Modern Slavery Act Transparency Statement 2020

On behalf of International Business Machines Corporation (IBM or the company), we are pleased to give our statement, as required by s. 54 of the UK's Modern Slavery Act of 2015, of the actions our organization took during our financial year ending 31 December 2019, to ensure that slavery and human trafficking are not taking place in any of our supply chains or in any part of our business globally.

Our business

IBM is headquartered in Armonk, New York, U.S.A. and is a globally integrated entity, operating in over 175 countries worldwide. We bring together innovative technology, industry expertise and a commitment to trust and transparency to help enterprise clients move from one era to the next. We provide integrated solutions and platforms, leveraging global capabilities that include services, software, systems, related financings and fundamental research.

In 2019, our major operations consisted of five business segments: Cloud & Cognitive Software, Global Business Services, Global Technology Services, Systems and Global Financing. IBM solutions typically create value by enabling new capabilities for clients that transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud, digital and cognitive offerings, and enterprise systems and software which are all bolstered by one of the world's leading research organizations.

Our principles and governance

As a global company IBM pursues the highest standards of corporate responsibility in all we do — supporting and empowering employees, working with clients and suppliers, and governing our company. Internally, the issue of prevention of human trafficking is a shared responsibility across multiple organizations which collaborate on this and other areas of social responsibility.

Under the guidance and supervision of the Board of Directors, IBM senior management is responsible for the company's environmental and social performance. The Corporate Responsibility Executive Steering Committee provides leadership and direction on key corporate responsibility issues. Chaired by the Vice President for IBM Corporate Social Responsibility, the committee meets monthly and includes senior executives from functional areas across IBM, each responsible for developing its own corporate responsibility goals and strategy. Organization-wide goals are approved by this committee.

The Corporate Responsibility Working Group supports the Corporate Responsibility Executive Steering Committee and manages IBM's corporate responsibility activities and stakeholder engagement. It includes representatives from functional areas across IBM and meets at least monthly to review key policy and strategic issues and make recommendations to the Corporate Responsibility Executive Steering Committee.

IBM's Corporate Social Responsibility function, which reports to the Chief Communications Officer, coordinates day-to-day CSR-related activities. Executives from Corporate Citizenship, Human Resources, Supply Chain, and Country Business units are engaged to oversee the activities that collectively address this issue. A matrix organization led by Corporate Citizenship incorporates membership from these functional areas to deploy and monitor the effectiveness of the actions described in the following paragraphs.

The company actively enforces its extensive policies and practices addressing how its business units are to operate in an ethical and sustainable manner. A cross section of IBM's policies and practices for 2019 are listed on the IBM Responsibility website at: https://www.ibm.com/ibm/responsibility/ibm_policies.html#human-rights. In particular, IBM addresses its stance on prevention of human trafficking through its Global Employment Standard (Freely Chosen Employment provision), located at: https://www.ibm.org/responsibility/policies#employmentStandards. These standards form the foundation of our Human Resources work and are embedded in the practices across the countries IBM operates in. All employees and external stakeholders have access to these standards.

For large companies, risk for human trafficking resides primarily in the extended upstream supply chain, where the rigorous controls of a global company's policies and practices can be difficult to manage. IBM has taken an active role in social responsibility in the supply chain dating back 15 years when it founded a specialized department to focus exclusively on the development and deployment of policies, practices, and initiatives to recognize and take measurable action on areas of concern in the supply chain. To address these topics relating to social responsibility, IBM created the Supplier Conduct Principles in 2004 as its first consolidated supply chain code addressing Labor, Health and Safety, Environment and Ethics. This code was introduced to the supply chain and audits began in 2005 to assess compliance on a cross-section of suppliers in developing market countries.

Our external efforts

Realizing attaining sustainable improvements in the supply chain would be a long-term endeavor, IBM joined forces with other pioneering electronics companies in 2004 to create a supply chain code of conduct to harness the collective wisdom and resources of its volunteering companies. This effort evolved into the Electronic Industry Citizenship Coalition (EICC), which released its Version 1.0 Code of Conduct in late 2004. Since inception the EICC grew from eleven members to over one hundred and sixty members. Making EICC unique among industry groups is its composition representing five tiers of the supply chain. Through its rich and diverse membership, the EICC Code was sequentially refined to provide its members (and their suppliers) the means to establish high standards and follow through with an audit program to vet compliance with the EICC Code.

Membership in the EICC requires IBM to endorse the EICC Code for its own operations, thus IBM has aligned its robust array of internal policies and practices with the EICC Code ensuring its global practices are synchronized across the sector. For the EICC, its members have been aware of the risks of human trafficking in the extended supply chain since 2012 when the issue began to draw attention. In order to enable its members to become a positive force for change, the EICC Code's Labor section was updated to feature content addressing the prevention of Slavery and Human Trafficking culminating in the release of EICC Code V5.1 in January 2016. Specific wording to address Slavery and Human Trafficking was included in the Freely Chosen Employment provision.

In October 2017, the Electronic Industry Citizenship Coalition (EICC) re-branded itself as the Responsible Business Alliance (RBA). More than just a new name and logo, this change reflects the dynamic nature of the group — which has continued to grow in scope and membership during each year of its existence. RBA membership has grown to include members across automotive, communications, consumer electronics, computer brands, contract manufacturing, hardware components, industrial equipment, logistics, software, retail, toy and service industries.

The RBA Code of Conduct principles and commitments are reinforced within IBM's Global Employment Standard, which are part of IBM's Policies & Principles as published at: https://www.ibm.org/responsibility/policies#employmentStandards and which cover freely chosen employment, young workers, wages and benefits and working hours. All IBM employees are required to take an annual certification of IBM's Business Conduct Guidelines https://www.ibm.com/investor/att/pdf/BCG_accessible_2019.pdf which contains references to the Corporate Instruction which covers IBM's Global Employment Standards (HR-114). HR-114 is the internalization of the RBA Code of Conduct, and our means of dispersing that code to IBM's global workforce. In addition, employees who work in specialized areas such as Human Resources receive specific training on the topic of human trafficking.

IBM has communicated its requirement for direct suppliers to work toward and remain compliant with the RBA Code. Unless an exception is given, all IBM direct suppliers (in all countries) are required to sign a contractual agreement to comply with the Code.

During 2017, the RBA Code of Conduct was updated to Version 6.0, effective January 1, 2018. Specific wording addressing the prevention of Slavery and Human Trafficking in the RBA Code is contained in the Labor section under Freely Chosen Employment:

Forced, bonded (including debt bondage) or indentured labor, involuntary or exploitative prison labor, slavery or trafficking of persons shall not be used. This includes transporting, harboring, recruiting, transferring or receiving persons by means of threat, force, coercion, abduction or fraud for labor or services. There shall be no unreasonable restrictions on workers' freedom of movement in the facility in addition to unreasonable restrictions on entering or exiting company-provided facilities.

As part of the hiring process, workers must be provided with a written employment agreement in their native language that contains a description of terms and conditions of employment prior to the worker departing from his or her country of origin and there shall be no substitution or change(s) allowed in the employment agreement upon arrival in the receiving country unless these changes are made to meet local law and provide equal or better terms.

All work must be voluntary, and workers shall be free to leave work at any time or terminate their employment. Employers and agents may not hold or otherwise destroy, conceal, confiscate or deny access by employees to their identity or immigration documents, such as government - issued identification, passports or work permits, unless such holdings are required by law. Workers shall not be required to pay employers' or agents' recruitment fees or other related fees for their employment. If any such fees are found to have been paid by workers, such fees shall be repaid to the worker.

Our supply chain

IBM verifies its RBA Code of Conduct supplier compliance requirements with a robust annual assessment program that engages a cross-section of companies in countries where the risk of noncompliance is elevated. In the period from January 2019 through December 2019 IBM received and analyzed 50 full audit and 47 re-audit reports (using the RBA audit process) from suppliers located in: China, Hungary, India, Indonesia, Malaysia, Mexico, Philippines, Romania, Singapore, Slovakia, South Africa, South Korea, Taiwan, Thailand, Turkey, and United Arab Emirates. An aggregated summary of findings for the 2019 audits is available in the Supply Chain section of the Corporate Responsibility Report: https://www.ibm.org/responsibility/2019/IBM-2019-CRR.pdf

Analysis of the 50 full audits indicated that 15 suppliers located in China, India, Mexico, Singapore, South Africa, and Taiwan incurred a total of 29 findings in the Freely Chosen Employment provision of the RBA Code. The 29 findings are summarized as follows:

— limits on termination of employment / excessive worker penalties

— no policy on freedom of movement in the workplace

— no policy on prohibition of Forced Labor, Worker Fees, or Human Trafficking

— workers not fully reimbursed for the cost of pre-employment fees (travel / medical tests)

— no policy to prohibit retention of worker IDs, passports, personal papers

— use of contractors exceeds legal limits

— wage loans exceeded limits stipulated by RBA Code of Conduct

— mandatory overtime included in employment agreement

— no copies of work agreement provided to workers

In 29 noted non-compliances for this code provision there were no instances of workers subject to the worst forms of human trafficking. As a result of the non-compliances identified in 2019, we have taken action in 2020 to enhance the supplier education materials by emphasizing the proactive measures suppliers need to take to address all aspects of compliance to this provision of the RBA Code.

As described in the 2019 Corporate Responsibility Report, IBM follows the RBA audit process carefully, requiring root cause and corrective actions to be implemented for all code noncompliance. Corrective Action Plans are implemented, and RBA re-audits performed on all noncompliance including those associated with the Freely Chosen Labor provision of the Code. IBM treats all noncompliance with the RBA Code as a serious issue and invests considerable time working with its suppliers to advise on best practice to attain and maintain code compliance.

In addition to the described assessment activities, IBM offers internal on-line education for the RBA Code to its Global Procurement organization. The supply chain social responsibility group is part of the larger global purchasing team, which ensures all members have direct association with the professionals dedicated to this work. Taking this step further, the supply chain social responsibility group is geographically distributed with members collocated with purchasing in China, India, Mexico, Hungary, and the United States. This helps to assure cross-qualification of purchasing professionals to help extend vigilance of the RBA Code into their daily interactions with direct suppliers to IBM.
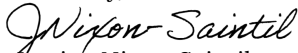
In 2019, on-line educational materials were also made available to IBM suppliers relating to RBA Code of Conduct elements. These materials have been developed by RBA with input from various members and stakeholders. IBM deployed these courses to its suppliers undergoing audits as further investment in growing the capabilities of our suppliers in terms of social responsibility.

In 2019 IBM developed a digital training course "Disrupting human trafficking". Available to all IBM employees the training informs learners how to recognize the signs of human trafficking, and to understand IBM's role in disrupting the industry. The training will be made available more broadly in 2020.

A parallel avenue of engagement is the work IBM has completed to apply leading edge technology to this challenging issue. In conjunction with a leading non-governmental organization (STOP THE TRAFFIK), law enforcement agencies, and financial institutions, IBM deployed cloud and artificial intelligence technology to create a growing on-line database to track and counteract the trade of human beings on a global basis. Traffik Analysis Hub, now fully formed as a non-governmental organization recognized by the UK charities commission, enables members to validate and map patterns, trends, and smuggling routes. Launched in 2019, Traffik Analysis Hub has grown to more than 50 members to become one of the largest platforms of its kind, with data representing nearly one million trafficking cases. During 2020, IBM will assist to further deploy this tool in the global marketplace as an effective means to contribute to progress in this arena. More details can be found at: https://www.traffikanalysis.org/

In closing, we are pleased to publish our statement on our activities regarding the prevention of slavery and human trafficking in our business and supply chains for the year ending 31 December 2019. Due to the global pandemic of 2020, the multitude of issues that arose because of the global pandemic prevented IBM from publishing this statement in the first half of this year – going forward, we have the best intention to publish our next annual statement earlier in the year.

Sincerely,

Justina Nixon-Saintil
Vice President, and Global Head, Corporate Citizenship
International Business Machines Corporation