Modern Slavery Act Transparency Statement

On behalf of International Business Machines Corporation (IBM), we are pleased to give our statement, as required by s. 54 of the UK’s Modern Slavery Act 2015, of the actions our organization took during our financial year ending 31 December 2016, to ensure that slavery and human trafficking are not taking place in any of our supply chains or in any part of our business globally.

As a global company IBM pursues the highest standards of corporate responsibility in all we do — supporting and empowering employees, working with clients and suppliers, and governing our company. The company actively enforces its extensive policies and practices addressing how its business units are to operate in an ethical and sustainable manner. A cross section of IBM’s policies and practices for 2016 are listed on the IBM Responsibility website at: https://www.ibm.com/ibm/responsibility/ibm_policies.html#human-rights

For large companies, risk for human trafficking resides primarily in the extended upstream supply chain, where the rigorous controls of a brand company’s policies and practices are usually absent. To address topics relating to social responsibility, IBM created the Supplier Conduct Principles in 2004 as its first consolidated supply chain code addressing Labor, Health and Safety, Environment and Ethics. This code was introduced to the supply chain and audits began in 2005 to assess compliance on a cross-section of suppliers in developing market countries.

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

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

Forced, bonded (including debt bondage) or indentured labor, involuntary prison labor, slavery or trafficking of persons shall not be used. This includes transporting, harboring, recruiting, transferring or receiving persons by means of threat, force, coercion, abduction or fraud for labor or services. There shall be no unreasonable restrictions on workers’ freedom of movement in the facility in addition to unreasonable restrictions on entering or exiting company - provided facilities. As part of the hiring process, workers must be provided with a written employment agreement in
their native language that contains a description of terms and conditions of employment prior to the worker departing from his or her country of origin. All work must be voluntary and workers shall be free to leave work at any time or terminate their employment. Employers and agents may not hold or otherwise destroy, conceal, confiscate or deny access by employees to their identity or immigration documents, such as government-issued identification, passports or work permits, unless such holdings are required by law. Workers shall not be required to pay employers’ or agents’ recruitment fees or other related fees for their employment. If any such fees are found to have been paid by workers, such fees shall be repaid to the worker.

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

IBM has communicated its requirement for direct suppliers to work toward and remain compliant with the EICC Code. Evidence of this is contained on the Global Procurement website at: www.ibm.com/procurement (navigation topic: supply chain social responsibility). Unless an exception is given, all IBM direct suppliers (in all countries) are required to sign a contractual attachment (called EICC Letter Agreement) that links compliance to the Code with on-going business contacts. IBM enforces these requirements with a robust annual audit program that engages a cross-sections of suppliers in developing market countries, where the risk of noncompliance is elevated. In the period from January 2016 through December 2016 received 63 full audit reports (using the EICC audit process) with suppliers located in countries such as: China, Mexico, Taiwan, India, Malaysia, Singapore, Philippines, Thailand, South Korea, Hungary, Brazil, Slovakia, Romania, Poland, and Indonesia. An aggregated summary of findings for the 2016 portion of audits is available in the Supply Chain section of the Corporate Responsibility Report at: www.ibm.com/responsibility

Specific to the Code provision of Forced Labor, analysis of the 63 full audits indicated that 11 suppliers had either priority, major or minor noncompliance in this provision, totaling 16 non compliances to the EICC Code. Suppliers with these findings were located in Malaysia, Taiwan, China, Mexico, India, South Korea, and Singapore. Six non compliances were found with Labor contracts and restriction on workers; five non compliances with Labor policies and worker training, and five non compliances with Worker fees and deposits. As described in the 2016 Corporate Responsibility Report, IBM follows the EICC audit process carefully, requiring root cause and corrective actions to be implemented for all code noncompliance. To this end, Corrective Action Plans are implemented and /EICC re-audits performed on all noncompliance including those associated with the Forced Labor provision the code. For the above noted audits, no instances of workers subjected to any egregious forms of human trafficking were found.

Internally, IBM offers on-line education for the EICC Code to its Global Procurement organization. The supply chain social responsibility group is part of the larger global purchasing team, which ensures all members have direct association with the professionals dedicated to this work. Taking this step further, the supply chain social responsibility group is geographically dispersed with members collocated with purchasing in China, India, Mexico, Hungary, and the United States. This helps to assure cross-qualification of purchasing professionals to help extend vigilance of the EICC Code into their daily interactions with direct suppliers to IBM.

As in prior years, IBM will plan for and deploy EICC audits on a cross-section of suppliers in developing markets during 2017 and will remain vigilant for any evidence of human trafficking.
In closing, we are pleased to publish our statement on our activities regarding the prevention of slavery and human trafficking in our business and supply chains globally for the year ending 31 December 2016.

Sincerely,

Gina Tesla  
Vice President, Corporate Citizenship  
International Business Machines Corporation