

IBM Australia – Modern Slavery Statement 2021

A Message from IBM Australia’s Chief Financial Officer

IBM is committed to respecting human rights and maintaining the highest ethical standards.

Trust, equity, and inclusion are core values at IBM and are central to how we operate.

In our 2021 modern slavery statement, we reflect on our processes and reaffirm our commitment to address and eliminate modern slavery practices. This statement outlines how we continue to work to mitigate potential risks within our operations and supply chains, to ensure we uphold our commitment to the highest ethical standards.

This Modern Slavery Statement was approved by the Board of IBM Australia Limited.

A handwritten signature in black ink, appearing to read 'Anthony Martinetti', written in a cursive style.

Anthony Martinetti
IBM Australia Limited
June 2022

Introduction

This is the second Modern Slavery Statement by IBM Australia Limited, submitted in accordance with the *Modern Slavery Act 2018* (Cth). This statement covers IBM Australia Limited ABN 79 000 024 733, referred to as IBM throughout this statement. It covers IBM's actions throughout IBM's 2021 financial year ending on 31 December 2021. It was prepared by IBM's local procurement team in consultation with the Supply Chain Social Responsibility team, headquartered in the United States.

IBM structure, business operations and supply chains

About IBM

IBM, founded in 1911, is headquartered in Armonk, New York, U.S.A. and is a globally integrated entity, operating in more than 175 countries worldwide. IBM Australia Limited was established in 1932.

Throughout its history, IBM has taken a thoughtful, comprehensive approach to corporate responsibility that is based on IBM's values and takes into account four areas of impact that are of particular interest to our stakeholders: support of our employees and communities; the impact of IBM's products and operations on the environment; the management of our global supply chain; and, the governance, ethics, and integrity of our company.

IBM provides integrated solutions and products that leverage data, information technology, deep expertise in industries and business processes, with trust and security and a broad ecosystem of partners and alliances. Our hybrid cloud platform and Artificial Intelligence (AI) technology and services capabilities support clients' digital transformation and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of capabilities in software, consulting services, and a deep incumbency in mission-critical systems, all bolstered by one of the world's leading research organisations.

On November 3 2021, IBM took an important step in advancing its focus on hybrid cloud and AI with the separation of its managed services unit into a new public company, Kyndryl. The separation of Kyndryl created two industry-leading companies, which will continue to have a strong commercial relationship. The information presented in this Statement represents actions IBM took with its global supply chain both prior to and following the separation.

At year-end 2021, IBM's four business segments were: Software (Hybrid Platform & Solutions and Transaction Processing), Consulting (Business Transformation, Technology Consulting, and Application Operations), Infrastructure (IBM Z systems, Power systems, Storage hardware/software, and integrated technical support), and Financing (Client and Commercial).

IBM's mission

IBM has a strong history of social responsibility demonstrated throughout its 110-year history, dating back to the fundamental beliefs of its founder Thomas Watson. IBM's values of dedication to every client's success; innovation that matters – for our company and for the world; trust and personal responsibility in all relationships form the foundation of how we conduct business in a globally integrated fashion.

Our supply chains

Within IBM and throughout its global operations, Global Procurement has responsibility for all purchases needed to run our business and to fulfil the delivery of IBM's products, software, and services to our clients world-wide. To achieve consistency, IBM has a hybrid global / regional structure to select suppliers and commit IBM funds via contracts and purchase orders.

Locally, at year end 2021, there is a team of approximately 20 sourcing professionals and managers, who are responsible for procurement in accordance with IBM's global charter, to meet the needs of IBM's operations and its clients in country. In 2021, purchases by IBM Australia totalled over \$AUD354m with 375 suppliers across the following broad categories:

- Business Services (for example administrative human resources)
- Facilities (for example maintenance, food service, and security)
- Marketing Communications
- Software
- Technical products (for example non-IBM branded hardware and field maintenance)
- Technical services (for example business and technical human resources)
- Telecommunications (for example mobile communications, office phones, and teleconferencing)
- Travel (for example airline fares, hotels, and rental cars)

IBM also has relationships with suppliers that provide hardware components to IBM's manufacturing sites producing, testing, and customizing logo products for world markets. IBM currently does not manufacture hardware products in Australia. These supplier relationships are managed by purchasing groups in other jurisdictions in Asia Pacific, Europe, and the Americas.

IBM takes an active role in supply chain social responsibility (SCSR) dating back to 2004 when IBM founded a specialised department within its Global Procurement operations to focus exclusively on the development and deployment of policies, practices, and initiatives to recognise and take measurable action on areas of concern in the supply chain.

The SCSR group is geographically distributed which assures supply chain social responsibility is integrated into the regional supplier base.

Modern slavery risks

IBM complies with Australian laws applicable to it including those that deal with the prevention of slavery and other exploitative practices like human trafficking, forced labour, child labour and debt bondage such as Sections 270 and 271 of the *Criminal Code Act 1995* (Cth), and relevant sections of the *Migration Act 1958* (Cth) and the *Fair Work Act 2009* (Cth).

For large global companies like IBM, risk for modern slavery resides primarily in the extended upstream supply chain, where the rigorous controls of a global company's policies and practices can be challenging to implement and sustain.

To address risks 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.

Modern slavery prevention and due diligence

Realising attaining sustainable improvements in the supply chain would be a long-term endeavour, in 2004, IBM joined forces with other pioneering electronics companies to create a supply chain code of conduct. This effort matured into the Electronic Industry Citizenship Coalition (EICC), which released its Version 1.0 Code of Conduct (Code) in late 2004. Since inception, the EICC has grown from eight members to over 170 members. Through its rich and diverse membership, the EICC Code has been continuously 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.

As an EICC member, IBM aligned its internal policies and practices with the EICC Code to ensure its global practices are synchronised across the sector. In October 2017, the Electronic Industry Citizenship Coalition (EICC) re-branded itself as the Responsible Business Alliance (RBA).

IBM has communicated its requirement for suppliers to work toward and remain compliant with the RBA Code. These communications begin during the on-boarding process of new suppliers to IBM. The RBA Code is provided to suppliers, and they have an opportunity to identify any areas of their operations which may not be conformant to the Code. Following on-boarding, IBM suppliers (in Australia and all other countries) are requested to sign a contractual attachment to comply with the requirements of the Code. This agreement links RBA Code compliance to the commercial terms and conditions of conducting business with IBM. The RBA Code of Conduct was updated to Version 6.0, effective January 1, 2018, with specific wording addressing the prevention of slavery and human trafficking. The Code was again updated to Version 7.0, effective January 1 2021, with further changes to this section. The current version of the RBA Code sets out:

Forced, bonded (including debt bondage) or indentured labor, involuntary or exploitative prison labor, slavery or trafficking of persons is not permitted. 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 including, if applicable, workers' dormitories or living quarters. As part of the hiring process, all workers must be provided with a written employment agreement in their native language that contains a description of terms and conditions of employment. Foreign migrant workers must receive the employment agreement prior to the worker departing from his or her country of origin and there shall be no substitution or change(s) allowed in the employment agreement upon arrival in the receiving country unless these changes are made to meet local law and provide equal or better terms. All work must be voluntary, and workers shall be free to leave work at any time or terminate their employment without penalty if reasonable notice is given as per workers' contract. Employers, agents, and sub-agents may not hold or otherwise destroy, conceal, or confiscate identity or immigration documents, such as government-issued identification, passports, or work permits. Employers can only hold documentation if such holdings are required by law. In this case, at no time should workers be denied access to their documents. Workers shall not be required to pay employers' agents or sub-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.

Within IBM, the RBA Code principles and commitments are reinforced by IBM's Global Employment Standard, which is part of IBM's Reports & Policies published at:

<https://www.ibm.com/impact/reports-and-policies>. The Global Employment Standard covers IBM's positions on freely chosen employment, young workers, wages, and benefits and working hours. Additionally, all IBM employees are required to take an annual certification of IBM's Business Conduct

Guidelines:https://www.ibm.com/investor/att/pdf/IBM_Business_Conduct_Guidelines.pdf, affirming their commitment to the Guidelines. The Business Conduct Guidelines are IBM's internal code of business conduct and ethics for IBM's directors, executive officers, and employees, and further reinforces IBM's commitment to ethics and integrity.

Modern slavery prevention effectiveness

IBM verifies its suppliers' compliance with the RBA Code using a robust annual assessment program that engages a cross-section of companies in countries where the risk of noncompliance is elevated. Through various sources of specific risk analysis, IBM SCSR and Procurement have determined its supply chain in Australia to be of comparably lower risk than our supply chains in other countries. Therefore, in 2021 no social responsibility audits (RBA Validated Audits) were chartered with any IBM suppliers in Australia.

In the period from January 2021 through December 2021 (the last period of public reporting) IBM received and analysed 68 full audit and 25 re-audit reports (using the RBA audit process) from suppliers located in: Brazil, Chile, China, Hungary, India, Japan, Malaysia, Mexico, Philippines, Portugal, Romania, Saudi Arabia, Singapore, South Korea, Taiwan, Thailand, Turkey, United Arab Emirates, and Vietnam. An aggregated summary of findings for the 2021 audits are available in the Supply Chain section of the Corporate Environmental, Social, and Governance (ESG) report <https://www.ibm.com/impact> (ESG Report).

Analysis of the 68 full audits indicated that 24 suppliers located in Brazil, Chile, China, India, Japan, Mexico, Philippines, Saudi Arabia, Singapore, South Korea, Taiwan, Thailand, and United Arab Emirates incurred a total of 42 priority, major or minor nonconformance to the Freely Chosen Employment provision of the RBA Code. The 42 nonconformant findings are summarised as follows:

- No policy on prohibition of Forced Labour, Worker Fees, or Human Trafficking
- No policy on freedom of movement in the workplace
- No policy on prohibition of retaining workers' personal documentation
- Labour contracts missing legal terms regarding wages, wage deductions, and working hours
- Labour contracts not provided in native language
- Labour contracts not provided to workers
- Labour contracts lacking signatures
- Prohibited recruitment, transportation, and hiring fees in effect
- Workers' reimbursement for pre-employment fees exceeded the time limits stipulated by the RBA Code
- Wage loan repayment exceeded parameters stipulated by the RBA Code
- Restricted movement / washroom pass system in use during working hours
- Voluntary termination period for workers exceeded reasonable limits

- Employer recovery of salary, training and/or PPE costs resulting from voluntary termination
- Personal documentation held by employer
- Use of contractors exceeded legal limits
- Ineffective monitoring of policies, procedures and program effectiveness
- Auditor access to payroll records denied

As described in the 2021 ESG Report, IBM follows the RBA audit process carefully, requiring root cause and corrective actions to be implemented for all code nonconformance. IBM includes RBA Code conformance as a term and condition of our commercial agreements and invests considerable time working with its suppliers to advise on best practices to attain and maintain Code alignment. In the 42 noted non-compliances against this Code, there were no instances of workers found to be subject to the worst forms of modern slavery or human trafficking. Each nonconformance to the RBA Code has an approved supplier Corrective Action Plan that will be vetted during an upcoming closure audit in 2022.

IBM recognises the supplier audit results in 2021 are not indicative of our objective to have a fully conformant supply chain. As a result of the nonconformances identified in 2021, we are enhancing supplier education materials by emphasising the proactive measures suppliers must take to address all aspects of compliance to this provision of the RBA Code. Additionally, we are committed to learning more about the patterns of human trafficking on a global basis and specific to Australia. Our learnings will be shared with our Procurement group and external suppliers in Australia during 2022.

In addition to the described assessment activities, IBM offers internal online education for the RBA Code to its Global Procurement organisation. In 2021, online educational materials were made available to IBM suppliers relating to RBA Code of Conduct elements. These materials have been developed by the RBA with input from various members and stakeholders. IBM deployed these courses to its suppliers undergoing audits as further investment in growing the capabilities of our suppliers in terms of social responsibility.

To make IBM's digital training courses on prevention of human trafficking available to a larger audience, in late 2020, IBM partnered with Stop The Traffik (a UK NGO with 15 years of experience in strategies focused on disrupting human trafficking) to rework our online training courses to make them more accessible and augmented the course material with a moderated learning support community forum dedicated to tackling human trafficking. In addition, the courses were migrated to the IBM SkillsBuild education web site; SkillsBuild is a comprehensive online education platform accessible (free of charge) to a global audience through online self-registration. Both courses, "Introduction to Human Trafficking" and "Disrupting Human Trafficking", provide the learner with background, context, and useful tips to assist in the endeavour to end this egregious practice.

In 2019, in conjunction with Stop The Traffik, law enforcement agencies, and financial institutions, IBM deployed cloud and artificial intelligence (AI) technology to create a growing online database to track and counteract the trade of human beings on a global basis. Traffik Analysis Hub (TAH), now fully formed as a non-governmental organisation recognised by the UK Charity Commission, enables members to validate and map patterns, trends, and smuggling routes.

Since 2019, TAH has grown to more than 120 financial institutions, corporations, research, academic, non-governmental, and law enforcement entities, with data representing over one million trafficking cases. Authenticated partners upload non-personal data relating to human trafficking;

TAH uses AI to aggregate and interpret this data transforming it into information that members can act upon. During 2021, IBM's corporate supply chain social responsibility team subscribed to TAH and began to use this application to gain additional insight into segments or countries in our supply chain (including Australia) that may require additional attention. More details can be found at: <https://www.traffikanalysis.org/>