

IBM	EcoValue '21 Rating: (AAA-CCC)		AAA
	Sector:	Computer	

**OUT-PERFORM**

**Rating Implication:**

IBM received a rating of AAA, ranking 2 out of 13 Computer companies in this sector. As a result, we project that the company will out-perform the sector going forward. IBM has above average risk, above average environmental management capacity, and above average engagement in environmentally-favorable businesses.

**Overview:**

International Business Machines Corporation (IBM) develops, manufactures and sells advanced technology processing products, including computers and microelectronic technology, software, networking systems and information technology-related services. IBM's business strategy is to focus on revenue growth through investments in high growth advanced technology business and research and development. The company is concentrating on increasing manufacturing efficiencies and shortening product cycles as key components of IBM's goal to become the world's premier knowledge management company. Hardware (43.4%), global services (35.4%) and software (14.5%) make up the largest segments of IBM's sales.

**Environmental Strategy & Management**

IBM's environmental strategy includes implementing the industry's premier env. management system, employing extensive eco-efficiency initiatives, & developing leading-edge green technologies & products. Env. Management System: Stringent standards, 1st global manufacturer to attain worldwide ISO 14001 certification of all facilities; Extensive EHS training; Comprehensive auditing; Accounting system tracks costs & benefits of EHS projects. Metrics: Env. Master Plan (EMP) tracks & measures env. affairs performance in areas such as emissions, waste minimization, energy conservation. Suppliers: Detailed evaluation of supplier env. practices & support for those who pursue ISO 14001 certification; Collaborated with suppliers in Mexico, Hungary, Japan to improve env. performance & products. Product Stewardship: Best-in-class program uses cradle to cradle analysis to minimize impact of products throughout life cycle; Product take-back programs in Europe & South Africa processed over 62,000 metric tons of used products.

**Risk Factors**

Industry Comment: Many companies in this sector subcontract much or all of the manufacturing of the components from which their products are made. As a result, much of the environmental risk remains with the supplier. Manufacturing-related environmental issues such as toxic emissions, hazardous waste generation, spills of hazardous materials, and related environmental compliance fines, will be much less significant for companies that do not engage in manufacturing. Manufacturing: Above average risks due to larger than average manufacturing operations. Risks include 13 Superfund sites, other site liabilities, and high levels of spills, toxic emissions and hazardous waste generation relative to the competitive set. These risks are mitigated by best-in-class environmental management. Supplier: Risk mitigated by above average screening of suppliers for environmental criteria.

**Eco-Efficiency Initiatives:**

Environmental Impact Assessment Program documents environmental impact of manufacturing processes. Aggressive hazardous and non-hazardous materials recycling/reuse program. Comprehensive energy efficiency programs resulting in \$15.8 million in savings in 1998; Innovative technologies developed to decrease emissions from a semiconductor manufacturing process by 95%; Developed no-clean fluxes which reduced perfluorocarbon emissions at one facility by 91% since 1993.

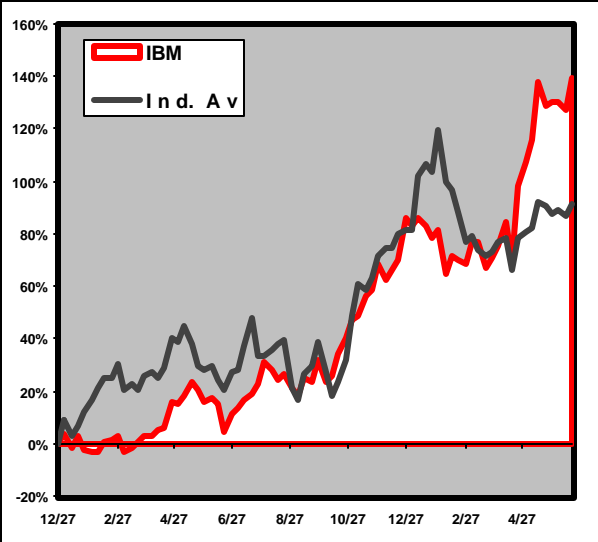
**Strategic Profit Opportunities:**

R&D: IBM's Engineering Ctr for Environmentally Conscious Products integrates env. features into product devel. Microprocessor Technology: CMOS 75 technology is 1st to use copper, creating smaller, lighter, more energy efficient & faster semiconductor. Disk Drive Enhancements: increased storage density by 60% since '91 with Giant Magnetoresistive technology. Power Mgmt: Over 100 PC systems & 25 monitors meet EPA's Energy Star criteria; load/unload technology pioneered by IBM decreases hard drive power use by 20%; Travelstar disk drives have industry-leading recording densities due to load/unload feature; ThinkPad 560X ranked #1 battery efficient laptop. Upgradeability: many printers & servers are modular & upgradeable to extend life of product. Recyclability: Products designed for ease of disassembly & recycling; return programs for printers & parts; epoxy polymer innovation aids in packaging recycling.

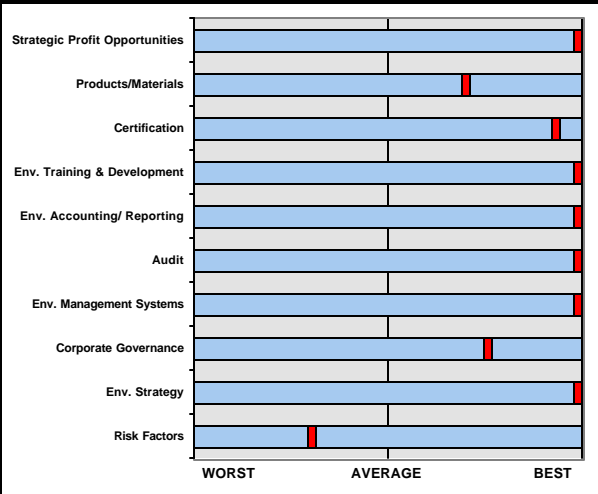
IBM	1994	1995	1996	1997	1998
<b>Sales</b>	\$64,052	\$71,940	\$75,947	\$78,508	\$81,667
<b>Net Income</b>	\$3,021	\$4,178	\$5,429	\$6,093	\$6,328
<b>Working Capital</b>	\$12,112	\$9,043	\$6,695	\$6,911	\$5,533
<b>Long Term Debt</b>	\$12,548	\$10,060	\$9,872	\$13,696	\$15,508
<b>Net Worth</b>	\$22,332	\$22,170	\$21,375	\$19,564	\$19,186
<b>R.O.E</b>	13.5%	18.8%	25.4%	31.1%	33.0%
<b>Recent Price</b>	High- 52 Wk. -Low		EPS 1998		P/E MRQ
\$92.19	\$94.97	\$47.81	\$3.29		28.1
<b>Dividend</b>	<b>Div Yield</b>	<b>Book Val/ Share</b>	<b>Mkt Value (\$m)</b>	<b>Price/ Book</b>	
#NA	0.5%	\$10.47	\$168,870	8.80	

As a strong proxy for management quality, environmental performance (eco-efficiency) consistently correlates well with stock price performance. Innovest's EcoValue 21™ environmental ratings (ranging from AAA to CCC) identify environmental risks, management quality and profit opportunity differentials typically not identified by traditional equity analysis. As a result, EcoValue 21™ ratings uncover hidden value potential for investors.

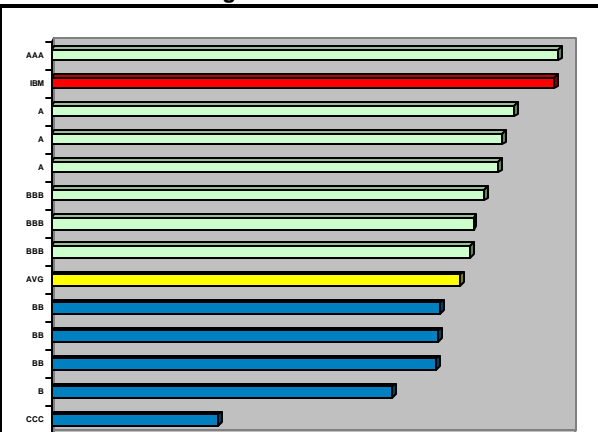
**Financial Performance (measured by Total Return):**



**Relative Eco-efficiency Performance:**



**EcoVALUE'21 Rating:**



This chart shows the EcoVALUE'21 Rating relative to other companies in the sector. The rating represents Innovest's assessment of the company's overall eco-efficiency.

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