

2009
Corporate
Responsibility
Report



IBM Corporate Responsibility Report 2009

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Samuel J. Palmisano
Chairman, President and Chief Executive Officer

It was at the height of the economic crisis in 2008 that IBM introduced the idea of a smarter planet. To some, this might not have seemed the most propitious moment to launch such an ambitious strategic initiative. However, we strongly believed there was an opportunity to address exactly the problems and challenges that were then gripping the world.

Now it is nearly two years later and events have, if anything, strengthened this belief. The idea of a smarter planet is speaking powerfully to forward-thinking leaders and citizens around the world. It is opening up a growing global dialogue and generating thousands of innovative ideas. Hundreds of our clients have seized upon new capabilities to build smarter systems, and are achieving measurable benefits for their companies, communities and cities.

Without question, this response is proving beneficial to IBM's business. However, the phenomenon of a smarter planet is about much more than enhancing one company's growth and profitability. And that is what this report is all about.

Addressing the issues facing the world now—from clean water, better healthcare, green energy and better schools, to sustainable and vibrant cities, and an empowered workforce and citizenry—does not pose a choice between business strategy and citizenship strategy. Rather, it represents a fusion of the two.

This is possible because of an enormously promising set of developments that have come together over the past decade. The systems by which our world literally works have become increasingly instrumented, interconnected and intelligent. Computational power is now being infused into things no one would recognize as computers, from phones, cars and roads, to power lines, agriculture and waterways. All of these digital devices—soon to number in the trillions—are being connected through the Internet. And all of that data can be turned into intelligence, because we now have the processing power and advanced analytics to make sense of it all. We can see the patterns, spot the outliers, anticipate future trajectories.

These capabilities are making the planet smarter. At the same time they can make it safer, more accountable and more sustainable—but only if we can advance our societies, our policies, our management systems and our cultures as fast as we advance our analysis of the data they are giving off.

We must act now. The opportunity is too great, and the consequences of inaction too dire, to wait for government mandates. This moment requires the commitment and collaboration of corporations, governments, individuals and all of civil society.

Making the world work better

In these pages, you will read about some of the ways IBMers are using these vast new capabilities to spark economic growth and societal progress:

- » **How our scientists are pushing the frontiers of environmental sustainability—from green data centers, to smarter buildings, to smarter roadways and waterways**
- » **How IBMers are helping to build smarter healthcare systems around the world, with innovations ranging from bioinformatics, to electronic medical records, to smarter hospitals**
- » **How hundreds of IBMers have worked with NGOs and local communities in emerging markets to foster local business development, as part of the Company's groundbreaking Corporate Service Corps**
- » **How, together, IBMers have achieved a remarkable milestone—more than 10 million hours of volunteer service in communities around the world**

Through it all, you will come to understand something about what is now possible for forward-thinking leaders in all sectors of society. And you will come to understand something about the nature of this company and its people.

There have been some, of course, who consider “smarter planet” nothing more than a marketing campaign. And it’s not foolish to be skeptical of any company’s claims, or to be on the lookout for hype and spin. But the fact is that our world is becoming instrumented, interconnected and intelligent, regardless of anything IBM does. When we say that our planet isn’t just getting smaller and flatter, but *smarter*, that’s not a theory or a proposal. It’s a factual description.

The question is: What will we collectively do about it?

I firmly believe that we have only scratched the surface of what is possible on a smarter planet. And I know that IBM and IBMers are deeply committed to pursuing it—not just for the next year or the next decade, but as a guiding mission that we believe will shape our second century as a corporation.

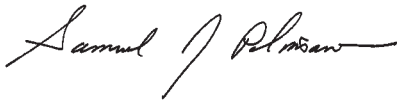
The decade—and century—ahead

One year from now, in June 2011, IBM will mark its centennial. As we do so, we will be looking back at 100 extraordinary years of continual transformation.

I believe the work described in this report adds a powerful chapter to that story.

It is work worthy of the company that enabled the Social Security system in the United States in the 1930s, helped put a man on the moon and enabled the operations of the modern corporation in the 1960s. It is worthy of the company that helped transform industries from financial services, to airline travel, to retail. I believe it is consistent with our pioneering of workplace equality, genetics privacy, the globally integrated enterprise and management by core values. And I like to think that it is in line with the ethos described by Thomas Watson, Jr., former IBM chairman and the son of our company’s founder, when he wrote, “Corporations prosper only to the extent that they satisfy human needs. Profit is only the scoring system. The end is better living for us all.”

As we have for nearly a century, IBMers today are building global systems on a foundation of advanced science. As we always have, IBMers are delivering economic and societal value, which we are capturing and quantifying every day. And most importantly, as we always have, IBMers are helping to unleash the thinking and aspirations of millions of progressive individuals around the world—including the 400,000 global citizens I am proud to call my colleagues.



Samuel J. Palmisano

Chairman, President and Chief Executive Officer

Our Company

IBM basics

On the Web

For more information on our company and how we govern our corporate responsibility, visit our online report at ibm.com/responsibility/company

IBM is a values-based enterprise of individuals who create and apply technology to make the world work better. Today, about 400,000 IBMers around the world invent and integrate hardware, software and services to enable forward-thinking enterprises, institutions and people everywhere to succeed on a smarter planet.

MAJOR OPERATIONS

- » **Global Technology Services** primarily provides outsourced IT infrastructure services and business process services.
- » **Global Business Services** primarily provides professional services and application outsourcing services.
- » **Systems and Technology** provides clients with solutions that require advanced computing power and storage capabilities, as well as leading semiconductor technology and products.
- » **Software** consists primarily of middleware that enables clients to integrate systems, processes and applications, and operating systems software that runs computers.
- » **Other** Our Sales organization and our Research, Development and Intellectual Property organization also deliver value to clients.

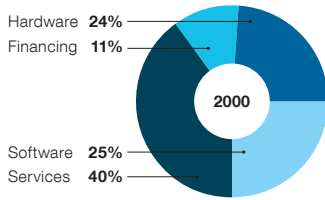
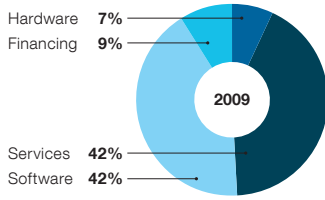
OUR VALUES

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

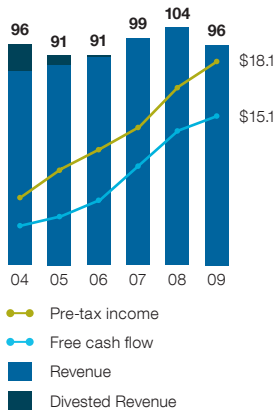
- » **Dedication to every client's success.**
- » **Innovation that matters—for our company and for the world.**
- » **Trust and personal responsibility in all relationships.**

Financial Performance History

Segment Pre-tax Income Mix



Revenue
Dollars in Billions



GOVERNANCE OF CORPORATE RESPONSIBILITY

We have always believed that IBM is more than just a business. When you look at our nearly 100-year history, you see that though we have changed many times, we have always had a real and lasting impact on the world because of our unique character—our core values, our behavior and our performance as IBMers.

Senior Management is ultimately responsible for our economic, environmental and societal performance, as well as compliance with all laws, regulations and our various codes of conduct. The IBM Board and its committees directly oversee these efforts and regularly review performance and compliance.

Our Corporate Citizenship Steering Committee, comprising executives from all functional areas across IBM, provides overall direction on key issues.

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

STAKEHOLDER ENGAGEMENT

For decades IBM has embraced collaboration at all levels of the enterprise. Today, we believe the most enduring problems facing our planet are challenges that require innovation and collaboration from multiple constituencies.

We define collaboration as partnership among businesses, governments, academia and NGOs, bound by common values and a shared sense of purpose. This is reflected in the products and services we sell, in the counsel we provide to government leaders, in how we communicate with shareholders and employees, and in the community projects in which we engage around the world.

Some call this stakeholder engagement, but we prefer the term collaboration. Because we know that to make real progress, we must go beyond meetings and conference calls, break down barriers between the public and private sectors, roll up our sleeves and build sustainable relationships with people at the community level—crafting solutions for the long term and producing measurable results.

In many cases, this means engaging with top experts in their fields: scientists, engineers, and researchers. Sometimes, however, it might mean teachers, administrators, parents and students. In other cases, we engage many thousands of experts simultaneously, using our online crowdsourcing technology to solicit, analyze and distill insights regarding some of the world’s most pressing problems, such as climate change, urbanization, and the future of innovation.

The idea is to create collaborations that evolve meaningful solutions over time and increase their effectiveness and scale on a sustained basis. IBMers remain committed to making a positive difference in the world, but we also know that we can’t do it alone.

The Role of the IBMer


A world of global citizens

On the Web

For more information on the role of the IBMer, visit our online report at ibm.com/responsibility/ibmer

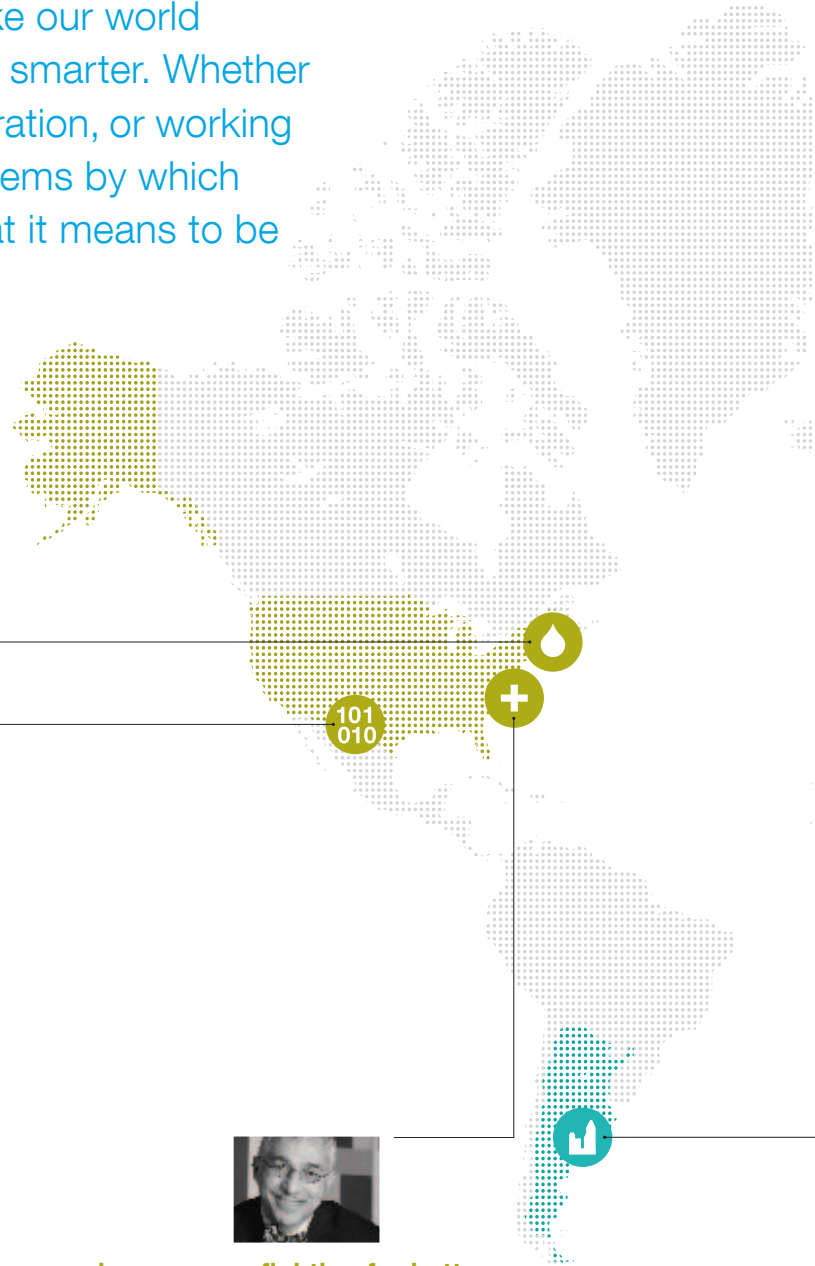
Building a smarter planet sounds like a vast undertaking—beyond the capacity of any local community or individual to accomplish or influence. But in reality, nothing could be further from the truth.

The very conditions and capabilities that are making our planet smarter are also opening up paths to action and engagement—not just for companies and countries, but for the individuals and communities in them. All around the world, forward-thinking women and men from across society are seizing upon these opportunities with energy, expertise and passion.



They include the nearly 400,000 IBMers working in more than 170 countries—ambassadors of IBM's near-century legacy of innovation and progress.

Throughout this report, you'll find many examples of IBMers whose work is helping to make our world healthier, more sustainable, fairer and smarter. Whether through volunteerism, scientific exploration, or working with clients to help transform the systems by which our planet works, they exemplify what it means to be a global citizen.



Being a global citizen means...



...conserving our water supply

Most people don't think about how much water they use each day. But Jeff Chapman is not most people. He is a senior ultra pure water engineer at IBM's semiconductor plant in Burlington, Vermont. He spends every day thinking about ways that IBM and its clients can use less water, less electricity, and reduce their impact on the environment. And he helped to reduce IBM's water usage in the Burlington plant by 27 percent, all while production capabilities increased 33 percent.

JEFF CHAPMAN
Burlington, Vermont



...improving privacy and data protection

IBMers are used to solving thorny mathematical problems. Last year Craig Gentry solved a foundational problem that had confounded scientists since the invention of public-key encryption three decades ago. The breakthrough, called "privacy homomorphism," or "fully homomorphic encryption," facilitates delegation of deep analysis of encrypted information without sacrificing confidentiality and has far-reaching applications, such as more secure storage and processing of data in the cloud.

CRAIG GENTRY
Austin, Texas



...fighting for better primary care

Martín-José Sepúlveda's job description is to lead IBM's approach to workplace and employee health and health benefits. But he's never been one to let a job description hold him back. Sepúlveda has championed such landmark initiatives as 100-percent primary care and healthy living rebates at IBM. But he also engages government and health institutions as a tireless advocate for primary care transformation and for better public health, from creating model programs for chronic disease and wellness, to national health strategies for helping eradicate liver cancer and chronic disease from hepatitis viruses.

MARTÍN-JOSÉ SEPÚLVEDA, M.D., IBM FELLOW
Somers, New York



...helping to diagnose rare diseases

Rare diseases are notoriously hard to diagnose. Some doctors will see only a handful over the course of a career. So Annelies Borgers, a consultant in IBM's Life Sciences group, led a team of IBM "Extreme Blue" interns to develop the Rare Disease Diagnosis project with the Universitair Ziekenhuis Antwerpen. The project uses statistical analysis and a custom-built rules engine to increase the speed and accuracy of rare disease diagnosis.

ANNELIES BORGERS

Antwerp, Belgium



...helping to create jobs

Mersin is a Turkish port city of 842,000, intent on growing its economy and creating jobs. So when Dana Gaiu, a business development manager in the Integrated Supply Chain at IBM, met with the Mersin Chamber of Shipping through IBM's Corporate Service Corps program, she already had some ideas on how to help. Along with her team, Dana worked with the chamber to develop IT strategies to help improve the flow of goods and resources throughout the region to increase logistical efficiency and reducing environmental impact.

DANA GAIU

Mersin, Turkey



...improving accessibility

Working with the Chinese Deaf Association, Charlotte Chang helped develop a real-time video interpretation service to provide sign language translation for the deaf and hearing impaired. Developed with the China Development Lab and an IBM Taipei team, Chang's solution uses webcams and instant messaging software to connect deaf people with remote interpreters, facilitating conversations with employers, doctors, and friends. Since September 2009, the service has provided more than 2,300 hours of translation service including IBM Taiwan's Corporate Responsibility support to the 2009 Summer Deaflympics.

CHARLOTTE CHANG

Taipei, Taiwan



...building un barrio más inteligente

Smarter cities are made up of smarter neighborhoods. Volunteering with the nonprofit Complementary Educational Center and 15 neighborhood youths, these IBMers created and maintain a website—cronicasbarriaes.org—that fosters understanding between business and residential communities, highlights opportunities for youths to get involved—and gives them a place to tell their stories and learn new skills.

FEDERICO SCIARRETTA MILIOZZI, MARTIN RODRIGO CEPEDA AND SANTIAGO LAPLUME

Buenos Aires, Argentina



...making railroad operations more efficient

Indian Railways employs nearly 1.4 million people throughout the country. Managing a workforce that large is both complex and costly. That's why Dr. Rajendra Gupta architected a solution for the Centre for Railway Information Systems that could automate scheduling, track the location of crews, manage training requirements, and communicate with crews over mobile devices. The solution helped reduce operating costs and improved safety and security on the rails.

DR. RAJENDRA GUPTA

New Delhi, India



...making road travel safer and smarter

To get from here to there, you need a map. To do so safely and quickly, you need real-time information. Terrence Daken worked with the New Zealand Transport Agency to develop a system to manage hundreds of programmable Variable Message Signs throughout the country's highway network. The signs relay messages about dangerous road conditions, traffic jams, even tsunami warnings.

TERRENCE DAKEN

Wellington, New Zealand

Employees

Investing in the IBMer

On the Web

For more information on employees, visit our online report at ibm.com/responsibility/employees

The nature of work is changing, as globalization, innovation and the rise of the knowledge worker in a services economy redefine the relationship between employee and employer. Like all companies, IBM faces these challenges around the world. And as we have done throughout our history, we are pioneering progressive approaches to these new realities.

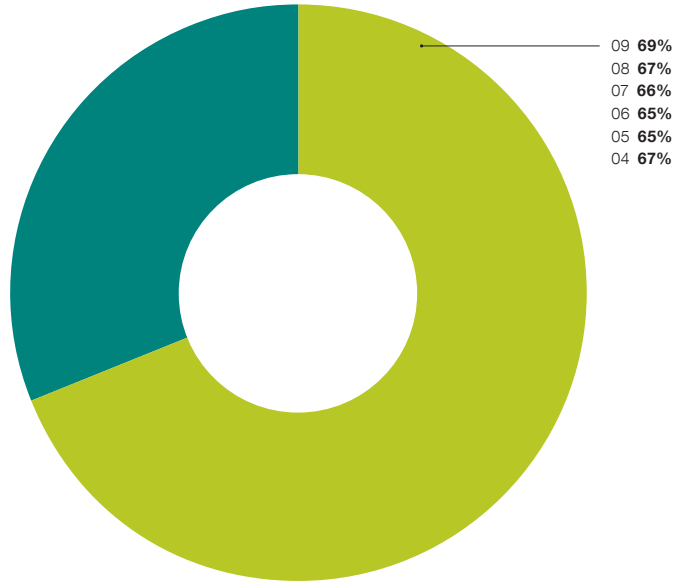
The nature of our business—in particular, the goal of building a smarter planet—demands the best expertise and talent in the world. And that means creating a culture of innovation—not only in products and services, but also in how we run the company and our relationships with employees, communities and society at large.

A culture of innovation, in turn, requires a commitment to diversity—where IBM has led again and again over nearly a century. It requires deep investment in learning and expertise. It requires competitive compensation—and IBM was one of the few technology companies last year to invest additional resources in employee compensation. And it requires innovation in benefits and wellness—ranging in 2009 from cash rebates for healthy living to 100-percent coverage for primary care, with no coinsurance or deductible.

Finally, investing in our employees in today's economy means helping them prepare not only for their current jobs, but for the careers they will build as global professionals and global citizens—whether or not they remain at our company. We look at IBMers in this holistic way because we believe a forward-thinking enterprise should not just provide employment, but also enhance its people's long-term skills and employability.

Key Performance Indicator**Employee Satisfaction**

Up to 40 percent of IBMers are randomly invited to participate in our annual Global Pulse Survey. The annual averages shown here are responses to, "Considering everything, how satisfied are you with your job?"



"Great employers understand that success in the marketplace requires healthy, productive and resilient employees. Successful enterprises, especially those driven by knowledge workers and dependent on continuous innovation, flexibility and nimbleness in a complex, global economy, have a total health management approach to human capital that is proactive, creative and comprehensive. No corporation today will be successful if it doesn't recognize that high performance requires healthy employees and families because of the direct costs of healthcare and deleterious effects of poor health and disability on productivity."

HELEN DARLING

President, National Business Group on Health, Washington, D.C.

HEALTH AND WELLNESS

Throughout its history, IBM has recognized the importance of fostering good health and encouraging preventive care among IBMers. Healthy employees are happier, more productive, and spend less on medical care, a trio of benefits that are compelling to our employees, our company, and the world. That is why IBM takes an aggressive and comprehensive approach to investing in employee health and wellness, promotes workplace safety, and encourages a healthy integration of life and work.

This year IBM took an extraordinary step, one it hopes other employers will emulate. As of January, IBMers in the U.S. enrolled in most IBM self-insured health plans were provided with 100-percent coverage for primary healthcare. There is no longer a co-pay or deductible for in-network primary care with an internist, family practitioner, pediatrician, general practitioner or primary osteopath.

IBM also continues to invest in its Healthy Living Rebate program, which provides cash incentives to IBMers willing to take concrete steps to improve their own health and that of their families. More than 80,000 IBMers participated in the program in 2009, earning up to \$300 for eating well, exercising regularly, or addressing preventive care needs. This year IBM added the Personal Vitality Rebate, which encourages IBMers to think about good health and well-being in broader terms—not simply by checking one's weight or watching cholesterol, but also paying attention to good sleep and hydration habits, preparing mind and body for challenging situations, and using simple recovery techniques to balance exertion and prevent fatigue.

IBM was recognized in 2009 by the National Business Group on Health with its Best Employers for Healthy Lifestyles Platinum Award, largely for its efforts to combat childhood obesity through the unique Children's Health Rebate program. As such, IBM was the only private enterprise invited to participate in the Health Affairs Briefing on childhood obesity at the National Press Club in Washington D.C.

IBM makes these investments not only because we value the health of our employees, but also because it makes good business sense. IBM and IBMers have received a significant return on the investment the company made over the past several years in wellness and preventive care support. Between 2004 and 2006, for example, IBM invested \$81 million in wellness programs—and witnessed an estimated \$190 million return in health-related costs, with dramatic increases in healthy behavior, such as physical activity and healthy eating.

LEARNING AND DEVELOPMENT

Keeping the skills of 400,000 IBMers current is increasingly difficult as globalization continues to accelerate the speed of change in markets around the world. IBM takes this challenge very seriously.

Three years ago we launched the Global Citizen’s Portfolio, a series of programs for IBMers looking to deepen their partnerships with the company in an effort to support their education, skills, and development. The portfolio includes programs such as the Corporate Service Corps (page 14), personal learning accounts, and the Transition to Teaching program, each of which serves a specific need in the development of IBMers.

Through the Personal Learning Accounts program, qualifying employees can contribute up to \$1,000 per year to an account earmarked for education. IBM will match 50 percent of the contributions when qualifying educational expenses are reimbursed. IBMers can use the money for a variety of purposes: learning a second language, taking an accounting class, or volunteering as an emergency medical technician.

IBM also endeavors to tap into its most powerful source of learning: IBMers themselves. The company has a deep portfolio of mentoring programs, and offers a comprehensive site for those IBMers looking to: assess their mentoring potential, learn how to be an effective mentor, or volunteer to be a partner. More than 5,000 IBMers are registered mentors and mentees. From cross-geography to cross-discipline, IBM is always looking for new ways to facilitate the transfer of knowledge. Recently, a new focus on cross-generational and reverse mentoring is building momentum, a testament to the need for older IBMers to impart their knowledge to younger IBMers, and vice versa.

Career Transitions

Perhaps the most difficult transition for an IBMer to make is leaving IBM. Since 2005, IBM has provided support to employees and retirees who have developed high-demand skills during their time in the private sector and are now considering an encore career that gives back to their community or country. The Transition to Teaching program offers up to \$15,000 in tuition reimbursement and a customized certification program for IBMers interested in a second career in education. It provides a path for those leaving the company, and helps address the growing need for math and science teachers. Recently, the program was expanded to include IBMers looking to move into the nonprofit or government sectors.

5,000+

IBMers are registered mentors and mentees.

Key Performance Indicator

Learning Hours per Employee



DIVERSITY

IBMers are an extraordinarily diverse group. And part of what it means to work at IBM is to find ways to not only embrace that diversity, but use it to the benefit of the business; to better understand markets and unleash innovative creativity.

As such, it is crucial that IBM provide the means to foster that diversity. That's why last year we launched Diversity 3.0, a comprehensive program to define and support what diversity means in the 21st century. The program consists of six distinct steps, each of which has yielded tangible results throughout the company.

- 1. Leverage our Diversity Competence to Drive Cultural Adaptability**—This goal has resulted in a number of beneficial programs and resources, including a Cultural Adaptability Council, podcasts and a webcast on being a Global IBMer, and Integrated Diversity and Cultural Awareness training modules.
- 2. Extend from Constituency to IBM Communities**—By expanding our definition of diversity beyond traditional groups, we have accelerated knowledge sharing across the enterprise. This effort has resulted in several new communities, including a Parent Community, Global Women in Technology, Work/Life Zone Teams, and a cross-generational wiki.
- 3. Go “Glocal”**—Enabling our various geographies and business units to tailor programs for their unique needs has resulted in a number of Business Unit Diversity Plans, a diversity toolkit, and an inventory of best practices.
- 4. Integrate Programs for Maximum Value**—In 2009, IBM aligned and integrated its diversity initiatives with our core human resources processes. This allows us to launch programs more effectively and sustainably.
- 5. Refine Employee/Senior Management Partnership**—The Global Diversity Council was formed in response to this goal, constituting a series of cascading councils with representatives from all major communities and geographies.
- 6. Engage Employees in Defining 21st Century Diversity**—To engage IBMers as widely as possible, IBM launched a communications plan around Diversity 3.0, including articles on IBM's intranet and in-country rollout sessions.

In 2010, IBM will once again be challenging the accepted definition of diversity in the workplace. This year we will be adding Diversity of Thought into our ongoing discussion on diversity. Diversity of Thought refers to variances in world-view and the way in which different individuals process circumstances. It is made up of each individual's understanding of themselves, their culture, family history, and the methods they use to process information. Appreciating this diversity of thought is critical to avoiding conflict, overcoming challenges, and collaborating.



IBMers in Service

Corporate Service Corps enters its third year

The Corporate Service Corps (CSC), often called a “business version of the Peace Corps,” is a philanthropic program that deploys IBMers to help solve complex problems in developing countries. For host countries, it is a chance to benefit from IBM’s expertise in working on economic, social and environmental sustainability challenges. For IBMers, it is a leadership development opportunity like no other.

Since the program launched in July 2008, the CSC has deployed more than 700 IBMers from 47 countries on 70 teams to Brazil, China, Egypt, India, Ghana, Malaysia, Nigeria, the Philippines, Poland, Romania, South Africa, Tanzania, Turkey and Vietnam. The CSC experience spans six months: three months of preparatory work completed as a team, virtually, one month overseas and two months post-service. All projects work at the intersection of business, technology and society. “Clients” include entrepreneurs, small and medium enterprises, nonprofit organizations, educational institutions and governmental agencies.

Here’s how a typical CSC engagement works. Early this year, six IBM executives set off for Vietnam with the intention of helping city planners, entrepreneurs, and NGOs develop a road map for a smarter city in Ho Chi Minh City. The IBM team came from varying geographical and professional backgrounds.

Upon arrival in Ho Chi Minh City, the team began a three-week, three-step process of gathering data, framing the problems and crafting recommendations. Under the direction of local leadership at the Ho Chi Minh City People’s Committee, the IBMers split into teams and focused on four critical areas of concern for the city: food safety; water management; transportation; and developing a high-tech ecosystem.

On the Web

For more information on the CSC’s efforts in Ho Chi Minh City, including an audio slideshow, visit our online report at ibm.com/responsibility/service

700 IBMers

deployed in 70 teams to 14 countries including Brazil, China, Egypt, India, Ghana, Malaysia, Nigeria, the Philippines, Poland, Romania, South Africa, Tanzania, Turkey and Vietnam.

CSC Vietnam Executive Participants

Evelyn Bailey-Semeniuk

A telecommunications executive accountable for the largest telecommunications client in Canada.

Guruduth Banavar

A vice president and established researcher who led IBM’s India-based research organization.

Daniel Delos

A strategy and transformation leader specializing in customer relationship management from the United States.

Michele Grieshaber

An accomplished academic and marketing executive from the United States.

Roy Nicholson

An application innovation specialist and Life Sciences industry leader from the United States.

Clara Challoner Walker

A technology strategy and financial services leader from the United Kingdom.



During the first week, each team member spent time building relationships with key stakeholders, and traveling throughout the city and outlying areas to better understand the issues. “In my case, the city was interested in ensuring food quality and safety, and developing a plan for how to respond in the case of a food emergency,” says Michele Grieshaber. “So in that first week, I visited a vegetable farm, a vegetable processor, a seafood processor and exporter, a wholesale market at night, a clam farm, and a shrimp farm. We met the people that are part of the supply chain, we asked questions, and we tried to understand the process and the problems.”

Over the course of the next two weeks, team members spent time researching best practices in other countries, consulting IBM experts in each of their respective focus areas, and presenting recommendations for pilot programs with city experts and officials. They presented the city with specific guidance for how to collect, integrate and analyze information about the various urban systems, and how to view them as one, fully interdependent system of systems.

“I think more than anything we were an impetus, a chance for different city departments to come together and view the problems in a new way,” says Grieshaber. “And for me, I came to understand that the problems in Ho Chi Minh City, or Vietnam, are not isolated or unique to this area. These are important parts of global systems. So if Vietnam has a problem, we all have a problem.”

“The issues that the CSC team worked on are very important, even life and death issues for our city. The three weeks weren’t long, but the CSC executives came up with very good observations and analysis, working with departments of the City including transportation, food safety, water management, e-government, and human resources for high-tech innovation. The team’s very detailed and valuable recommendations fit into the City’s development plan for the next 10 years, while the final report presents an interesting vision as well as concrete next steps for each system and their integration. We are looking forward to further support and cooperation with IBM and the Smarter Cities initiative.”

DR. PHAN MINH TAN

Director, Department of Science
and Technology
Ho Chi Minh City, Vietnam



Communities

Engagement, expertise and sustainable service

On the Web

For more information on communities, visit our online report at ibm.com/responsibility/communities

Innovative products and services are the driving forces behind IBM's vision of a smarter planet. These solutions combine technologies—such as grid computing, analytics, modeling and simulation, automated language translation, and cloud computing—with the expertise of IBMers to meet the needs of our clients. IBM's approach to societal challenges follows the same formula.

We work with local leaders to identify their most enduring problems, mobilize our technological and human resources, and deploy strategic and deliberate solutions. Among the challenges our partners identify as most pressing are education, healthcare, disaster response, water and food, jobs and economic growth, and urbanization.

From designing smarter cities in Vietnam through the Corporate Service Corps to the fast response to disasters such as typhoons in the Philippines or the earthquake in Haiti, the benefits of these solutions accrue at the community level. But IBMers know that it's not just innovative services that improve the quality of life in these communities; it's how you engage, and how long you stick around.

Because we have so methodically aligned our community service efforts to our areas of business expertise, we are able to engage longer and more meaningfully. This is not checkbook philanthropy. This is sustained and engaged partnership for positive change. And it allows us to scale our programs over time and form lasting, collaborative partnerships through which we can both transfer knowledge and build capacity. This staying power can be seen in all of our programs, from those that develop innovative ways to help children learn to read, to those that expand our understanding of persistent diseases such as cancer, AIDS and dengue fever.

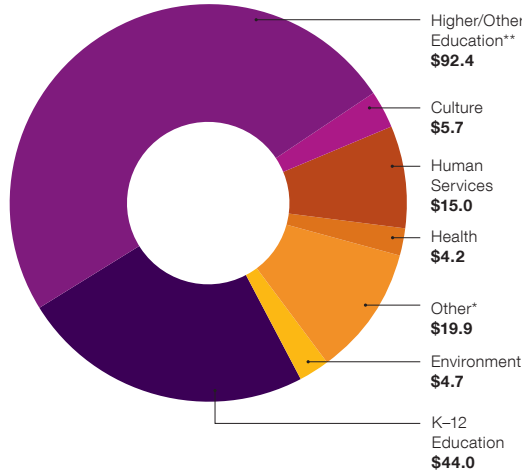
Through these and other programs, IBMers are laying the foundations for true community collaboration. The organizations and local entities we work with are starting to combine technological capabilities with societal innovation. They are sharing information and making better decisions about the well-being of their constituents. And they are building smarter communities.

Key Performance Indicator
Global Contributions

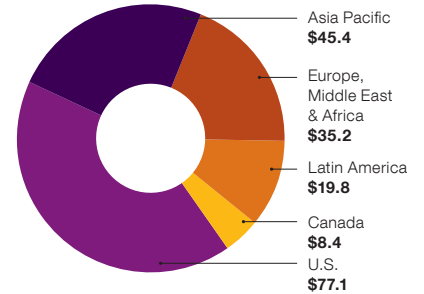
We continue to focus on emphasizing technology and services contributions worldwide. Non-U.S. contributions continue to increase in accordance with strategy.

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

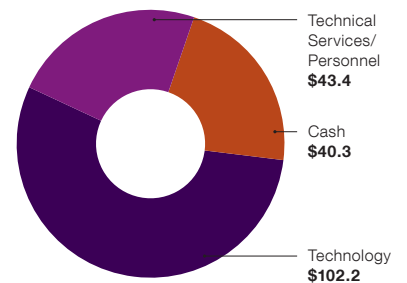
2009 Contributions by Issue
 Dollars in Millions



2009 Contributions by Geography
 Dollars in Millions



2009 Contributions by Type
 Dollars in Millions



*Includes Community and Economic Development activity for small and medium businesses (SMB) and Corporate Service Corps.
 **Includes Academic Initiative software donations.

ON DEMAND COMMUNITY

“In the past decade, community and national service efforts in America have continued to ramp up to historic levels, providing more opportunities for individuals to address challenges near and far, from the high school dropout epidemic in U.S. cities, to preventable and treatable malaria in Africa. Americans increasingly are asking how their volunteer efforts can make a difference in tackling tough problems, and America’s companies are sparking innovations in the social sector by mobilizing their employees’ special skills to meet community needs. One example is IBM’s On Demand Community, a novel initiative that combines the skills of employees with innovative technology solutions. More of what is needed today is what corporations provide, and IBM is leading the way in bringing social innovation to volunteer efforts.”

JOHN M. BRIDGELAND
 CEO, Civic Enterprises, and former Director, White House Domestic Policy Council and USA Freedom Corps, Washington, DC

IBMers engage in volunteer efforts by applying their specific skills and knowledge. They find opportunities to do this through a portfolio of unique internal tools provided by On Demand Community, IBM’s volunteer and community service initiative. Launched in 2003, it enables IBMers to find volunteer activities and identify skills and expertise they can contribute to a cause. It equips volunteers to empower community organizations with better project management skills, show them how to develop technology strategies, and more. Volunteers also use On Demand Community resources to visit classrooms, sharing their expertise and enthusiasm for science and technology with students around the world.

By tracking their volunteer hours in the On Demand Community portal, IBM employees and retirees can help the schools and nonprofit organizations they support to qualify for IBM Community Grants. In 2009, this program made grants worth \$3.5 million. In June 2010, the program passed 10 million hours logged since inception by its nearly 150,000 participants, including 15,000 retirees. And On Demand Community continues to add new resources and service opportunities every year.

EDUCATION

For nearly 100 years, IBMers have valued education at all levels. Education is both a social and economic imperative. And over time, IBM has identified specific challenges at every step of the education spectrum, from improving the quality of early childhood education to developing more and better teachers. This commitment has yielded a portfolio of long-running education programs that continue to grow and improve every year.

Serious Gaming

In 2009 IBM developed a free 3-D simulation game that allows students and faculty to model business process management at a fictional company. INNOV8 2.0's protagonist, Logan, is charged with improving the efficiency of After Inc., a call center agency that is performing sub-optimally. More than 1,000 schools worldwide have downloaded the game and more than 100 universities have built custom curricula around it.



Early childhood education is a challenge across the globe, but it is particularly difficult in areas where students find themselves on the wrong side of the digital divide. Starting in 1998, IBM began donating brightly colored PCs loaded with award-winning software to allow young children to explore technology in a fun and easy way. These KidSmart Young Explorer units are designed to help children learn shapes, colors, numbers and letters, all while developing basic IT skills along the way. The program has donated more than 45,000 units in 60 countries, and given more than 10 million children an effective head start toward academic success.

It is well known that literacy is a key contributor to the competitiveness and economic growth of any region. It is so critical, in fact, it is now considered a basic civil right. Reading Companion® is IBM's Web-based literacy initiative that uses voice recognition technology to help children and adults to learn to read. The software listens as students read words and phrases that appear on the screen, correcting pronunciation as needed, and encouraging students along the way. Reading Companion provides a private, un-intimidating setting in which to learn, and is currently in use by more than 1,000 schools in more than 20 countries. The program was first launched more than a decade ago and adds as many as 300 sites every year.

Another education program that is building momentum is ¡TraduceloAhora! (TranslateNow!), IBM's real-time bidirectional translation technology initiative. Keeping parents actively engaged in their children's schoolwork is critical to academic success. Using IBM's WebSphere® to translate both websites and e-mails from English to Spanish (and vice versa), ¡TraduceloAhora! allows Spanish-speaking parents of school children to better communicate with their kids' English-speaking teachers. It is being used at more than 800 sites in four countries.

Science is the key to innovation. But engaging young students in science and math has become increasingly difficult in some parts of the world, a trend that is of concern to IBMers on multiple levels. To address this, IBM has several programs to spur interest in these critical subject areas. TryScience.org, which is sponsored and powered by IBM, is an online introduction to contemporary science that allows children to interactively experience science projects and science museums around the world. More than 600 museums and science centers participate, and the site has received millions of visitors since its launch in 2000. And 10 years ago,

IBM launched its EX.I.T.E. (Exploring Interests in Technology and Engineering) Camps, to empower middle school girls in the fields of math, science, and engineering. EX.I.T.E. Camp provides a safe and supportive environment for hands-on learning as well as a place to meet new friends and create lasting memories. Of the more than 6,000 girls that have attended the camp, 85 percent said they would consider pursuing an engineering or technical-related degree when they go to college.

In 2009, IBM also added a few new educational efforts to its portfolio that focused on universities and students nearing their entry into the workforce. For example, in April IBM hosted a three-day Smarter Planet™ University Jam, which used a custom-built online collaboration tool to crowd-source insights and innovations on how to improve education, the environment, healthcare, energy use, and our cities. The Smarter Planet University Jam attracted more than 2,000 students and faculty from more than 200 academic institutions on six continents. The process yielded dozens of insights, from how to improve patient control over healthcare records to how to secure a smart grid. The full results are available online at ibm.com/developerworks/university/smarterplanet_jam.

VETERAN ASSISTANCE

Last year IBM became a supporter in a nationwide mentoring program dedicated to helping veterans transition from the armed services to a career in private enterprise. American Corporate Partners (ACP) matches mentors from some of the world's finest companies with returning veterans. The protégés receive counsel and encouragement on everything from mapping their long-term career strategy to writing resumes and interviewing for a specific position.

In addition to matching IBMers with veteran protégés, the company donated its time and expertise to help grow and support this important cause. The IBM SME (small and medium enterprises) Toolkit is a free Web portal with tools to help new enterprises learn and implement new business practices and compete more effectively with large businesses. It offers more than 500 interactive tools, business forms, and how-to articles. It has been translated into 16 different languages. And it's available through the ACP website. In addition, IBMers worked to build some of the back-office computer systems that support the operations of American Corporate Partners.

TRAILBLAZER GRANTS

In 2009 IBM reoriented its grant program to offer nonprofit organizations some of the same services and expertise we provide to for-profit clients. Designed for small- and mid-sized local organizations, the new portfolio of nine software, services and consulting grants helps nonprofits develop their IT infrastructure and their leadership, management and technology skills. The grants include consulting services for strategic planning, workshops on leadership and collaboration skills, hacker vulnerability assessments, data backup services, and software tools such as LotusLive™ and Lotus® Foundations.™ Following a pilot phase with 30 nonprofit companies in the United States, IBM announced the Trailblazer Grants program in April 2010, with international availability and 150 grants valued at \$1.5 million planned for 2010.

“The IBM team has been great and very responsive, the final product is outstanding and we have received a lot of value from the in-kind contribution—likely a lot more than we could have purchased for cash. In short, I believe we were treated as if we were a major, paying client of IBM.”

SIDNEY E. GOODFRIEND

Founder, American Corporate Partners
New York, New York

Chile Earthquake

IBM assisted the Chilean Red Cross following the February 2010 earthquake, including at a school in Bucalemu (right), south of Santiago.

IBM Disaster Response (since 2001)

- 2001** New York City, September 11
Gujarat, India, earthquake
- 2004** Thailand, India, Indonesia and Sri Lanka, tsunami
- 2005** U.S. Gulf Coast, hurricanes Katrina and Rita
Mexico, hurricanes/flooding
Pakistan, earthquake
- 2006** Indonesia, Mt. Merapi, volcano/earthquake
Guinsaugon, Philippines, landslides
- 2007** San Diego, wildfires
Peru, earthquake
Tabasco, Mexico, flooding
Indonesia, mud slides
Bangladesh, cyclone
Sri Lanka, flooding
- 2008** Myanmar, cyclone Nargis
Sichuan Province, China, earthquake
Bihar, India, flooding
- 2009** Mexico, H1N1 response
Atlanta CDC, H1N1 response server donation
Philippines, typhoon Ketsana/Ondoy
Indonesia, earthquakes
Vietnam, flooding
Italy, earthquake
Taiwan, typhoon
Kamataka and Andhra Pradesh, India, flooding
Victoria, Australia, bush fires
- 2010** Haiti, earthquake
Chile, earthquake



DISASTER RESPONSE

For decades IBM employees have rallied in response to natural disasters around the world, donating money, time, and technology to aid in disaster management and recovery efforts. But our approach is not only to address the acute needs in the immediate aftermath of a disaster, but also to provide critical capabilities that are systematic and repeatable, enabling faster and smarter responses in the future, even to unforeseen disasters.

Throughout 2009, IBMers responded to brushfires in Australia, typhoons in the Philippines, H1N1 outbreaks in Mexico, floods in Vietnam and India, and, of course, the devastating earthquake in Haiti. From developing emergency communications infrastructure to providing servers and software for missing persons registries, asset tracking, and logistics management, IBMers consistently contribute their expertise to assist in these efforts. For example, floods in India and the Philippines and the earthquake in China (2008), led to the deployment of Sahana, an integrated, free open-source disaster management system, designed to run rescue, relief and rehabilitation operations.

In Haiti, though the company maintains no presence in the country, IBM worked in coordination with World Vision, a leading global NGO, to develop a sophisticated vehicle tracking system. For longer-term recovery, IBM is also creating a design plan for a mobile Humanitarian Data Center that can be installed when the telecommunications and grid infrastructure are stronger. Both solutions will be reusable in other situations going forward.

To date, IBM employees around the world have donated more than \$1.1 million through the employee payroll program, which allows IBMers to automatically contribute to charitable causes through their paycheck. And IBMers are continuing to volunteer as we identify opportunities in their communities through On Demand Community.

“The January earthquake in Haiti stretched World Vision’s capacity in new ways, especially regarding emergency-related IT solutions. IBM’s partnership and expertise were invaluable to our response efforts, producing innovation under tight timelines. Having access to such invaluable industry expertise also builds our knowledge base, making us more capable for future responses. The business case that IBM helped to create offered a big-picture look at the role of aid workers and how the information they work with can best be captured and utilized. IBM’s recommendations, along with real-life experience from World Vision’s pilots, create a comprehensive package that can be utilized by other NGOs. IBM’s expertise and support has had a significant impact not just on World Vision, but the entire emergency relief community.”

KEITH D. KALL

Executive Director, Corporate Development
World Vision, Federal Way, Washington

“One of the most important problems in treating HIV-infected people is the evolution of drug resistance, as the virus adapts to the drugs being given. Current FDA-approved drugs bind to a particular site on the virus. We’ve discovered a new site, a foothold for new drugs to attack the virus. Our work uses computers to estimate how chemicals bind to particular viral target sites. This is a huge computational task, since the number of possible variations is so large. World Community Grid enabled this research by providing resources on a scale we couldn’t otherwise have gotten. Thanks to volunteers donating their PC power, we’ve used over 100,000 years of processor time for this project, collapsing years of computational research into months or weeks. World Community Grid has made a significant difference in our work on the evolution of new treatments for AIDS.”

DR. ARTHUR J. OLSON

The Scripps Research Institute
La Jolla, California

500,000

members in 200 countries with 1.4 million devices and over 300,000 years worth of computing run time used for various scientific explorations, such as screening millions of compounds against various HIV proteins.

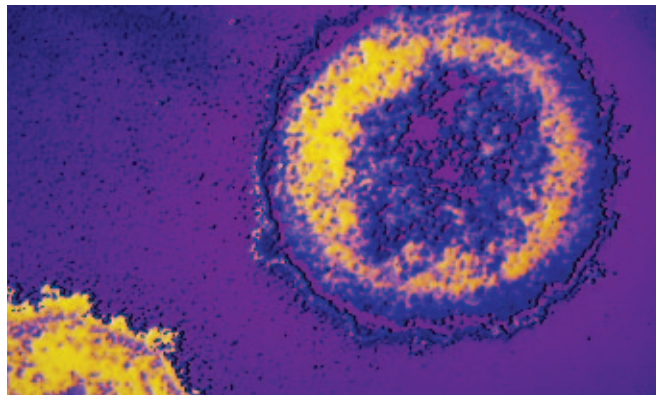
HUMANITARIAN SUPERCOMPUTING

IBM launched World Community Grid® in November 2004, making it available to researchers and volunteers looking to solve humanitarian problems using technology. The network uses the idle processing power of computers made available by volunteers worldwide—more than 1.5 million devices from 500,000 participants as of June 2010. Researchers are using this power (more than 300,000 years worth of computing run time so far) to better understand some of the world’s most persistent and debilitating afflictions, from dengue fever to muscular dystrophy.

In 2009 the grid had another busy year. In March the Help Fight Childhood Cancer project by the Chiba Cancer Center Research Institute in Japan was launched. The mission of the project is to use World Community Grid to find drugs that can disable three particular proteins associated with neuroblastoma, one of the most frequently occurring solid tumors in children. The project is set to be completed in the second half of 2010, but the global network has already contributed more than 15,000 CPU years, and dramatically reduced the time and cost of the research.

In addition, The Scripps Research Institute is using the grid to screen millions of compounds against various HIV proteins to identify drugs that could prevent AIDS from spreading in the body. The screenings of compound libraries have identified promising leads which could potentially disable the HIV protease in a new and different manner from prior inhibitors. This new way of inhibiting the HIV protease might prove to be a significant breakthrough and advance over conventional inhibitors, which are defeated by the frequent mutations of the AIDS virus.

Anyone can join World Community Grid and donate idle PC processing capacity by visiting worldcommunitygrid.org.



Environment

Environmental sustainability, inside and out

On the Web

For more information on IBM and the environment, visit ibm.com/environment

From the way we run our operations, to the products and solutions we sell, to the management of our supplier relationships, IBM leverages its expertise, global reach, innovation and technology in our dedication to protecting the environment.

The company's environmental policy, established in 1971, embeds IBM's commitment to environmental leadership across all of its business activities. This report provides an overview of IBM's programs and performance in four key areas:

1. Energy conservation and climate protection
2. Process stewardship
3. Product stewardship
4. Supply chain management

These areas were selected through an analysis of external stakeholder interests. IBM's performance against its goals in other environmental program areas may be found at the back of this report.

More comprehensive information on all of IBM's environmental programs may be found in the 2009 "IBM and the Environment" report, the 20th consecutive voluntary annual environmental report IBM has published. The report can be found at ibm.com/environment/annual/.

5.1 billion

kWh of electricity was saved as a result of IBM's annual energy conservation projects between 1990 and 2009.

3.4 million

metric tons of CO₂ emissions were avoided as a result, an amount equal to:

50%

of IBM's 1990 global CO₂ emissions, which translates into:

\$370 million

in energy expense savings.

A Long-Standing Commitment

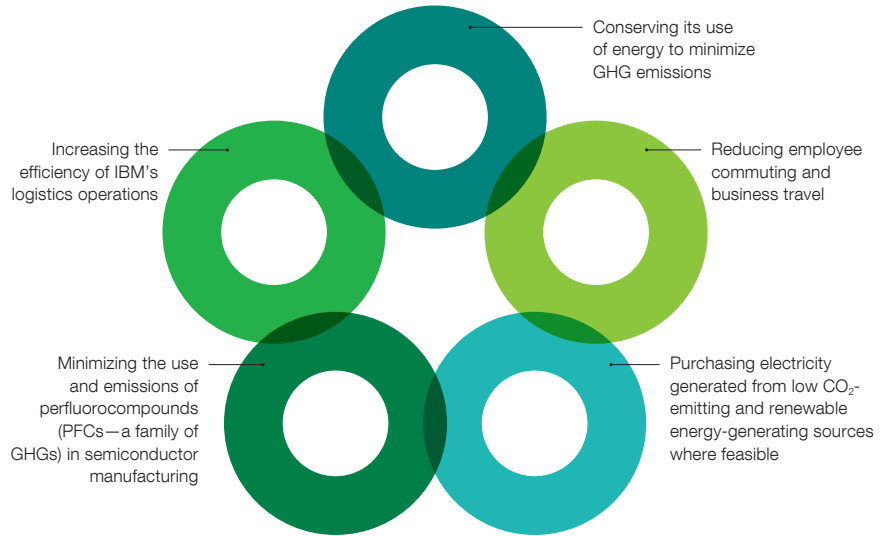
IBM's decades-long leadership in energy conservation and climate protection has been defined by its:

- Global commitment
- Comprehensive and multifaceted programs—covering the company's operations, products and services
- Leading-edge innovations and client solutions
- Significant results, both early and ongoing, benefiting IBM, its clients and the world

ENERGY CONSERVATION AND CLIMATE PROTECTION

IBM's strategic approach to meeting its energy and climate commitments addresses both its operations and its products, services and solutions.

To reduce its operational greenhouse gas emissions (GHG), IBM's strategy includes:



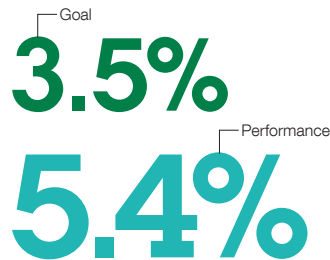
To maximize the efficiency of its products, services and solutions, IBM's strategy includes:



Key Performance Indicator

Energy Conservation

2009 Savings as Percentage of Total Energy Use



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

Results: In 2009, IBM's energy conservation projects across the company delivered savings equal to 5.4 percent of its total energy use. (Associated energy cost savings: \$26.8 million)

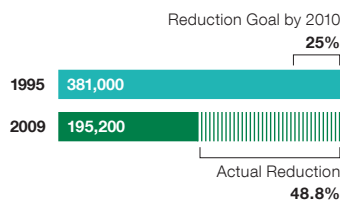
Energy conservation: In 2009, IBM's energy conservation initiatives across the company delivered savings equal to 5.4 percent of its total energy use exceeding the corporate goal of 3.5 percent. These projects avoided the consumption of over 246,000 megawatt-hours (MWh) of electricity and over 410,000 million BTUs of fuel oil, representing the avoidance of over 142,000 metric tons of CO₂ emissions. The conservation projects also saved \$26.8 million in energy expense.

IBM is leveraging its wide range of technologies and solutions to make its extensive data center operations ever more energy efficient. Several examples:

- » **Extending leading-edge analytics such as our real-time thermal monitoring system, called Measurement and Management Technology 1.5, across our data center portfolio to identify areas for improvement and accelerate energy reduction results;**
- » **Expanding virtualization and consolidation projects across our data center portfolio;**

Key Performance Indicator

PFC Emissions Reduction

In CO₂ Equivalent

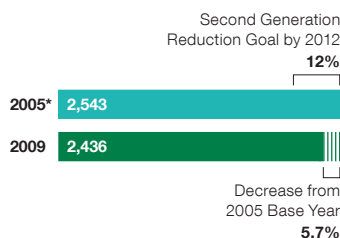
Goal: Reduce PFC emissions from semiconductor manufacturing 25 percent by year-end 2010 against a base year of 1995.

Results: As of year-end 2009, IBM's emissions were 48.8 percent below the 1995 baseline amount of 381,000 metric tons of CO₂ equivalent.

Key Performance Indicator

CO₂ Emissions Reduction

Metric Tons x 1,000



*2005 emissions baseline adjusted for acquisitions and divestitures of operations.

Goal: Between 1990 and 2005, IBM reduced or avoided CO₂ emissions by an amount equivalent to 40 percent of its 1990 emissions through its global energy conservation program. IBM's new goal is to further extend this achievement by reducing CO₂ emissions associated with IBM's energy use 12 percent between 2005 and 2012 through energy conservation and the procurement of renewable energy.

Results: At year-end 2009, IBM had reduced its energy-related CO₂ emissions 5.7 percent from the 2005 base year of its goal.

- » **Implementing a new business strategy and processes to minimize back-up IT equipment energy use without compromising quality and service commitments to clients;**
- » **Improving IT equipment energy efficiency by continually adapting hardware and software power management capabilities.**

To provide additional opportunity in its leased space, IBM, along with DuPont, Fluor Corporation, Pitney Bowes Inc. and the Switzer Group, have formed a coalition to drive an increase in the availability of competitively priced leased space in multi-tenant buildings that also provides energy efficiency and other environmental attributes. By joining together, the coalition hopes to make more environmentally sustainable leased spaces increasingly the standard rather than the exception in the marketplace.

PFC emissions reduction: IBM uses some perfluorocompounds (PFCs) in its semiconductor manufacturing operations and was the first semiconductor manufacturer to set a numeric reduction target for PFCs in 1998. The company's goal is to reduce PFC emissions from semiconductor manufacturing 25 percent by 2010 against a base year of 1995. As of year-end 2009, IBM's PFC emissions were 48.8 percent below the 1995 baseline amount of 381,000 metric tons of CO₂ equivalent. A significant factor in the reduction from 2008 was the reduced manufacturing volumes for much of 2009.

CO₂ emissions reduction: While some companies have only more recently begun to address their CO₂ emissions, CO₂ emissions reduction has been a priority at IBM since the early 1990s. Between 1990 and 2005, IBM's energy conservation actions had reduced or avoided CO₂ emissions by an amount equal to 40 percent of its 1990 emissions. To further extend this achievement, IBM set itself an aggressive "second-generation" goal: to reduce the CO₂ emissions associated with IBM's energy use 12 percent between 2005 and year-end 2012 through energy conservation and the procurement of renewable energy.

IBM's 2009 CO₂ emissions were 2.6 percent below its 2008 emissions, and 5.7 percent below its adjusted 2005 baseline. While this is solid progress against its goal, IBM is continuing its disciplined, global energy management processes and metrics, and is aggressively identifying additional initiatives to further reduce energy demand and increase the purchase of renewable energy toward achieving this goal.

Procuring and fostering renewable energy: IBM continues to procure renewable energy for its own use and to invest in IT-related research and development to increase the availability and affordability of renewable energy.

In 2009, IBM purchased 560 million kilowatt-hours (kWh) of renewable energy, an increase of over 100 million kWh compared to 2008. The 2009 purchases represented 11.3 percent of the company's 2009 global electricity use.

In February 2010, IBM announced it had built a solar cell in which the key layer that absorbs most of the light for conversion into electricity is made entirely of readily available elements and manufactured using a combination of solution and nanoparticle-based approaches, rather than the popular but expensive vacuum-based technique. This solar cell set a new world record for efficiency and holds the potential for producing low-cost energy that can be used widely and commercially.

Advocating energy and climate solutions

IBM recognizes climate change as a serious concern that warrants meaningful action by all sectors of society, globally. To address this, the company leverages its expertise, technology, and global reach to design solutions and raise awareness across business and government about the many ways in which the world can be more energy efficient. Here are just a few examples:

Smarter Cities™

IBM is working with dozens of municipalities to improve the efficiency of urban systems, thereby saving energy and reducing CO₂ and other air emissions.

Smarter Workforces

IBM's digital collaboration tools are enabling employees to work together more productively while reducing the need for business-related travel.

Eco-Efficiency Jam

In 2010 IBM brought together 1,600 leaders from across the private, public and NGO sectors for a two-day online, interactive discussion of opportunities for continued advancement of eco-efficiency.

The Enterprise Data Center

This evolutionary model for efficient IT service delivery is enabling some IBM clients to reduce energy consumption of data centers by up to 40 percent and reduce floor space by as much as 80 percent.

Smart Grid

IBM is a founding member of the Global Intelligent Utility Network Coalition, a group of utility companies focused on adding digital intelligence to current systems to reduce outages and faults, manage demand, and integrate renewable energy sources.

Renewable Energy Procured

Percentage of Total Electricity



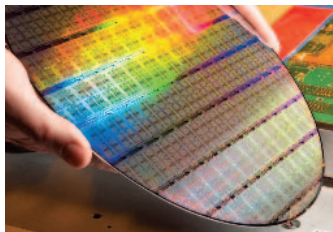
The procurement of renewable energy is part of IBM's CO₂ Emissions Reduction Goal.

Another example of IBM's research into solar technologies also focuses on water availability. IBM and the King Abdulaziz City for Science and Technology (KACST), Saudi Arabia's national research and development organization, are collaborating on a research project aimed at creating a water desalination plant powered by solar electricity, which could significantly reduce water and energy costs.

A new, energy efficient desalination plant with an expected production capacity of 30,000 cubic meters per day will be powered with the ultra-high concentrator photovoltaic technology that is being jointly developed by IBM and KACST. Inside the plant, the desalination process will hinge on another IBM-KACST jointly developed technology, a nanomembrane that filters out salts as well as potentially harmful toxins in water while using less energy than other forms of water purification.

PROCESS STEWARDSHIP

IBM's environmental policy calls for the company to use development and manufacturing processes that are protective of the environment. The company has a long history of proactively evaluating the chemicals used in its processes and products; identifying potential substitutes that may have less impact on the environment, health and safety; and eliminating, restricting and/or prohibiting the use of substances for which a more preferable alternative is available that is capable of meeting performance, quality and safety requirements of its processes and products. Two recent examples:



IBM's POWER7™ chips are manufactured on round 300mm wafers, roughly the size of a small pizza, then diced into individual processors. IBM has eliminated the use of PFOS and PFOA in the manufacture of these and its other semiconductors, becoming the first in the industry to announce the elimination of these two compounds.

In 2003, IBM began the following staged phase out of PFOS/PFOA:

- 2005** Prohibition of PFOS and PFOA in the development of new materials.
- 2007** Prohibition of their use in new manufacturing, development and research processes.
- 2010** Elimination of all uses of PFOS and PFOA—a goal IBM achieved January 31, 2010.

Elimination of PFOS and PFOA—an industry first: As of January 31, 2010, IBM eliminated all known uses of perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) from its microprocessor manufacturing processes, becoming the first in the industry to announce elimination of these two compounds.

IBM began its work to eliminate these substances from its manufacturing nearly a decade ago, when research showed that they can build up in the environment and gradually increase in concentration over time. These compounds remain permitted for use in semiconductor manufacturing, but a few years ago some governments began restricting their use in consumer products, where they were commonly used as a stain or water repellent.

Within IBM, small amounts of these substances had been used in key steps of its microprocessor manufacturing.

Developing alternatives for these chemicals was an ambitious technological challenge and required the work of hundreds of IBM scientists, engineers, partners and suppliers. The transition to the new formulations had to be implemented and qualified across a large array of processes without impacting customer product delivery commitments. A number of companies in more than five countries now have access to this solution through their technology development alliances with IBM.

Fluorine-free photoacid generator innovation: In another industry first, IBM Research recently announced its invention of a new type of fluorine-free photoacid generator for the production of semiconductors using 193-nanometer lithography. The photoacid generator is one of several components of a system of chemicals used in the photolithography process to transfer circuit patterns onto semiconductor wafers.

IBM's solution, on which it holds several patents, is an example of “green chemistry” in action—applying molecular design to invent new, more environmentally benign compounds. IBM researchers have demonstrated that the new chemicals meet the performance requirements and the company is in discussions with a number of chemical suppliers regarding their possible production.

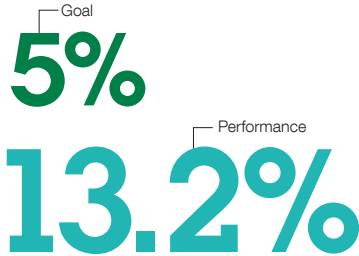
PRODUCT STEWARDSHIP

IBM formalized its Product Stewardship program in 1991. It defines for IBM's development organizations the direction and goals, infrastructure, tools and expertise to apply environmental life cycle considerations from product concept through product end-of-life management. The following provides information on recent advancements and performance in a few key areas. More comprehensive information is available at ibm.com/environment/products/.

Product and data center energy efficiency: Data centers are the backbone of information technology delivery for businesses, governments and other organizations. Though they power the information, processes, analytics and research needed for the world to operate and develop in a more sustainable manner, they do consume energy. IBM has first-hand experience of this—the company owns or operates more than 450 data centers around the world. IBM devotes significant resources to developing products and services that can maximize the efficiency of data centers for itself and clients.

Key Performance Indicator Recycled Plastics

2009 Percentage by Weight



The recycled content of plastics used in IBM's products can range from 25 to 100 percent by weight of the commercial resin. In 2009, 22.4 percent of the total weight of plastic resins procured by IBM and its suppliers through IBM's corporate contracts for use in IBM's products were commercial resins with such recycled content. Comparing only the weight of the recycled fraction of these commercial resins to the total weight of plastics (virgin and recycled) purchased through IBM's corporate contracts in 2009, 13.2 percent of the total weight was recycled plastic versus the corporate goal of 5 percent recycle.

In February 2010, IBM opened its new data center in Raleigh, North Carolina. The center was designed to support new computer models to help clients from around the world operate smarter businesses, organizations and cities. The new data center reduces technology infrastructure costs and complexity for clients while improving quality and speeding the deployment of services—while using only half the energy required of a similar facility its size.

Earlier this year, IBM's four-processor and UNIX-based POWER® 750 Express and Power 755 enterprise servers became the first four-processor servers in the industry to be qualified to the U.S. EPA ENERGY STAR server requirements. These systems are able to deliver significantly more workload and support many more individual applications on a single server than comparable one- or two-processor ENERGY STAR systems. Powered by IBM's innovative POWER7 processor, the servers deliver twice the performance of the previous POWER6®-based systems, are three to four times more efficient in their use of energy, and can deliver up to four times the virtualization capability. With their power management and virtualization capabilities, these two systems enable users to maximize the workload delivered for each kilowatt-hour of energy consumed, while reducing the energy, space and material inputs required to support data center operations.

Product packaging: IBM has focused on the environmental attributes of its protective product packaging since the late 1980s. Under this program, IBM packaging engineers design solutions that minimize packaging while providing necessary product protection, specify non-toxic materials and inks, and collaborate with suppliers to use recycled content and recyclable materials and promote reuse.

In 2009, IBM packaging engineers saved 1,346 metric tons of packaging material from the implementation of 60 projects worldwide. These projects delivered annual cost savings of \$9.3 million.

Following are some of the initiatives providing these results:

IBM developed 100-percent recycled thermoformed nestable cushions for various products across its server brands and retail store systems. When these products are shipped inbound, up to 10 times the typical quantity can be carried on a 40-foot truck. In addition, the 100-percent recycled polyethylene materials of which they are made are reusable. Using these cushions, in 2009 IBM reused an estimated 91 metric tons of polyethylene plastic and saved approximately \$1.9 million in materials and transportation costs.

IBM's packaging team implemented 22 packaging design projects with its suppliers that resulted in solutions that reduced packaging materials from incoming parts by 175 metric tons and saved \$1.4 million in both materials and transportation. When these suppliers apply these design improvements across their business to other customers, the environmental and cost benefits can be far-reaching.

“Green” chemistry for increased recycling: Disposable plastic bottles are among the most vexing environmental challenges. While plastics are recyclable, the resulting materials are generally limited to “second-generation reuse” only. This means the materials made from recycled plastic bottles are later disposed of in landfills.

Building on research IBM has conducted to discover new materials and processes for thin polymeric films in semiconductor manufacturing, IBM Research and Stanford University scientists are pioneering the application of organocatalysis to green polymer chemistry. This new approach could lead to biodegradable materials made from renewable resources. It could also improve the recycling process, reversing the polymerization process to regenerate monomers in their original state, thereby increasing the opportunity for more “closed-loop” recycling and multiple-generation reuse of plastics.

IBM also is collaborating with scientists from King Abdulaziz City for Science and Technology to develop the recycling process for polyethylene terephthalate (PET) plastics, which is a common plastic used in containers for food, beverages and other liquids.

Product end-of-life management: As part of its product end-of-life management (PELM) program, IBM began offering product take-back programs in Europe in 1989 and has extended and enhanced them over the years. Today, IBM’s Global Asset Recovery Services organization offers Asset Recovery Solutions to commercial clients in countries where IBM does business.

In 2009, IBM’s PELM operations worldwide processed approximately 41,400 metric tons of end-of-life products and product waste. These PELM operations reused or recycled 95.8 percent of the total amount processed and sent only 0.5 percent to landfills or to incineration facilities for treatment, versus IBM’s corporate goal of minimizing its combined landfill and incineration rate to no more than 3 percent.

1.7 billion pounds

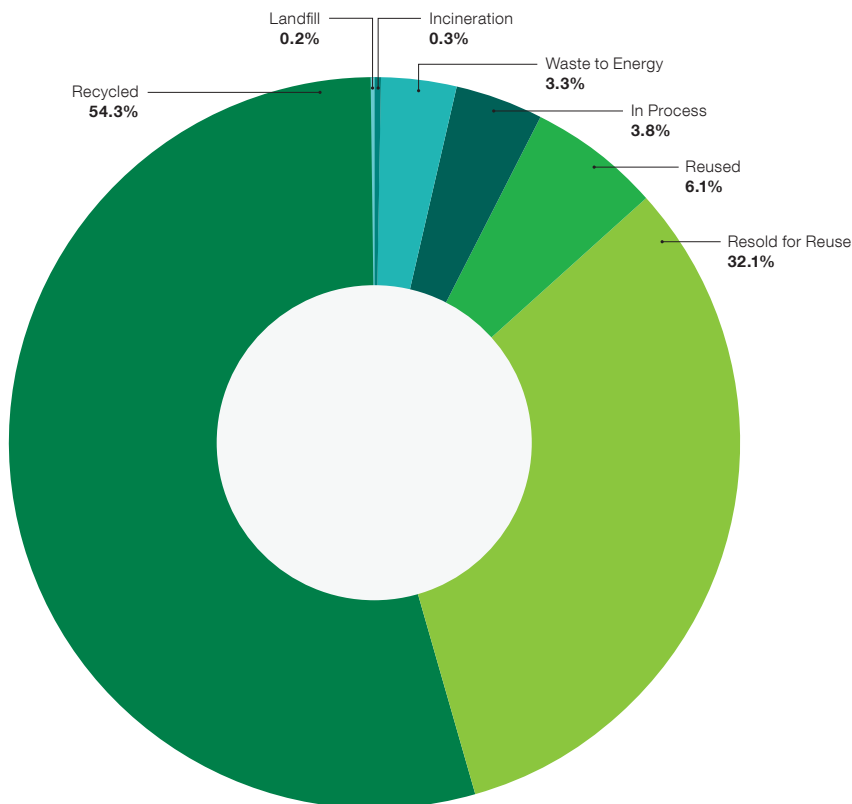
Since 1995, when IBM first began reporting this metric in its annual environmental report, IBM has documented the collection and recovery of more than 1.7 billion pounds (770,553 metric tons) of product and product waste worldwide through year-end 2009.

Key Performance Indicator Product End-of-Life Management Operations

2009 Percentage by Weight

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

Results: In 2009, IBM’s product end-of-life management operations worldwide processed approximately 41,400 metric tons of end-of-life products and product waste, and sent only 0.5 percent of the total to landfills or to incineration facilities for treatment, versus IBM’s goal to minimize its combined product landfill use and incineration for treatment rate to no more than 3 percent.



Note: Data does not equal 100 percent due to rounding.

IBM has been committed to working with environmentally responsible suppliers for decades.

- 1972** Established a corporate directive requiring the environmental evaluation of suppliers of hazardous waste services.
- 1980** Expanded its environmental evaluations of suppliers by establishing a second corporate directive which required the environmental evaluation of certain production-related suppliers.
- 1991** Further expanded its environmental evaluations of suppliers, adding a requirement that its product recycling and product disposal suppliers be evaluated.
- 1998** Explicitly encouraged its suppliers to align their own environmental management systems with ISO 14001 and to pursue registration under this international standard.
- 2004** Published its Supplier Conduct Principles to articulate the company's overall supply chain social and environmental requirements.
- 2008** Joined the CDP Supply Chain Project to encourage suppliers to understand and reduce the GHG emissions associated with their operations.
- 2010** Established new corporate responsibility and environmental management system requirements for IBM suppliers.

SUPPLY CHAIN MANAGEMENT

For decades, IBM has been committed to working with responsible suppliers. The company runs one of the largest, most complex supply chains in the world, spanning 28,000 suppliers in 90 countries. Below are a few examples of recent expansions in IBM's supplier requirements.

Carbon Disclosure Project's (CDP) Supply Chain Project: Through the CDP's Supply Chain program, IBM and other member companies are focused on how suppliers are addressing climate change and working to reduce greenhouse gas emissions associated with their operations. As a participant in the program, IBM invited 121 of its major suppliers to respond to the CDP's Supplier Questionnaire in 2009. When selecting the suppliers, we endeavored to cover approximately 80 percent of our expenditures with production-related suppliers and 30 percent of our spending with services and general procurement suppliers.

Of the 121 suppliers to which we sent the request, 88 suppliers responded to the questionnaire. This 73 percent response exceeded the 64 percent average response rate for the member companies in this program.

Findings from the responding suppliers:



New supply chain management system requirements: IBM continues to expand its environmental requirements and expectations for its supply chain. As further described in the Supply Chain section of this report, IBM's suppliers are now expected to establish and maintain a management system under which they manage their intersections with the environment and other aspects of corporate responsibility.

One of IBM's key objectives is to help suppliers build their own capacity to effectively manage their responsibilities in a way that is long-term, sustainable and integral to their routine business operations. IBM believes that by raising suppliers' awareness of their own accountability, they will improve their individual performance and results. The supplier will benefit, as will the entire supply chain and the world.

Supply Chain

A holistic approach

On the Web

For more information on supply chain, visit our online report at ibm.com/responsibility/supplychain

Managing a supply chain with more than 28,000 suppliers in close to 90 countries is both a business and social imperative. And it is not without its challenges. Engaging this many suppliers in social and environmental responsibility requires considerable resources. But IBM has embedded social and environmental checkpoints into every aspect of our procurement process and has for many years.

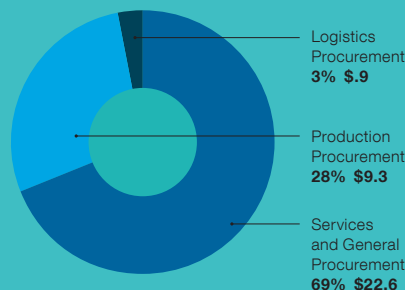
In 2009, IBM continued to deploy its robust supplier assessment activity with special focus on countries in which we have grown our purchasing during the year. We have conducted 600 initial audits during the timeframe of 2004 through year-end 2009, measuring supplier compliance to both the Electronic Industry Citizenship Coalition (EICC) and IBM Codes of Conduct. For those suppliers found lacking, improvement plans were developed and implemented, and suppliers are re-audited to gauge effectiveness.

In addition, IBM continues to expand the definition and scope of a responsible supply chain. This year we completed a major initiative to create a consolidated Global Supply Social and Environmental Management System. We have also engaged closely with our industry peers through the EICC in an effort to understand and map the use of minerals in the electronics supply chain that are coming from regions of the world with social responsibility challenges.

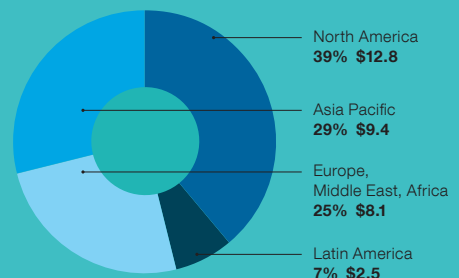
Supplier Spending

\$32.8 Billion Total in 2009

2009 by Category
Dollars in Billions



2009 by Supplier Location
Dollars in Billions



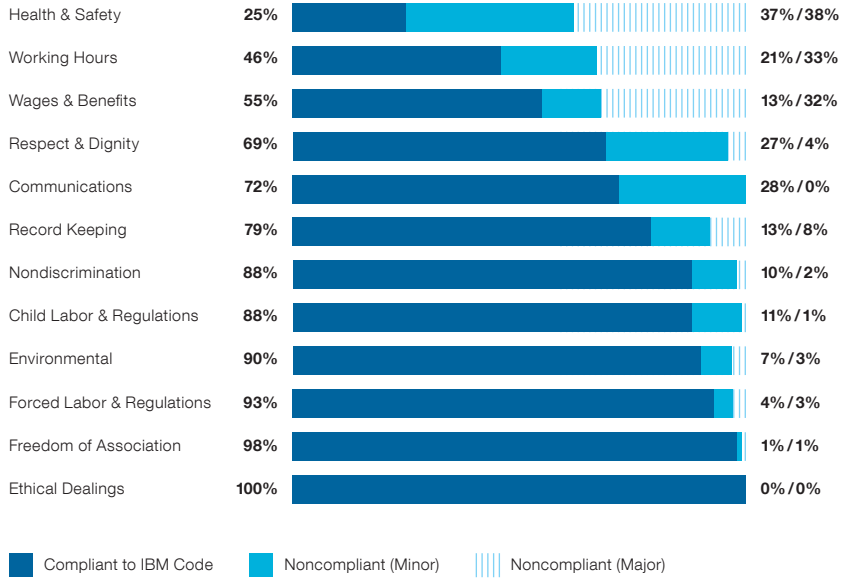
Key Performance Indicator

Supplier Initial Audit Results

2004–2009

Since 2004 we have conducted more than 600 supplier audits against IBM's Supplier Conduct Principles in more than 15 growth market countries. Audits were conducted by third-party firms with local personnel.

The graph reflects cumulative findings of assessments, including suppliers of both manufactured products, software and services in Argentina, Brazil, China, Czech Republic, Hungary, India, Malaysia, Mexico, the Philippines, Poland, Romania, Slovakia, Taiwan, Thailand and Vietnam.



SUPPLIER IMPROVEMENT PLANS

Upon completion of a social responsibility audit, IBM requires its audited suppliers to create and submit for review a Supplier Improvement Plan (SIP). The SIP is intended to address audit noncompliance—to the respective provisions of the code of conduct—with priority given to major noncompliance. The SIP receipt is driven through the procurement organization and is reviewed by IBM's Supply Chain Social Responsibility (SCSR) team. In this manner, the SCSR team is able to work with the supplier and offer guidance regarding the proposed improvements and their likely impact toward code compliance. The supplier is then re-audited to measure improvements and compliance.

In 2009, 46 suppliers were engaged in re-audits following submission of SIPs. Overall, these suppliers demonstrated a 60-percent reduction in the number of major and minor noncompliant findings. More importantly, nearly 50 percent of the re-audited suppliers had no major noncompliance after completing one audit/SIP/re-audit cycle. Suppliers with continued nonconformance are reviewed by the procurement organization to determine what appropriate actions are required. These statistics illustrate the value and commitment of pursuing this work with our suppliers. These efforts, which require substantial commitments of time and resources from both customer and supplier, ultimately benefit the many employees engaged in the extended supply chain.

INDUSTRY COLLABORATION

Throughout 2009, IBM deepened its involvement with the Electronic Industry Citizenship Coalition (EICC). This industry group consists of more than 40 international companies in the electronics, software, and communications sectors. Founded in 2004, the EICC is chartered with collaboratively working to improve social responsibility throughout the supply chain, from raw materials to components to manufacturing to brands. IBM has held the Chair position on the EICC Board of Directors for the last two years.

The EICC continues to expand its membership as well as its role in defining collaborative solutions within the sector. The following are among the group's accomplishments in 2009:

- » **Expanded the Board of Directors and launched the Asia Network**
- » **Completed a thorough review of the coalition supply chain code of conduct**
- » **Developed and implemented an energy and greenhouse gas emissions reporting system for supply chains**
- » **Engaged stakeholders in topic-specific sessions**
- » **Continued an in-depth study on the mining and sourcing of tin, tantalum, and cobalt**
- » **Developed e-learning modules for supply chain management at both member companies and their suppliers**
- » **Launched the Validated Audit Process**

Additional details are available in the EICC's 2009 annual report at eicc.info.

SUPPLY CHAIN MINERALS

Identifying and mitigating the use of so-called conflict minerals throughout the electronic supply chain is an ongoing work effort. As ores move through the supply chain, smelting and blending masks the identification of the original source of the materials—thus creating a significant challenge to the ability of end users to understand (with full clarity) where the materials originate.

In order to help address this issue, the EICC, in conjunction with the Global e-Sustainability Initiative (GeSI) Supply Chain Work Group, funded two significant pieces of work (both available online at eicc.info).

- » **In 2008 a comprehensive third-party study identified the metals with the greatest use in electronics (and their related social responsibility issues).**
- » **In 2009, EICC and GeSI jointly funded a project to develop a supply chain traceability model for tin, tantalum, and cobalt. The model is intended to identify the parties involved in the supply chain, document the physical flows of these materials, and ultimately lead to specific improvements to enhance the spread of social responsibility through the supply chain toward the point of origination. Additionally, this work has included dialogue with NGOs, academics, supply chain consultants, and government representatives.**

GLOBAL SUPPLY SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

In 2009 we consolidated our existing social and environmental requirements involving supply chain management into a single comprehensive Global Supply Social and Environmental Management System (GS S&EMS). The new system better enables consistent execution of the requirements and programs by Global Supply employees worldwide.

This integrated management system enables us to more efficiently and effectively manage—and continue to enhance—our programs and performance in these areas to promote IBM's ongoing leadership as a premier provider of goods and services that meet high standards. The implementation of this new system includes training and awareness programs, internal and external communications efforts, new procedures to maintain operation control, and ongoing monitoring of

Paper- and Wood-Based Packaging

Over the timeframe of 2004 to 2009, working in conjunction with our suppliers, we grew usage of sustainably sourced materials from 40 percent to over 95 percent of our global demand. This initiative grew from external engagement with environmental NGOs that brought our attention to issues surrounding non-sustainable logging of old-growth and virgin forests, and ideas to address increased use of sustainably sourced wood-based commodities.

performance against goals. The GS S&EMS also requires suppliers to have their own social and environmental management system and for them to cascade these requirements throughout their supply chain. The requirement is for suppliers to:

- » **define, deploy, and sustain a management system that addresses corporate responsibility;**
- » **measure performance and establish voluntary, quantifiable environmental goals;**
- » **publicly disclose results associated with these voluntary environmental goals and other environmental aspects of their management systems.**

Our objective is to help suppliers build their capability to manage their responsibilities effectively, systematically, and sustainably over the long term. We expect that each supplier will deploy their management system, goals, and performance reporting in a way that reflects their particular intersections with corporate responsibility and the environment. The announcement of these new requirements is available online at ibm.com/press/us/en/pressrelease/29953.wss.

SUPPLY CHAIN DIVERSITY

IBM has long been considered an industry leader in supply chain diversity. With a global supply chain diversity program that has been in place since 1968, IBM has consistently encouraged and embraced businesses owned by diverse groups, both inside and outside the United States. Because diverse suppliers are typically smaller and more nimble, they add significant value. They also provide a diverse mix in our supplier base, which promotes economic and cultural stability in local communities. In 2009, we transacted \$2.1 billion in First Tier spending with diverse businesses worldwide.

But IBM doesn't just contribute to the advancement of diverse businesses by contracting with them. The company is a founding member of the National Minority Supplier Development Council, the Women's Business Enterprise National Council, and the National Gay and Lesbian Chamber of Commerce. IBM also participates international organizations focused on supplier diversity, such as the Australian Indigenous Minority Supplier Council, the Canadian Aboriginal and Minority Supplier Council, the Minority Supplier Development United Kingdom, Minority Supplier Development China, WEConnect Canada, WEConnect Europe and the International Gay and Lesbian Chamber of Commerce.

In addition, the company actively engages with its diverse suppliers with the goal of promoting mutual success. To help do this, the company initiated a Mentor Program in 2003 to facilitate the development of diverse suppliers.

Last year, a Hispanic-owned electricity provider called Liberty Power entered the Mentor Program, and has benefited greatly. Based in Ft. Lauderdale, Florida, Liberty Power is one of only three national retail electric providers licensed in 15 or more states and is the only minority-owned, independent energy retailer with a national presence. It worked to earn IBM's business and we have been working with the company ever since.

"IBM sent us a very clear message when we first started our conversations with them," says David Hernandez, who co-founded the company in 2001 and is currently CEO. "They told us, 'You must win on the merits, but we will give you an opportunity to participate in all our procurement opportunities.' At first we were not successful winning the bids, but at each procurement opportunity, IBM invested the time and its resources to give us critical and supportive feedback, that enabled us to eventually win their business."

Key Performance Indicator

Supplier Diversity

2009 Total U.S. Spending

Dollars in Billions



2009 Diverse U.S. Spending (First Tier)

Dollars in Billions



2009 Diverse Non-U.S. Spending (First Tier)

Dollars in Millions



Projected
Actual

"We take the mentoring relationship very seriously. Not only have I as well as my COO visited IBM in New York, but we've also had numerous team members, at all levels of our company, interacting and working closely with many on the IBM team. The message they are sending us is very clear: 'your success is our success.'"

DAVID HERNANDEZ
CEO, Liberty Power
Ft. Lauderdale, Florida

Governance

Managing risk, maintaining trust

On the Web

For more information on governance, visit our online report at ibm.com/responsibility/governance

IBMers recognize that offering and delivering smarter planet solutions is no ordinary business. These solutions are becoming part of our social infrastructure. They are supporting our businesses, our schools, our hospitals and our highways. They are helping to manage our food, water and energy supplies. And they are aiding our law enforcement agencies.

Any company that provides these solutions should have high standards of conduct, integrity, transparency and risk management. Working as we do within a global and complex ecosystem of clients, business partners and suppliers, IBM is dedicated to high achievement and constant improvement in these areas. Our business depends on it.

In 2009 we focused on strengthening our practices around Enterprise Risk Management (ERM), embedding a strong culture of risk awareness throughout the company. And we extended IBM's core value of trust and responsibility to thousands of business partners.

30,000

The Corporate Trust and Compliance website was launched in February 2009, to serve as a resource to help IBMers cultivate a culture of trust and personal responsibility. From May 1 through December 31 the site saw nearly 30,000 visitors.

ENTERPRISE RISK MANAGEMENT

We understand that taking risk is a normal part of business and that the market rewards those who manage risks well. IBM thus takes a strategic and disciplined approach to ERM throughout the company; risk consideration is explicit as are decisions regarding which risks to take, how to manage them to acceptable levels, and how to avoid taking uncompensated risk. We do this not only because it's good business, but also because our clients, employees, shareholders, business partners and other stakeholders depend on us to make strategic and operational decisions that will keep the business strong.

Our approach is set in context of our business strategy and operational model. It looks across the enterprise in an effort to find ways to take advantage of the scale and scope of IBM's globally integrated enterprise to improve performance through enhanced identification and management of enterprise risks. And it uses a well-defined and rigorous methodology for identifying and understanding the causes of risk, and measuring and monitoring the results of action taken to mitigate that risk.

In 2009, we set out specific goals for the ERM function in the company:

- » **Integrate enterprise risks with business unit strategy and execution**
- » **Increase the rigor of risk management**
- » **Institutionalize ERM knowledge**

We have made measurable progress in each of these areas. But perhaps the most important accomplishment of 2009 was the embedding of our risk management approach into the individual business units. The logic behind this is simple: risk is taken by the business units in pursuit of economic gain, and explicit consideration of risk will lead to better decisions. Throughout the year we saw strong adoption of risk management processes by the business units. The business units have been focused on improving the identification and analysis of risk, devising risk management strategies to monitor the effectiveness of actions taken, and making it part of their strategy and execution planning. And of course risk management is a factor in executive compensation.

Throughout 2010 we will continue to drive risk management deeper into all areas of the business, and work closely with strategy executives to make ERM part of the fabric of the company, addressing changes to the external environment and business operations.

Trusted Company Ranking

Most Trusted Companies for Privacy Study
February, 2010 by Ponemon Institute
(based on a survey of more than 6,500
U.S. consumers).

- 1 American Express
- 2 **IBM**
- 3 Johnson & Johnson
- 4 Hewlett-Packard
- 5 eBay
- 6 U.S. Postal Service
- 7 Procter & Gamble
- 8 Amazon
- 8 Nationwide
- 9 USAA
- 10 WebMD
- 11 Intuit
- 12 Apple
- 12 Disney
- 13 Google
- 14 Verizon
- 15 U.S. Bank
- 15 Charles Schwab
- 16 Weight Watchers
- 17 Yahoo!
- 18 FedEx
- 19 Walmart
- 20 AT&T
- 20 Dell

PRIVACY AND DATA SECURITY

IBM believes that the benefits we hope to realize from a smarter planet depend on strong security and privacy for our clients, our employees and society at large. Our dedication to high performance and leadership in this area is deep and broad, starting at the core of our business: our internal operations, and the solutions and services we provide to our clients.

We draw extensively upon IBM's full range of capabilities to protect our extensive, and global, physical and digital infrastructures. For example, IBM X-Force,[®] a market-leading team of security experts, continuously analyzes external threats and provides up-to-date information to the company's Chief Information Security Office (CISO). The CISO is responsible for interpreting this information, evaluating the potential impact, and determining the appropriate response across IBM's network of 120,000 servers and 500,000 endpoints.

We maintain comprehensive online security and privacy resources for all IBMers, including a global privacy risk program for process leaders that is supported by on demand self-assessment tools and databases. And since 2008, we have emphasized more than ever before personal responsibility for data protection among all IBMers because of our belief that in a world in which data is widely distributed, the security measures that protect that data must also be distributed.

IBM's Data Protection Awareness Week is a company-wide annual effort to raise awareness, educate, and equip IBMers to handle information responsibly, and that supplements tailored training provided to employees via their business units. It consists of a five-day program that includes: executive messages; online tutorials and games; posters; and on-site events and training. In 2009 we also created a dedicated course on the responsible use of social media, which the company made available for free public use.

A Data Privacy and Security Steering Committee maintains an enterprise-wide view of data security and privacy risks, overseeing as part of its charter key actions and indicators of progress, and facilitating interlock with other key components of IBM's closed-loop management and governance.

A Security Executive Board, supported by a Security Architecture Board comprised of some of the company's leading technical experts, coordinates IBM's work to develop, manufacture and bring to market security-enabling technologies and solutions.

The success of these collective measures is reflected in our consistently high ranking in the Ponemon Institute's annual Most Trusted Companies for Privacy Study. In February 2010, for the third consecutive year, IBM was ranked first in the IT industry and second overall in the study, and was the only business-to-business company in the top 20. As well, IBM was recognized in March 2010 as "Best Security Company" by *SC Magazine*, a security trade publication that annually conducts one of the industry's leading awards programs.

“There are clear benefits to both business and society when companies have a strong social purpose at the heart of strategy and operations. Values and principles, which include respect for people and concern for the environment, contribute to numerous business capabilities: sensing opportunities and innovating; enhancing customer success and value for end users; making effective acquisitions and integrating them successfully with consideration for culture; attracting and motivating top talent; working collaboratively to react or change quickly; and tapping the potential of an extended family of business partners for new ideas or market reach. As IBM demonstrates, the centrality of purpose and values constitutes a new paradigm for business that can stand beside financial performance and even enhance it.”

ROSABETH MOSS KANTER

Ernest L. Arbuckle Professor of Business Administration, Harvard Business School; Author of *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*, Cambridge, Massachusetts

BUSINESS PARTNER CHARTER

IBM does business with nearly 100,000 business partners. Those partners are a critical component of the company’s business ecosystem, interacting directly with thousands of clients and accounting for as much as 30 percent of IBM’s revenue. Our shared values serve as the guidelines for our work together.

In 2009 IBM updated its Business Partner Charter, the principles by which all interactions between IBM and its partners are managed. The updating was meant to reflect business realities of the 21st century, and reinforce IBM’s commitment to the success of its business partners.

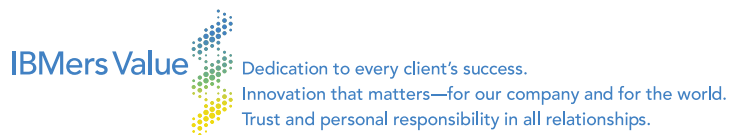
The Business Partner Charter’s six guiding principles are:

1. **IBM Business Partners are vital to IBM’s business.**
2. **Our relationship is a collaboration of equals.**
3. **We invest in IBM Business Partners’ success.**
4. **We strive to provide the industry’s best Business Partner experience, in all respects.**
5. **We work with our Business Partners to seize the opportunities presented by a smarter planet.**
6. **We ground our relationships in the core values of IBMers.**

The following are the key aspects of the updated charter:

- » **Mirrors today’s business environment**, with an emphasis on the importance of the mid-market opportunity, delivery of solutions, and industry expertise.
- » **Acknowledges Business Partners’ key role in IBM’s success**; makes it clear that mutual collaboration toward delivering superior client value will help IBM and its partners win in today’s challenging economy.
- » **Dedication to building a smarter planet with Business Partners** to jointly drive innovation, collaboration, and smarter solutions.
- » **Extension of IBM corporate values to relationships with Business Partners.**

The Charter closes with a statement of IBM’s three core values:



Public Engagement

Collaborating for societal progress

On the Web

For more information on public engagement, visit our online report at ibm.com/responsibility/publicengagement

More and more, as IBM pursues its smarter planet agenda, we are finding that technology, for all its power and sophistication, is the easy part. The greater challenges lie in the realms of society and public policy.

In seeking to build and transform the business and societal systems by which our planet works, IBM is deeply engaged with many of the most urgent issues facing the world today. In this, we are necessarily drawn into deep collaboration across civil society—working with lawmakers, regulators, public officials and civic leaders and contributing our expertise, experience and perspective.

As we do so, we have learned that none of the enormous potential of a smarter planet for growth and progress will be realized if its systems do not improve the vibrancy of communities and the lives of individual citizens. Indeed, from traveler-centric transportation, to consumer-centric electric power, to student-centric education... to the systems by which we manage food, water, shelter and public safety... the individual is the key design point for optimizing a smarter system.

Forward-thinking leaders understand this, and are pursuing it in cities, governments and enterprises around the world. Three key dimensions of IBM's engagement with these leaders are described in this section: developing patient-centric healthcare; helping to build privacy and security into the critical systems of the planet, by design; and shaping smarter, citizen-centric cities for the 21st century.

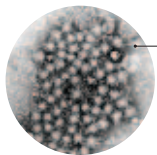
HEALTHCARE

IBM takes an active interest in the future of healthcare for a number of reasons. We do nearly \$4 billion in healthcare business every year. We also employ physicians, nurses, industrial hygienists, safety and health benefit professionals whose primary focus is the health, safety and well-being of IBM employees worldwide. But most importantly, we understand that healthy, productive people are good for society and good for the economy.

For the last two years, IBM has been actively promoting its vision of smarter healthcare, in which information technology is used to help increase efficiency, reduce costs, and improve outcomes. We believe modernization of this kind is a critical step toward better healthcare. IBMers have appeared before government committees studying the future of healthcare, demonstrating smarter healthcare success stories, explaining our approach to providing employee health plans, and advocating the concept of the patient-centered medical home, which strengthens the role of the primary care physician as a coordinator of care.

But our involvement in healthcare policy extends well beyond these more visible issues. For example, over the last year a leading IBM physician scientist has been participating in a study committee of the Institute of Medicine (IOM), the health arm of the National Academy of Sciences, to examine ways in which the public health system in the United States can be strengthened. The committee will produce three consensus reports over the next three years, and will develop recommendations on funding mechanisms, legal and regulatory authority, and quantitative assessment approaches.

In addition, an IBMer worked with the IOM on a recently completed comprehensive study of hepatitis and liver cancer. And IBM endeavors to share our learning and best practices as widely as possible. For example, IBM was the only private enterprise invited to a conference at the China Europe International Business School in Shanghai to present our position on the importance of primary care in healthcare reform in China.



Electron
Micrograph of
Hepatitis Virions

**5.3
million**

people are living with chronic hepatitis B virus (HBV) or hepatitis C virus (HCV) infections. Chronic viral hepatitis infections are three to five times more frequent than HIV in the United States.

PRIVACY AND SECURITY

The vision of a smarter planet—one with systems that are instrumented, interconnected and intelligent—is fast becoming a reality. Already we see dynamic transportation systems that can monitor traffic patterns and adjust accordingly. We see electricity grids that can measure supply and demand and balance loads. And we see public safety systems that scan video feeds for potentially dangerous activity and alert authorities.

These developments represent the kind of progress that will improve life on this planet. But this progress does not come without the challenges that accompany other major technology-enabled transformations. One set of these challenges is privacy and security; the responsible handling of personal information and the protection of our planet's critical infrastructure.

One way we advanced the security and privacy conversation was through IBM's online collaborative brainstorming technology platform, including a global privacy risk program for process leaders that is supported by an on-demand self-assessment tool and database. In February 2010, we collaborated with Security & Defence Agenda, a U.K.-based nonprofit, to organize and host Security Jam, an international insight-gathering exercise that brought together experts in security and privacy to discuss everything from how security can be improved in

Smarter Cybersecurity

For decades IBMers have drawn upon their technology and business expertise to inform and support progress on security issues. Most recently we have intensified our engagement with government and other leaders on the challenge of helping with security for critical infrastructures. We are responding to increased market demand for more secure technology and for security-enabling solutions. We have innovated new ways to help protect privacy even while extracting value out of growing amounts of data. And we are offering our counsel and expertise to legislators, regulators and colleagues in the industry concerned about the protection of citizens and national assets in the context of social values such as privacy and civil liberties; for example via IBMer participation in the United States Commission on Cybersecurity for the 44th Presidency.

an increasingly digital world, to how to define the reasonable expectations of privacy in the 21st century. The four-day session drew some of the most influential thinkers on the subject, from Admiral James Stavridis, NATO Supreme Allied Commander of Europe, to former U.S. Secretary of State Madeleine Albright.

And in March 2010, we announced the formation of an Institute for Advanced Security, which will help clients, academics, partners and other businesses understand, address and mitigate the complex, multidisciplinary issues associated with securing cyberspace. Based in Washington, D.C., the Institute will provide a collaborative environment for public and private sector officials worldwide to tap IBM's vast security expertise to help them more efficiently and effectively secure and protect critical business information threatened by increasingly malicious and costly cyberthreats. Experts from across IBM will come together within the Institute to help clients address existing and emerging cybersecurity challenges by using analytics and other advanced technologies, services and solutions which can help anticipate, prevent and mitigate the growing risk and potential economic impact of cyberattacks.

URBANIZATION

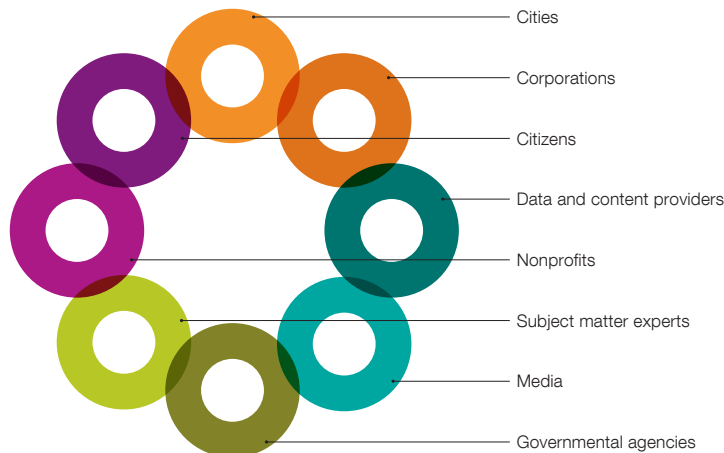
The popularity of cities has never been greater than it is today. For the first time ever, more than half of the global population lives in cities. By 2050, that urban population will double. We are adding the equivalent of seven New York Cities to the planet every year. And this urbanization is putting terrific strain on the systems that facilitate life in our cities.

Last year IBM launched its Smarter Cities campaign, a comprehensive approach to helping cities run more efficiently, save money and resources, and improve the quality of life for citizens. Throughout 2009, we held nearly 100 Smarter Cities Forums, attended by more than 2,000 leaders, to build collaboration among all urban stakeholders. Included in these were two regional forums—in Berlin in June and New York City in October.

In Berlin, IBM brought together more than 340 high-level clients from across 130 cities and 30 different countries to discuss how to make our cities more instrumented, interconnected and intelligent. Speakers from 13 countries shared 28 case studies on how they are setting new standards, pioneering new innovations and transforming the complex systems that make up our cities.

City Forward

A unique online destination that brings together all of the key stakeholders in different cities, presents meaningful urban data, and invites open discussion.





Smarter Cities New York

In October 2009, IBM brought together hundreds of leaders from around the world to discuss how our cities work, and how to make them work better.

“The 2010s will be a decade of reckoning for American cities and metropolitan areas. Given the lessons of the Great Recession, they will need to build economies that are export-oriented, low-carbon, innovation-fueled and opportunity-rich. They must address the challenges of a nation that is simultaneously growing, aging and diversifying. And the geography of economic, social and environmental realities will require new ways to govern across traditional city and suburban borders and specialized disciplines. To thrive, cities and metros will need federal and state governments to lead where they must. But the hard work will be done at home, through new kinds of partnerships among the public, corporate, university and civic sectors. To this end, the potential of data and technology to drive smart decisions—on transport, energy, public safety and growth generally—is limitless and largely untapped. The next decade is a time to ‘get smart.’”

BRUCE KATZ

VP & Director, Metropolitan Policy Program, the Brookings Institution
New York, New York

In New York, in collaboration with leaders from The Partnership for New York City, the City University of New York, the Brookings Institution, and other organizations from the public, private and voluntary sectors, IBM convened 550 high-level executives from more than 185 cities in 25 countries. More than 60 speakers and breakout leaders presented 28 case studies on different aspects of how the global economy is shaping up as a competition among the world’s cities, regardless of their location, for talent, investment, and influence.

IBM plans to continue these dialogues in 2010, including another Smarter Cities regional forum in June in Shanghai held in conjunction with that city’s Expo.

To further these dialogues, IBM is building City Forward, an online space for long-term discussion among city officials, citizens, and subject matter experts that can use a free, public tool for visualizing and analyzing city data.

Recent efforts by cities worldwide to make their data public have created an unprecedented opportunity to derive new insight into how cities work—and how they might work better. City Forward is a suite of advanced IBM data tools, running as a cloud service, that permits easy comparison and analysis of these public sets of information.

Naturally, insights into how cities work generate conversation; conversation that can lead to collaboration. City Forward is also a community space where leaders and citizens can interact and determine steps toward transforming their cities—all informed by the underlying data.

City Forward is a donation of technology and services to city residents worldwide. It can be found at cityforward.org.

Employees

	2005	2006	2007	2008	2009
★ Learning Investments					
Worldwide (\$M)	648	682	622	648	490
Learning Hours					
Worldwide (M)*	18.0	19.6	22.3	23.2	25.5
★ Learning Hours per Employee					
	55	55	58	61	64
★ Employee Satisfaction (%)					
	65	67	69	67	69
Women in IBM Workforce (%)					
Global Workforce	28.4	28.5	28.8	28.9	28.7
Global Executives	19.4	19.7	20.3	21.2	21.2*
Managers	24.9	24.5	24.8	24.5	24.6
Global Illness/Injury Rate					
Total Number (per 100 employees)	0.35	0.32	0.30	0.27	0.27
Retiree and Employee On Demand Community					
(Hours in thousands)					
Asia Pacific	114.0	134.1	163.0	143.0	117.5
Europe, Middle East, Africa	274.0	283.5	210.2	175.2	155.3
Latin America	32.6	31.3	41.6	40.8	43.4
North America	1,244.8	1,263.3	1,303.0	1,170.1	953.6

Total registrations inception through 2009 was 146,892.
(Employees: 133,586, Retirees: 13,306)

*Data for 2008 has been revised.

Giving

	2005	2006	2007	2008	2009
★ Global Corporate Contributions by Issue (\$M)					
K to 12 Education	55.6	49.4	41.7	45.4	44.0
Higher/Other Education	44.7	51.5	49.2	82.6	92.4*
Culture	11.2	12.3	11.9	10.5	5.7
Human Services	18.9	19.8	16.7	15.3	15.0
Health	9.7	10.6	4.6	4.0	4.2
Other	7.8	7.9	40.7	19.3*	19.9**
Environment	0.6	0.6	1.8	2.2	4.7
Total	148.5	152.1	166.6	179.3	185.9
★ Global Corporate Contributions by Geography (\$M)					
United States	103.0	95.7	91.8	94.6	77.1
Europe, Middle East, Africa	23.9	26.1	40.8	44.4	35.2
Asia Pacific	13.5	19.9	22.3	24.4	45.4
Latin America	4.5	6.4	8.1	12.5	19.8
Canada	3.6	4.0	3.6	3.4	8.4
Total	148.5	152.1	166.6	179.3	185.9
★ Global Corporate Contributions by Type (\$M)					
Cash	38.8	48.8	43.8	42.9	40.3
Technology	64.4	59.2	55.8	93.8	102.2*
Technical Services	45.3	44.1	67.0	42.6	43.4
Total	148.5	152.1	166.6	179.3	185.9
Employee Charitable Contribution Campaign (U.S.)					
Amount Donated (\$M)	34.6	34.7	35.1	36.1	36.1
Employee Participation Rate (%)	58	57	58	57	59
Recipient Agencies	12,104	12,315	14,035	17,430	17,532
Employee Charitable Contribution Campaign (Canada)					
Amount Donated (\$M)	3.6	3.4	3.3	3.0	3.0
Employee Participation Rate (%)	55	52	49	49	43
Recipient Agencies	1,246	1,275	1,323	1,150	1,373

*Includes 2009 Academic Initiatives software donations.

**Includes Community and Economic Development activity for SMB and Corporate Service Corps.

Environment

2005 2006 2007 2008 2009

★ Energy Conservation

Annual savings as % of total use—
against annual goal of 3.5%

	5.5	3.9	3.8	6.1	5.4
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Renewable Energy Procured

% of total electricity use

	2.7	7.3	8.5	8.6	11.3
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★ CO₂ Emissions

Metric Tons x 1,000

	2,543	2,420	2,541	2,502	2,436
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★ Product Energy Efficiency

See IBM and the Environment Report*

★ Recycled Plastics

% of total plastic procured
through IBM contracts for use
in its products that is recycled —
against annual goal of 5%

	8.0	11.7	10.6	10.3	13.2**
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★ Product End-of-Life Management (% of total weight processed)

Recycled	47.8	51.4	52.0	54.4	54.3
Resold for Reuse	37.3	32.1	33.7	31.4	32.1
Reused	8.7	9.3	8.7	7.1	6.1
Waste-to-Energy	4.0	2.9	3.3	4.0	3.3
In Process	0.0	3.2	1.5	2.5	3.8
Landfilled and Incinerated***	2.2	1.1	0.8	0.6	0.5

★ Hazardous Waste Reduction

(Metric Tons x 1,000)
Indexed to output — against
goal of continual reduction

	-19.0	-8.1	-8.4	-10.9	8.4****
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★ Nonhazardous Waste Recycling

% recycled of total generated —
against goal of 67% (2005–2006)
and 75% (2007–2009)

	77	76	78	76	76†
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★ Worldwide Use of Chemicals††

(Metric Tons x 1,000)
Against goal of continual reduction

	4.9	6.0	4.3	3.6	3.2
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★ Water Conservation—Microelectronics Manufacturing

Savings as % of prior year's use

	3.7	2.3	4.1	2.4	3.2
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5-year average against goal of 2%

	7.2	7.0	6.0	4.6	3.1†††
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Supply Chain

2005 2006 2007 2008 2009

Supplier Spending by Category

Services and General (%)	62	64	67	68	69
Production (%)	35	33	31	29	28
Logistics (%)	3	3	2	3	3
Services and General (\$B)	23.2	23.2	25.0	26.1	22.6
Production (\$B)	13.3	11.7	11.4	11.4	9.3
Logistics (\$B)	0.0	0.9	0.9	1.0	0.9
Total (\$B)	37.5	35.8	37.3	38.5	32.8

Supplier Spending by Location

North America (%)	40	42	43	39	39
Asia Pacific (%)	27	27	26	30	29
Europe, Middle East, Africa (%)	27	26	27	25	25
Latin America (%)	6	5	4	6	7
North America (\$B)	15.2	15.0	16.0	14.9	12.8
Asia Pacific (\$B)	10.1	9.7	9.8	11.4	9.4
Europe, Middle East, Africa (\$B)	10.1	9.2	9.9	9.8	8.1
Latin America (\$B)	2.1	1.9	1.6	2.4	2.5
Total (\$B)	37.5	35.8	37.3	38.5	32.8

Total U.S. Spending (First Tier) (\$B)

Projected	13.0	12.8	12.5	12.0	12.6
Actual	12.4	12.7	12.6	12.5	10.9

★ Diverse U.S. Spending (First Tier) (\$B)

Projected	1.2	1.3	1.3	1.3	1.5
Actual	1.2	1.3	1.4	1.5	1.3

★ Diverse Non-U.S. Spending (First Tier) (\$M)

Projected	630	597	609	560	790
Actual	590	615	709	745	806

★ Initial Audits Completed (Cumulative)

	200	317	450	553	600
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Number of countries in which audits are conducted

	6	7	12	15	18
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*The IBM and the Environment 2009 Annual Report may be found at ibm.com/environment/annual/

**Data for 2005 has been revised

***Against annual goal to not exceed a combined 3 percent of the total amount processed.

****This increase was largely due to process changes during our transition to lower line width microprocessor technologies in our semiconductor manufacturing. Modifications have already been completed to reduce the waste generation relating to these changes.

† Data for 2008 has been revised.

†† Included on the U.S. Toxic Release Inventory List, as defined by U.S. SARA Section 313 and PPA.

††† Annual water savings based on the water usage of the previous year and measured as an average over a rolling 5-year period.

Additional information on all of the above topics also may be found in the IBM and the Environment 2009 Annual Report.

This annual corporate responsibility report, published in June 2010, covers our performance in 2009 and some notable activities during the first half of 2010. IBM publishes this report annually during the second quarter.

To select the content for inclusion in this report, we have used the Global Reporting Initiative (GRI) Reporting Principles of materiality, sustainability context, stakeholder inclusiveness and completeness in developing the printed report. IBM also provides on its corporate responsibility website (ibm.com/responsibility) a comprehensive GRI Report utilizing the GRI G3 Sustainability Guidelines at a self-declared GRI Application Level A.

Unless otherwise noted, the data in this report covers our global operations. More details about IBM's corporate responsibility activities and performance is available at ibm.com/responsibility. Information about our business and financial performance is provided in our 2009 Annual Report at ibm.com/annualreport/2009/. IBM did not employ an external agency or organization to audit this report. The metrics contained herein were generated using IBM's corporate accounting systems audited by IBM's internal audit staff.

SOURCES

Pages 8 and 9

- » www.indianrailways.gov.in
- » www.turkstat.gov.tr

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- » www.businessgrouphealth.org/pressrelease.cfm?ID=142

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- » www.ponemon.org/news-2/26

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- » http://www.eurekalert.org/pub_releases/2010-02/w-hba022310.php
- » Hepatitis image courtesy of the Centers for Disease Control and Prevention (U.S.): <http://phil.cdc.gov/phil> (image 8153)

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