNING TO READ. OF THESE, 10%-15% DROP OUT OF HIGH SCHOOL, AND ONLY 2% RECEIVE A FOUR-YEAR COLLEGE DEGREE.

10 million children: reading difficulties.

10%-15%: drop out of high school.

2%: receive four-year college degree.

3_THE NEW ARENA OF COMMUNITY: Forging bonds of societal purpose

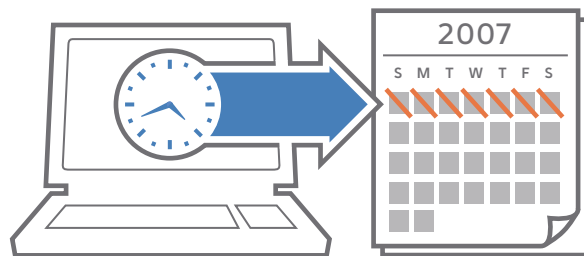
In an integrated world, developing innovative solutions can mean forming wholly new kinds of communities—based on shared interests and incentives, and enabled by technology that brings the benefits of collective action to individuals, organizations and society at large.

Linking people’s idle computers together in a grid can create supercomputer-level strength. We’re using it to tackle some of the world’s most urgent threats.

IBM’s **World Community Grid**, created through the donation of IBM hardware, software, technical services and expertise, is helping ad hoc global communities of volunteers to accelerate research on challenges from climate modeling in Africa to killer viruses. Since the launch of the World Community Grid in 2004, more than 850,000 computer devices have been registered to volunteer computing time when not in use by their owners.

Dengue fever, West Nile encephalitis, hepatitis C and a host of other diseases pose significant risk to more than 40 percent of the world’s population. Researchers at The University of Texas Medical Branch and The University of Chicago estimate that about 50,000 years of computational time would be needed to complete the structure-based drug discovery calculations to help combat these viruses. Thanks to IBM’s grid approach, these calculations may be completed in less than one year.

WORLD COMMUNITY GRID VOLUNTEERS ARE DONATING AN AVERAGE OF 1,100 YEARS OF COMPUTING TIME PER WEEK.



“Infectious diseases create not only illness, but also poverty. For example, continued research is needed to understand the four dengue fever viruses and to develop drugs that could help reduce the burden of disease and potentially save millions of lives.”

Dr. Ayo Oduola, Special Programme for Research and Training in Tropical Diseases, World Health Organization

The health of the global community depends upon a global community devoted to health.

When it comes to fighting disease and supporting wellness, no person is an island — even on the world’s most remote inhabited island. Tristan da Cunha is located 1,665 miles west of Cape Town, South Africa, and is accessible only by a boat trip lasting a week or more. Perhaps no spot on earth demonstrates more clearly that healthcare as a global, national or regional system depends on unprecedented levels of collaboration — across technology, medicine, government and communities.

In 2007 IBM donated a technology solution to help doctors deliver advanced medical care to Tristan da Cunha’s 270 residents. Medical equipment, technology, satellite communications and remotely supported electronic health record technology now allow medical experts from anywhere in the world to assist the island’s only physician with medical diagnoses and emergency support. IBM’s donation creates a new model of healthcare for isolated populations everywhere.

This is just one example of a broad spectrum of IBM health-related innovations, spanning our own healthcare and wellness policies and practices, our life sciences research and our work with clients around the world. In all these ways, IBM is leading a shift toward integrated, collaborative approaches to medical discovery, public policy and health promotion.

We believe a patient-centric model of healthcare, including the adoption of electronic medical records, will lead to better primary healthcare for patients, greater efficiency for physicians and lower costs for both employers and employees. One example is the Patient-Centered Primary Care Collaborative, which IBM chairs.

This new initiative aims to create a higher quality of healthcare through positive, ongoing relationships with family physicians who focus on disease prevention and wellness. The Collaborative’s membership includes large national employers, major primary care physician associations, health benefits companies, trade associations, professional/affinity groups, academic centers and healthcare quality improvement associations.

Collective curation of American history

The role of community through decades of trial is given powerful voice in the Smithsonian’s new **National Museum of African American History and Culture** — in both the message and the form of this breakthrough institution. Innovations include becoming the first major museum to open its doors on the Web before the construction of its physical facility (slated for 2015), and hosting the first museum Web site built on Web 2.0 collaboration technologies.

Launched in 2007 with a major IBM technology grant to the Smithsonian Institution, the National Museum site enables visitors to contribute content and create “tags” or keywords that link to other events or stories — not only welcoming a vibrant community of users and contributors, but also helping participants see how their own stories connect with events and people in history. In the words of IBM CEO Sam Palmisano: “Technology is allowing people to be this important museum’s first curators.”

“This initiative allows us to share a rich culture, to preserve important history and to make the African American past available to millions globally.”

Lonnie G. Bunch III, *Founding Director, Smithsonian’s National Museum of African American History and Culture*

For many IBMers, the work we love is not limited to the job we do. It also reaches into the places we live.

More than 100,000 IBM employees and retirees around the world have spent 6 million hours volunteering their time, skills and expertise at schools and nonprofit organizations. But it's not the numbers that are so significant; it's what these IBMers accomplish.

IBM's **On Demand Community** program, now in its fifth year, supports community efforts in multiple ways — including an online repository of nearly 200 presentations, documents and educational modules that volunteers can adapt to share their knowledge of technology planning, project management and more. Other resources make it easy for our technical professionals to visit schools and promote science and technology careers, or to help teachers use technology in their classrooms. Many are available in up to 10 languages, with new resources and translations added every year. And IBM volunteers with a sustained commitment can apply for a Community Grant of cash or equipment for the school or organization they support: More than \$4.5-million worth of equipment was awarded in 2007.

*“With more than 100,000 registrants and over 6 million total hours of volunteer time, **the On Demand Community is an extraordinary example of corporate philanthropy.** Even more than the massive numbers, it is notable for leveraging the core strengths of IBM—its technology and the vast skills of its employees—to make a global difference.”*

David Eisner, CEO, Corporation for National and Community Service

OTHER IBM VOLUNTEER INITIATIVES INCLUDE MENTORPLACE—THROUGH WHICH 6,000 IBMERS MENTOR STUDENTS IN 37 COUNTRIES.



IN 2007 THE POOL OF
100,000 IBM VOLUNTEERS
DONATED A TOTAL OF
1.7 MILLION HOURS
TO HELPING SCHOOLS AND COMMUNITY
ORGANIZATIONS AROUND THE WORLD.





WHAT IS CORPORATE RESPONSIBILITY IN THE 21ST CENTURY?

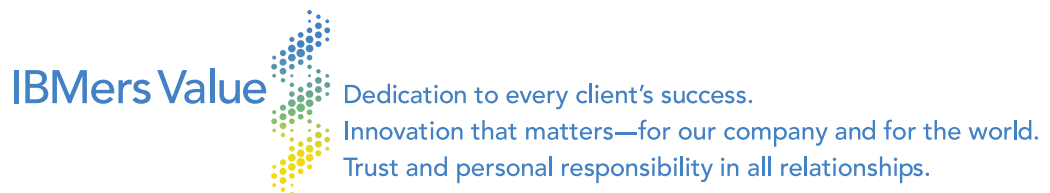
**We live and work today on a global commons—
of information, of commerce and of community.**

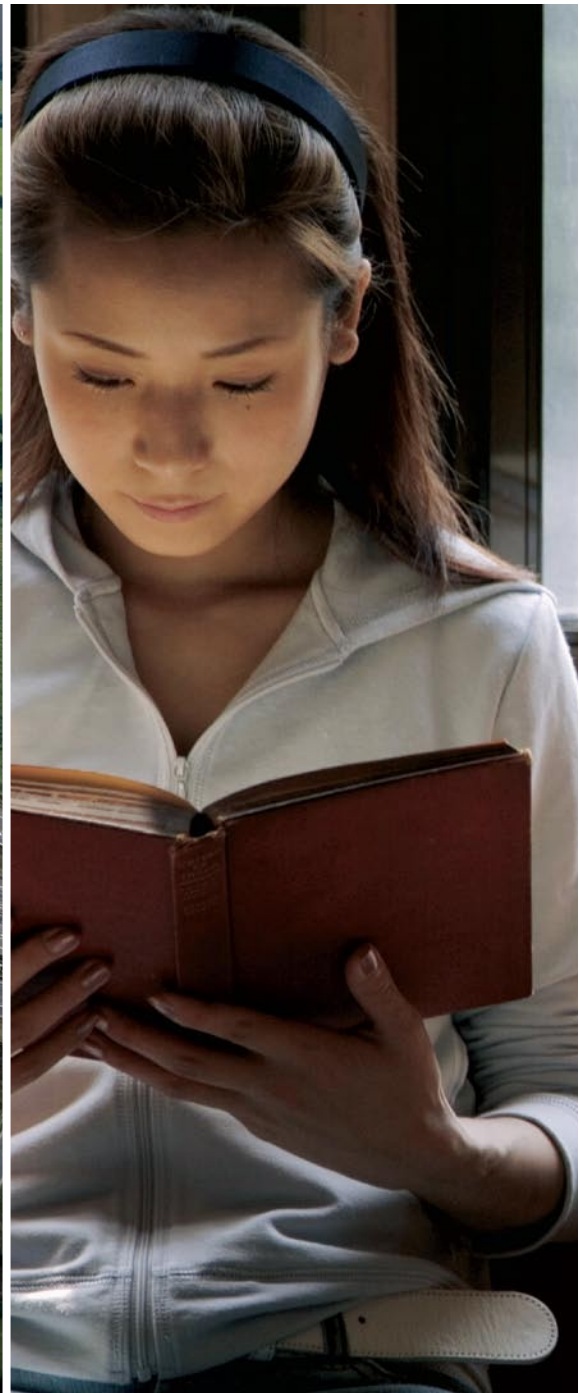
It has been created by three converging forces: the network revolution, the reality of globalization and the empowerment of diverse new stakeholders. And it offers us new possibilities for shared decision-making, built upon trust and collaboration.

For IBM, these historic and disruptive shifts both require and enable nothing less than a new social and economic relationship among individuals, organizations and civil society. Indeed, for us, that *triple benefit* defines a corporation's responsibilities in the 21st century:

- *For IBM*, we establish a stronger brand with longer-lasting shareholder value and become more attractive as a responsible company to clients, investors and to the public.
- *For IBMers*, we enable them to acquire new skills, transition to other careers, improve the communities where their children, families and neighbors live, and take personal control of their own destinies.
- *For communities and society at large*, we bring our talent and technology to bear on tackling large, difficult societal problems—from literacy to intellectual property, from the environment to healthcare, from regional and national competitiveness to the economic empowerment of the world's disadvantaged.

The criteria that shape our fulfillment of these responsibilities are the same ones that shape IBM's business actions and relationships: the values of IBMers.





APPENDIX

PERCENTAGE OF WOMEN AMONG GLOBAL EXECUTIVE RANKS (BY YEAR)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
15.4%	16.7%	17.8%	18.0%	18.0%	18.5%	17.1%	18.7%	19.4%	19.7%

PERCENTAGE OF WOMEN IN THE IBM WORKFORCE

Region	Total	Managers
Americas	30.9%	28.9%
Asia Pacific, Middle East, Africa	27.2%	20.3%
Europe	25.9%	20.4%
Total	28.5%	24.5%

IBM EMPLOYEE CHARITABLE CONTRIBUTION CAMPAIGN

U.S.	2002	2003	2004	2005	2006
Amount Donated (\$ in millions)	30.4	32.3	33.1	34.6	34.7
Participation Rate	57%	56%	58%	58%	57%
Recipient Agencies	10,300	11,200	11,300	12,104	12,315

CANADA	2002	2003	2004	2005	2006
Amount Donated (\$ in millions)	1.9	2.2	2.3	3.6	3.4
Participation Rate	56%	53%	55%	55%	52%
Recipient Agencies	1,060	1,132	1,199	1,246	1,275

The Employee Charitable Contribution Campaign gives IBMers the opportunity to contribute financially to charities of their choosing.

**GLOBAL CORPORATE CONTRIBUTIONS
BY ISSUE (\$ in millions)**

	2002	2003	2004	2005	2006
K-12 Education	56.3	54.6	47.7	55.6	49.4
Higher/Other Education	54.0	55.2	54.7	44.7	51.5
Human Services	14.2	12.8	15.2	18.9	19.8
Culture	11.5	13.1	13.3	11.2	12.3
Health	1.4	1.4	3.2	9.7	10.6
Other	2.2	5.1	8.9	7.8	7.9
Environment	0.6	0.6	0.7	0.6	0.6
Total	140.2	142.8	143.7	148.5	152.1

**GLOBAL CORPORATE CONTRIBUTIONS
BY TYPE (\$ in millions)**

	2002	2003	2004	2005	2006
Cash	31.3	25.7	28.2	38.8	48.8
Technology	78.3	73.9	70.5	64.4	59.2
Services	30.6	43.2	45.0	45.3	44.1
Total	140.2	142.8	143.7	148.5	152.1

**GLOBAL CORPORATE CONTRIBUTIONS
BY GEOGRAPHY (\$ in millions)**

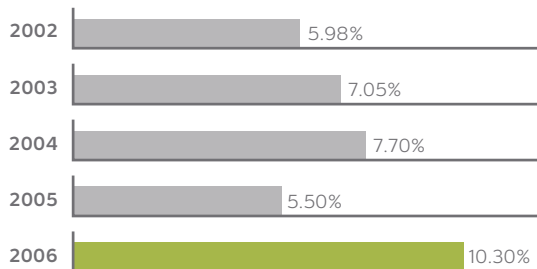
	2002	2003	2004	2005	2006
U.S.	100.7	99.4	99.9	103.0	95.7
Asia Pacific	12.4	12.5	12.9	13.5	19.9
Canada	7.0	4.3	3.4	3.6	4.0
EMEA	16.3	22.1	23.1	23.9	26.1
Latin America	3.8	4.5	4.4	4.5	6.4
Total	140.2	142.8	143.7	148.5	152.1

**ELECTRICITY AND FUEL USE AND RELATED
CO₂ EMISSIONS**

Year	Electricity and Fuel Use (Thousand MMBTU)	CO ₂ (est) (Metric tons x 1,000)
2002	25,044	2,633
2003	21,695	2,334
2004	21,360	2,192
2005	22,630	2,517
2006	22,491	2,420

The above figures include estimates for portions of IBM's office space that are leased. CO₂ 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 CO₂ emissions.




**CO₂ EMISSIONS REDUCTIONS AND
AVOIDANCE (REDUCTIONS IN PERCENT)**


Average annual energy conservation achieved through energy conservation actions and credit for renewable energy use expressed as a percentage of the company's total actual annual electricity and fuel use — versus the goal of 4%.


ON DEMAND COMMUNITY

	2004	2005	2006
Registrants	33,606	57,284	80,516
Employee Hours Donated	930,904	2,062,006	4,445,434

KEY PERFORMANCE INDICATORS

 	EMPLOYEES	2005	2006	FUTURE GOALS
	EMPLOYEE SATISFACTION	65%	65%	IBM management continues to work with our employees to improve satisfaction*
	WORKFORCE DIVERSITY	U.S.: 31% women; 24% all minorities	U.S.: 31% women; 24% all minorities	Maintain or grow percentage of U.S. women and minority employee base
	LEARNING AND TRAINING	\$700M, 18M learning hours which equals 55.5 hours per employee	\$682M, 19.7M learning hours which equals 55.5 hours per employee	Increase employee participation in learning
	COMPANY	2005	2006	FUTURE GOALS
	GLOBAL CONTRIBUTIONS	\$148.5M, up 3.3% YTY	\$152.1M, up 2.4% YTY	Equal or higher contributions
	U.S. VS. INTERNATIONAL	U.S.: \$103M or 69% International: \$45.5M or 31%	U.S.: \$95.7M or 63% International: \$56.4M or 37%	Increase percentage of international giving
	DISTRIBUTION BY TYPE	Cash 26%, Equipment 43%, Services 31%	Cash 32%, Equipment 39%, Services 29%	Maintain or increase technology and services
	GLOBAL EMPLOYEE VOLUNTEERISM	56,708 employees, 2,751,936 hours logged	70,207 employees, 4,445,434 hours logged	+10% for employees and hours logged
	GLOBAL DIVERSE SUPPLIER SPENDING	\$2.1 Billion	\$2.3 Billion	Increase level of diverse supplier spending with growth in non-US countries
	SUPPLIER SOCIAL RESPONSIBILITY AUDITS	200	315	Continue audits/reaudits in emerging market countries; participate in EICC joint audits

*Source: Global Pulse Survey to which 40% of IBMers are invited to participate annually



ENVIRONMENT	2005	2006	FUTURE GOALS
ENERGY CONSERVATION	5.5% total savings vs. 4% goal; 3.4% savings from conservation, 2.1% from renewables	3.9% total savings due to energy conservation actions vs. goal of 3.5% (renewable energy is now part of IBM's 2 nd generation CO ₂ emissions reduction goal)	Achieve annual energy savings from conservation alone equal to 3.5% of IBM's actual energy and fuel use
POLLUTION PREVENTION	19% reduction, representing 847 metric tons	8.1% reduction, representing 315 metric tons	Achieve a continual annual reduction in hazardous waste generation indexed to output
WATER CONSERVATION IN SEMICONDUCTOR OPERATIONS	3.7% annual savings; 7.2% average five-year savings vs. 2% goal	2.3% annual savings; 7.0% average five-year savings vs. 2% goal	Achieve average annual water conservation savings equal to 2% of IBM's annual water use at microelectronics manufacturing facilities over a rolling five-year period
NONHAZARDOUS WASTE RECYCLING	Recycled 77% vs. 67% goal	Recycled 74.3% vs. 67% goal	Recycle 75% of nonhazardous waste generated
CO ₂ EMISSIONS REDUCTION	Reduced CO ₂ emissions by 5.5% vs. 4% goal	Reduced CO ₂ emissions by 10.3% vs. 4% goal	Further reduce CO ₂ emissions associated with IBM's energy use by 12% 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 or comparable instruments
USE OF RECYCLED CONTENT PLASTICS	Net recycled plastic content represented 8.1% by weight of IBM's total purchase of plastics vs. 5% goal	Net recycled plastic content represented 11.7% by weight of IBM's total purchase of plastics vs. 5% goal	Ensure recycled plastics represent 5% or more by weight of the total plastics IBM procures under its corporate contracts for use in IBM products
PRODUCT LANDFILL USE	Processed 59,653 metric tons of products/product waste and sent 1.43% to landfills	Processed 49,083 metric tons of products and product waste, and sent 1% (0.78%) of the total to landfills vs. goal of not-to-exceed 3%	Reuse or recycle end-of-life products such that the amount of product wastes sent by IBM for treatment to landfills or for incineration does not exceed a combined 3% of the total amount processed

In 2007 IBM followed the sustainability reporting guidelines for the Global Reporting Initiative (GRI), completing a full G3 report at Application Level A, the highest GRI standard. The GRI provides stakeholders with a “universally applicable, comparable framework in which to understand disclosed information.” Standard disclosures and performance indicators are provided for the following areas: Organizational Profile, Report Parameters, Governance and Engagement, Environmental, Human Rights, Labor Practices, Society, Product Responsibility and Economic.

IBM’s complete GRI report can be found at
www.ibm.com/ibm/responsibility/globalreportingindex.shtml

INDICATOR PROTOCOLS, BY SECTION

Economic—Economic performance, market presence, and economic impacts

Environmental—Materials, energy, water, biodiversity, emissions, effluents, waste, products and services, compliance, and transport

Governance and Engagement—Governance structure of the organization, board structure, shareholder and employee recommendation mechanism, values, and codes of conduct

Human rights—Investment and procurement services, nondiscrimination, freedom of association and collective bargaining, child labor, forced and compulsory labor, security practices and indigenous rights

Labor Practices—Employment, labor/management relations, occupational health and safety, training and education, diversity and equal opportunity

Product responsibility—Customer health and safety, product and service labelling, marketing communications, customer privacy, and compliance

Society—Community, corruption, public policy, anticompetitive behavior, and compliance



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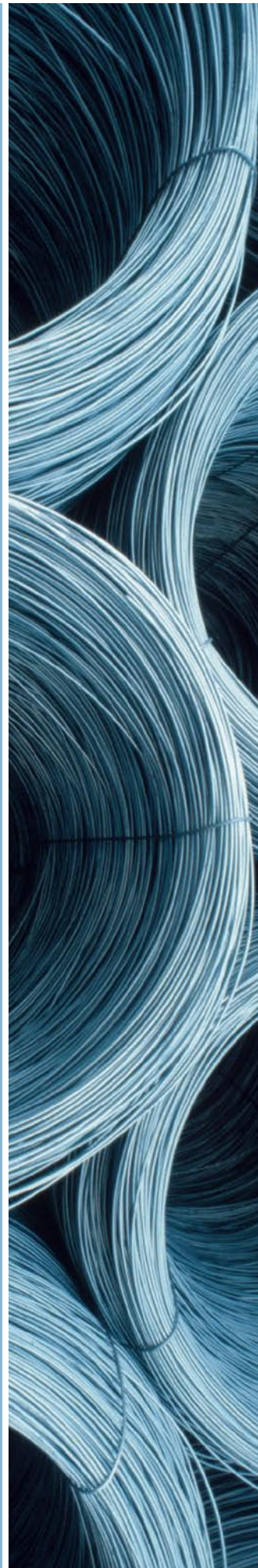
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We have included information on the areas of corporate responsibility we believe are the most relevant and meaningful with regard to IBM's global activities. Among the references used in preparing this report are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, the corporate social responsibility surveys of a number of external organizations, and questions we are often asked by our clients, employees, shareholders, nonprofits, government and nongovernmental organizations, and other people and communities with whom we have ongoing relationships.