

HP FY06 Global Citizenship Report Web Content


HP FY06 Global Citizenship Report



HP has a long-standing commitment to being an asset to each community where we operate and responding to expectations of customers, investors and other stakeholders

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Our priorities



+ Supply chain



+ Energy efficiency



+ Product reuse and recycling

+ Supply chain	+ Energy efficiency	+ Product reuse and recycling
<p>HP is providing leadership to the electronics industry's efforts to raise labor and environmental standards in our supply chain through collaboration...</p>	<p>HP aims for leadership in energy efficiency in our products as well as our own operations, and we collaborate with others to extend our reach</p>	<p>HP provides customers efficient reuse and recycling options, and we collaborate with other leading organizations to develop common standards and solutions</p>

+ Products	+ Operations	+ Privacy	+ Employees	+ Social investment
<p>HP designs products, packaging and logistics to minimize environmental impacts and has...</p>	<p>HP uses an environmental management system to assess and reduce the environmental impacts...</p>	<p>HP continually updates privacy policies and processes, aiming for leadership in...</p>	<p>HP fosters a high-performing, diverse workforce and provides a safe, healthy and...</p>	<p>HP supports communities wherever we operate, focusing on education and economic development</p>

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Letter from Mark Hurd

“Global citizenship is the ‘hidden component’ in HP products – embedded in our design and engineering, including accessibility, energy efficiency and recycling”



In this section:

- » Letter from Mark Hurd
- » HP profile
- » Priorities and goals
- » Economic value

HP made solid progress in 2006 toward our goal of becoming the world's leading IT company. To reach that goal, we are focusing our broad portfolio of products and services on simplifying our customers' experiences with technology and helping them do what they want to do from wherever they are.

Being a leading company starts with strong financial performance. In fiscal 2006, HP revenue increased 6 percent to \$91.7 billion and non-GAAP earnings per share increased 46 percent to \$2.38. And we achieved the most balanced profit mix by business group and region that HP has seen in years.

It also means leading in citizenship. HP has a long-standing commitment to operate with the highest standards of ethics and integrity. Our failure to meet our own principles during an HP investigation into leaks of sensitive company information has led us to redouble our commitment to adhere to our core values, high standards of ethics, privacy and other aspects of global citizenship. To that end, we will continue to build on our legacy of responsible conduct and sound corporate governance across the company and wherever we do business.

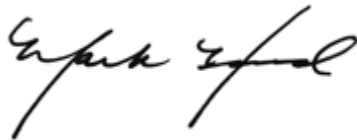
The way we see it, global citizenship and business success go hand in hand. In fact, global citizenship is the "hidden component" in HP products – embedded in our design and engineering, including accessibility, energy efficiency and recycling. It's also an important part of how we operate our business, from responsible supply chain management to the steps we're taking to reduce our own environmental footprint. HP's global citizenship efforts – such as our Technology for Teaching grants, supplier diversity and stakeholder engagement programs – demonstrate the principles that guide these efforts. They are also reflected in our continued support for the UN Global Compact.

We're building on a long history of investing in communities around the world and addressing issues of concern to our customers and other stakeholders. For example, we launched our Design for Environment program in 1992, and we have been doing research on energy efficiency for more than a decade. Those investments have helped us develop innovative solutions for problems such as the growing cost of powering and cooling data centers (see Energy – Products). In 2006, HP introduced a new energy management system that significantly increases energy efficiency, cuts data center cooling costs by 15-40 percent and helps reduce greenhouse gas emissions.

Our global citizenship program is constantly evolving to address the areas that are most important to our business and our stakeholders. Our priorities are supply chain responsibility, energy efficiency and product reuse and recycling.

HP's success depends on our ability to create the best technology on the planet and to be the best at servicing and supporting that technology. Being a successful global business also means being a responsible global citizen – one that recognizes the responsibility we have to our customers, shareholders, partners, suppliers and employees. People want to work with companies that are environmentally and socially responsible, that practice good governance, that protect the privacy and security of their customers and that invest in the communities where they do business. That's the kind of global citizen we are and will continue to be at HP. Throughout this report you will find many examples of what we're doing to live up to that.

Sincerely,

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

Mark Hurd
Chairman, Chief Executive Officer and President

HP profile

HP is a leading information technology (IT) company. We apply new thinking and ideas to create simple, valuable and trusted experiences with technology. We continuously improve the way our customers live and work through technology products and services, from the individual consumer to the largest enterprise.

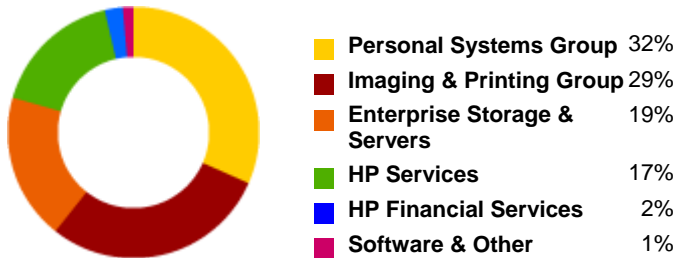
We provide products and services to improve the lives and work of hundreds of millions of consumers, businesses and other organizations in more than 170 countries. Our offerings span business and home computing, imaging and printing, IT infrastructure and global services.

The company is driven by long-established values and objectives that emphasize customer service, integrity, respect for individuals and global citizenship.

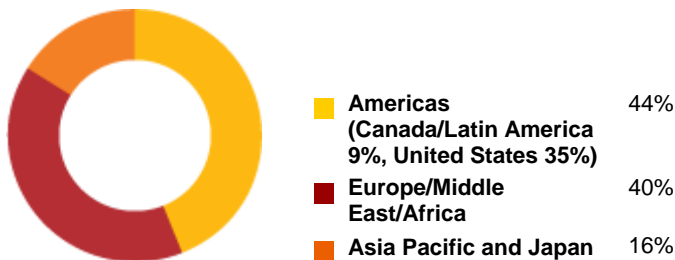


HP employed approximately 156,000¹ people worldwide at the end of October 2006 and earned revenues of \$91.7 billion in 2006.

Revenue by segment, fiscal year 2006



Revenue by region, fiscal year 2006



How we deliver

- **Personal Systems:** HP has a leading portfolio of business and consumer PCs, high-performance workstations, handheld devices, digital entertainment solutions, personal storage, and Internet services that create connected and compelling personal experiences.
- **Imaging and Printing:** HP is moving beyond printers by simplifying and enhancing the experience of printing – whether in the home, office or commercial environment – with advances in printing supplies, digital photography, and graphics and imaging technologies.
- **Technology Solutions:** HP has a world-class portfolio of servers, storage and software and delivers support, consulting and integration, and outsourcing services to help customers manage and transform their IT environments to optimize business outcomes.

Our goal is to be the world's leading information technology company. We work to achieve this through the following:

- Creating better ways to use technology solutions
- Becoming best-in-class in the industry by achieving operational excellence, efficient cost structures and a world class sales model
- Developing products and services that capitalize on three key industry trends:
 - Next-generation data centers
 - Always-on, always-connected mobile computing
 - Ubiquitous printing and imaging

We will pursue this strategy through efficiency and targeted growth, supported by a capital strategy that aligns people and development spending with our goals.

Corporate summary

Chairman, Chief Executive Officer and President: Mark Hurd

(for details of board responsibilities see Ethics and compliance)

Employees: Approximately 156,000¹

Ownership: HP is incorporated in Delaware, United States. HP is listed on the New York Stock Exchange with the ticker symbol HPQ. As of November 30, 2006, there were approximately 153,000 stockholders of record.

Countries of operation: More than 170

Headquarters: Palo Alto, California, United States

Regional headquarters:

- Americas: Houston, Texas, United States
- Europe/Middle East/Africa: Geneva, Switzerland
- Asia Pacific including Japan: Singapore

¹ As of October 31, 2006.

Priorities and goals

Global citizenship at HP covers a wide range of issues, illustrated by the contents of this report. Leadership requires commitment across this spectrum of issues and focus on the most critical areas. In 2006, we reviewed our global citizenship strategy and revised our priorities for the coming year based on the strategic importance of issues to our business, stakeholder concerns and our ability to have a positive impact.

Our revised priorities heighten the emphasis on environmental issues, in particular energy efficiency and product reuse and recycling. Supply chain responsibility has been a priority for several years and we maintain our focus in this area. We will continue our activities to increase access to information technology (IT) globally, although this is no longer one of our top three global citizenship priorities.



These are our global citizenship priorities for the coming year:

Supply chain responsibility

In 2006, HP spent approximately \$50 billion on materials, manufacturing and transportation, in one of the IT industry's largest supply chains. We require and help our suppliers to meet high social and environmental responsibility standards. Investing in supply chain responsibility meets stakeholder expectations, protects our reputation and decreases risks to HP from inadequate supplier standards. We were the first IT company to implement a Supplier Code of Conduct. We conduct site visits and supplier audits, follow up to drive continuous improvement in supplier standards, and collaborate on capability building projects to support the implementation of our Supplier Code of Conduct. We will largely complete auditing our high priority supplier sites in 2007 and audits will cumulatively cover more than 300,000 workers engaged in manufacturing HP products.

Energy efficiency

Rising energy prices, concerns about energy security and increasing pressure from society to reduce greenhouse gas (GHG) emissions related to fossil fuels, have heightened the demand for energy efficiency and renewable energy sources. Customers are increasingly concerned with the cost of energy and the energy consumption of IT equipment. Improving energy efficiency helps address their concerns and also reduces the environmental impacts associated with product use. We enhance HP's short- and long-term competitiveness, as well as demonstrate environmental leadership by improving the energy efficiency of our products and our operations. Additionally, we collaborate with others to extend the effect of our efforts. In 2006, we adopted new goals for product energy efficiency and internal energy use.

Product reuse and recycling

More than 200 million new PCs are bought each year worldwide. Many of these (and other IT products such as printers and servers) replace existing equipment¹. As one of the world's leading suppliers of IT equipment, we can play a major role in reducing the environmental impact of IT products, beginning with their design, which makes reuse or recycling easier. We offer effective and responsible take-back systems and work with others to develop sound regulatory approaches. We are on target to achieve our long-term goal of recycling 1 billion pounds since our product recycling program began in 1987.

This table shows some of our current and future goals in each of our three priority areas. See each section for more information.

	Goal for 2006	Progress	Future goals
Supply chain responsibility	Conduct new and follow-up/verification audits at 90 sites	Conducted 125 site audits	Audit 95% of high risk product materials, component and manufacturing supplier sites by the end of 2007
Energy efficiency	Reduce HP's on-site greenhouse gas emissions by 18% from 2005 levels	Through several process changes, we reduced site emissions by 31%	Reduce the combined energy consumption of HP operations and products 20% below 2005 levels by 2010 ²
Product reuse and recycling	Recycle 1 billion pounds of electronic products and supplies by the end of 2007	To date, HP has recycled more than 920 million pounds since 1987	Recycle 1 billion pounds of electronic products and supplies by the end of 2007

¹ "PC Market Surged in 2005, Will Settle in 2006," by Michael Kanellos, January 28, 2006, CNET News.com.

² Goal applies to HP owned and leased facilities globally and to average energy efficiency across identified high volume product families, using industry standard measurement benchmarks and holding ship rates constant using IDC reported figures for 2005. Identified product families include products in the following categories: notebook and desktop computers, inkjet and LaserJet printers and industry standard servers.

Economic value

HP has direct economic impacts on customers, employees, suppliers and governments through financial transactions in the course of its business. The company also has broader, indirect¹ economic impacts on many stakeholders. These stem from the direct financial transactions by further circulation of money throughout the economy, and increased productivity through the use of HP products.

Although rules for recording financial transactions have been refined over centuries, formulas for measuring a company's overall economic contribution to society are less developed. We can quantify some aspects and describe others in general terms. The table below outlines our direct and indirect economic impacts for each group we affect. See Performance for key data.



HP's economic stakeholders and impacts

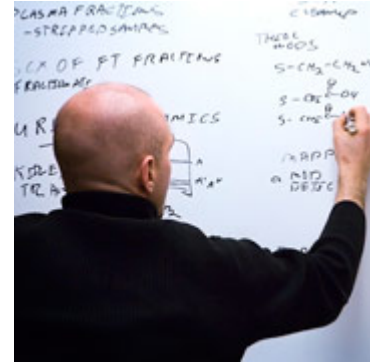
Group	HP's direct economic impacts (on relevant group)	HP's indirect economic impacts (through relevant group)
Suppliers	HP spent approximately \$50 billion in 2006 in its supply chain on products, materials, components and services.	Our supply chain spending in turn creates jobs in supplier companies. These companies and their workers pay taxes and support local economies. Suppliers also pay taxes to governments and pay dividends to their investors.
Employees	Compensation and benefits are a significant proportion of HP's overall expenses. We also invest in training and development (\$306 million in 2006), which increases employees' skills and competencies and expands their opportunities.	Employees' private spending generates economic activity and taxes, and supports their local communities.
Customers	Customers paid HP \$91.7 billion in 2006 in exchange for our products and services.	Equipment and services we sell to customers improve their productivity, which may increase their economic contribution to society through greater employment, more purchases from their suppliers and more taxes.
Local, regional and national communities	Philanthropic investments (\$46.3 million in 2006), support of non-governmental organizations, and employee giving and volunteering support communities directly. Local, state and national governments benefit from taxes paid by HP.	HP social investments and taxes in turn support further economic activity.
Investors	Owners of HP stock receive dividends and may benefit from growth in the value of their shares (see the chart in Performance).	Investors may pay taxes on stock gains when they sell their shares.

¹ Following the GRI G3 Guidelines: Direct economic impacts are often measured as the value of transactions between the reporting organization and its stakeholders, while indirect economic impacts are the results – sometimes non-monetary – of the transaction. See http://www.globalreporting.org/NR/rdonlyres/A4C5FA04-3BD3-4A02-B083-6B3B00DEAF61/0/G3_IP_Economic.pdf, page 13.

Research and development

HP has a long heritage of innovating to apply technology to meet the needs of people and organizations. We develop new technologies, solutions, business models and processes to help customers have simpler, more valuable and trusted technology experiences in their lives and at work. Research and development (R&D) supports our business by inventing the next generation of technology products and solutions to meet customer needs.

We conduct R&D in support of HP's business strategy in core business areas such as imaging and printing, enterprise systems and storage management, personal computing, and mobility. We also research specific issues such as trust, privacy and materials, many of which connect with aspects of global citizenship. While some R&D occurs in HP Labs (our central research organization), the bulk of our R&D takes place throughout our business groups. In 2006, we invested \$3.6 billion on R&D.



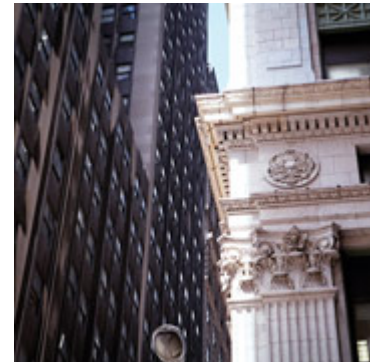
Several examples of innovation in 2006 that relate to global citizenship are included throughout this report, including:

- Dynamic Smart Cooling
- Energy adaptive displays
- New innovations in packaging

Performance

The following table and graph summarize HP's economic value performance in recent years. See HP's financial statements.

Compared to fiscal 2005, HP's revenue increased 6% in fiscal 2006 to \$92 billion. Non-GAAP earnings per share (EPS) increased 47% to \$2.38 (on a GAAP basis, EPS increased 166% to \$2.18).¹ And we generated record cash flow from operations of \$11 billion.



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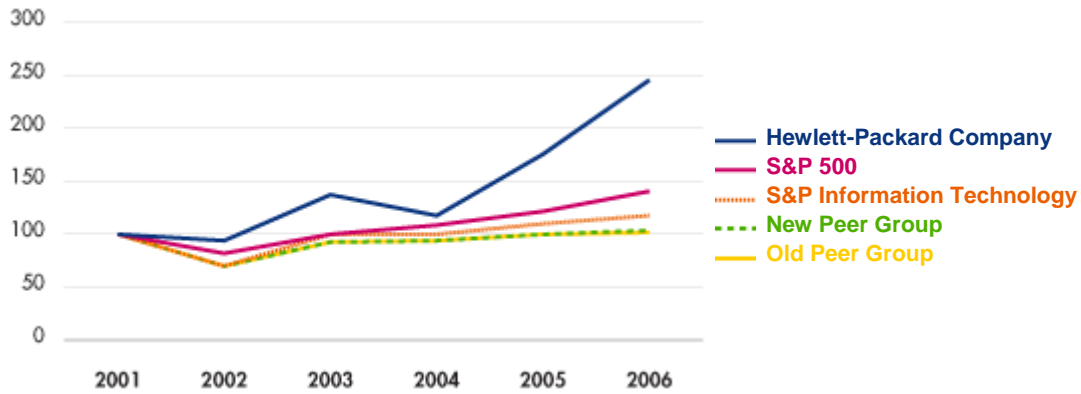
Economic value summary table

[Million \$U.S., except per share amount, # of patents, # of participants]

	2004	2005	2006
Net revenue (see HP profile for more detail)	\$79,905	\$86,696	\$91,658
Net investment in property, plant and equipment	\$1,679	\$1,453	\$1,980
Research and development spending	\$3,563	\$3,490	\$3,591
Number of patents	25,000	30,000	30,000
Suppliers			
Supplier spend	Approx. \$50,000	Approx. \$50,000	Approx. \$50,000
Supplier diversity	See Supplier diversity section for details.		
Employees			
401(k) expense ²	\$405	\$422	\$430
Pension and other post-retirement funding	\$613	\$1,798	\$368
Option grants (Millions of options granted)	72	64	52
Employees with stock options	135,000	127,000	110,000
Eligible participants in employee stock purchase plan	143,000	140,000	147,000
Participants in employee stock purchase plan	62,000	57,000	53,000
Global learning and development spending	\$405	\$380	\$306
Customers			
Advertising	\$1,200	\$1,100	\$1,100
Government			
Tax provision (benefit) (U.S. Federal)	\$141	\$548	\$(81)
Tax provision (non-U.S.)	\$703	\$579	\$928
State provision (benefit)	\$(145)	\$18	\$(16)
Cash taxes paid	\$609	\$884	\$637
Communities			
Worldwide giving, total	\$61.6	\$45.3	\$45.6
Investors			
Cash dividends declared per share	\$0.32	\$0.32	\$0.32
Total dividend payments	\$972	\$926	\$894
Share repurchases	\$3,309	\$3,514	\$7,150

The graph below shows the cumulative total stockholder return assuming the investment of \$100 on the date specified (and the reinvestment of dividends thereafter) in each of HP common stock, the S&P 500 Index, the S&P 500 Information Technology Index and HP's current and former peer groups³.

Five-year cumulative return⁴ (investment of \$100 on October 31, 2001)



¹ For a reconciliation of Non-GAAP EPS to GAAP EPS, please see http://library.corporate-ir.net/library/71/710/71087/items/224179/SAM_Supplemental_Slides.pdf.

² HP match and expenses for employee 401(k) retirement accounts.

³ The current stock performance graph peer group is composed of large companies that we compete with on a worldwide basis, as follows: Accenture Ltd., Apple Inc., Dell Inc., Electronic Data Systems Corporation, EMC Corporation, Gateway, Inc., International Business Machines Corporation, Lexmark International Group Inc., Sun Microsystems, Inc. and Xerox Corporation. The same companies except Accenture were included in the performance graph peer group previously used by HP.

⁴ \$100 invested on October 31, 2001 in stock or index including reinvestment of dividends. Fiscal year ending October 31.

Global citizenship at HP



In this section:

HP has a strong legacy of global citizenship. Our founders Bill Hewlett and Dave Packard recognized that a company has a responsibility beyond making a profit for its investors, including a commitment to enrich the businesses, lives and communities of its customers, partners and employees. For nearly 70 years, we have honored that responsibility by striving to be an economic, intellectual and social asset to each country and community in which we do business. The timeline identifies some of our more important global citizenship achievements throughout our history.

- » Managing GC
- » Timeline
- » Stakeholder engagement
- » Investors
- » Customers and GC
- » Public policy

We aim to improve customers' lives and work by providing simple, valuable and trusted technology, and to do so in accordance with company values and objectives that recognize our commitments to our employees and the world at large, in addition to financial success. Global citizenship is one of HP's seven company objectives.

HP's reputation for conducting business with uncompromising integrity was tarnished in 2006. The recent events connected with HP's investigation into leaks of confidential information from the Board of Directors were inconsistent with our core HP values, and we are actively working to regain our reputation as a model citizen with the highest ethical standards. See Ethics and compliance.

Our global citizenship activities provide opportunities to differentiate our products and services, strengthen our brand, and drive growth. Customers increasingly require strong global citizenship in their suppliers.

In this section, we describe how we manage global citizenship, our approach to stakeholder engagement, our interaction with investors and our public policy work with governments worldwide.

Managing global citizenship

HP operates as part of a complex global network, through which thousands of companies and organizations collaborate to provide information technology products and services to millions of customers worldwide. Global citizenship is fundamental to every part of this system, from the manufacture of components to the disposal of a product at the end of its useful life. The key elements and HP's activities are illustrated in the following graphic.

Global citizenship at HP

HP is part of a complex global business system, through which thousands of companies and other organizations collaborate to provide high quality information technology products and services to millions of customers worldwide. Global citizenship is fundamental to every part of this system, as illustrated by HP's programs represented throughout this graphic.

PRIORITY

Supply chain

HP is providing leadership to the electronics industry's efforts to raise labor and environmental standards in our supply chain through collaboration, supplier audits and capability building

PRIORITY

Energy efficiency

HP aims for leadership in energy efficiency in our products as well as our own operations, and we collaborate with others to extend our reach

PRIORITY

Product reuse and recycling

HP provides customers efficient reuse and recycling options, and we collaborate with other leading organizations to develop common standards and solutions



SOCIETY

Society provides the backdrop for our business and global citizenship activities

Social investment

HP supports communities wherever we operate, focusing on education and economic development

Operations

HP uses an environmental management system to assess and reduce the environmental impacts of our global operations while enhancing the workplace and saving HP money

Employees

HP fosters a high-performing, diverse workforce and provides a safe, healthy and supportive environment that helps employees to achieve their potential

Privacy

HP continually updates privacy policies and processes, aiming for leadership in establishing privacy best practices

Products

HP designs products, packaging and logistics to minimize environmental impacts and has a long track record of substituting materials to meet customer and legislative requirements

Ethics and compliance are foundational to all parts of HP's business. We are expanding our governance, ethics and compliance efforts to demonstrate our commitment to uncompromising integrity.

Global citizenship management

The HP Corporate Affairs organization leads the development and management of our company-wide global citizenship strategy, working with the businesses and other functions that are responsible for executing HP's strategy.

We bring together employees with expertise in specific areas to focus on key issues. Executives from business units, regions and relevant corporate functions have formed councils working on diversity, environment, ethics, privacy and supply chain. These groups meet periodically to establish goals, ensure integration of the strategy into the business, oversee implementation and measure progress.

Global citizenship activity creates business value in many ways, for example:

- Supply chain responsibility minimizes risks
- Energy efficiency saves money
- Product reuse and recycling avoids waste, increases revenues and supports our brand

Strategy and planning

Factors influencing global citizenship at HP



Global citizenship is a company-wide objective and each business and function integrates it into their strategy and drives aspects of citizenship for the company. HP's core global citizenship programs, detailed in this report, include accessibility, Design for Environment, education, employee diversity, ethics and compliance, health, safety and wellness, labor practices, the environmental impacts of our operations, privacy, public policy, social investment and supply chain responsibility.

Periodically, we adapt our global citizenship strategy to reflect customer needs, changes in our industry and the evolving concerns of stakeholders and society. In 2006, we reviewed our global citizenship strategy, focusing on our goal to make our global citizenship efforts a competitive differentiator with customers.

The review involved executives from HP's three business units and functions such as HP Labs, Human Resources, Brand and Real Estate and Workplace Services. Corporate Affairs leaders representing Philanthropy, Privacy, Ethics and Environment were also in attendance. The group collaborated over several months to:

- Ensure that executives have a thorough understanding of what global citizenship means for our business
- Assess our existing global citizenship investments
- Identify areas for increased transparency
- Reassess HP's global citizenship priorities
- Establish goals
- Integrate global citizenship strategies and goals into our business plans

This process drew on extensive, multi-year analysis of a wide range of global citizenship issues, incorporating customer perceptions and expectations, external standards and regulations, stakeholder input, risk and opportunity assessment, industry trends and media coverage.

Our review of existing global citizenship investments showed that in some increasingly important areas, such as environmental responsibility, we have focused on ensuring compliance with current and future legislation, as well as maintaining market access based on legal issues and customer demand. To make our environment programs a competitive differentiator, we will need to be more proactive, pursuing market-leading actions that will help to differentiate the HP brand.

Following this analysis, we revised our global citizenship priorities to the following:

- Supply chain responsibility
- Energy efficiency
- Product reuse and recycling

As we completed our e-inclusion initiative in 2005, increasing access to information technology is no longer a top company-wide global citizenship priority. However, we continue important aspects of this work in HP Labs, key geographies and through our philanthropic contributions.

Perspective

Kellie McElhaney

Adjunct Professor, Haas School of Business
Executive Director, Center for Responsible Business
University of California-Berkeley

Professor Kellie McElhaney provided consulting and facilitation services to HP for our 2006 global citizenship strategy review.

Hewlett-Packard is one of the few modern-day multinational companies of its size and reach who truly does have global citizenship as a part of its core mission and DNA, due to its well-respected founders. Though its clarity, focus areas, priorities, and strategic execution have changed throughout CEOs and leaders, the core presence of global citizenship has remained consistent and steadfast.



HP's global citizenship strategy seems well developed in scope and focus areas, those being energy efficiency, supply chain responsibility and product reuse and recycling. These priority areas have remained relatively consistent over the past five years for HP.

The next step and a significant challenge for HP is to articulate bold, straightforward goals, both internally and externally, in each of the three global citizenship priorities. While they have made some progress, for example with their new energy goals, they still have ample work to do.

Other companies have made bold and public commitments around environmental stewardship, recycling and philanthropy that are integrated with their business objectives and reflective of their core competencies. HP has loosely determined priorities in each of their priority areas, and is still working towards setting forth clear goals around which employees, suppliers, partners, customers and the general public can rally and identify to the company.

Furthermore, these same companies have made their corporate social responsibility commitments part of their competitive advantage and are integrating it into their brand. HP has yet to do so. The timing could not be better, after having a year of record financial success coupled with an unfortunate breach of trust and integrity. It is time for HP to go public, go simple, go brand, and go bold, and to fully use global citizenship as an effective business strategy to unite, differentiate, and leverage.

Timeline

1939

- HP founded

1940

- HP records its first charitable donation: \$5 to local charities

1955

- Matching gift program started for cash donations by employees to four-year colleges and universities. HP matched employee amount up to \$2,000 per year, per school

1957

- Citizenship objective established by William Hewlett and David Packard

1959

- Bill Hewlett and local community business and labor leaders create the Santa Clara County United Fund

1961

- HP Core Values established

1976

- HP starts company-sponsored vanpool program

1979

- Launch of HP Standards of Business Conduct
- The Hewlett-Packard Company Foundation is founded

1987

- Product recycling launched internally

1991

- HP Planet Partners LaserJet print cartridge return and recycling program started
- First environmental report published

1992

- Launch of Design for Environment program

1993

- Domestic partner benefits introduced

1994

- First packaging management system created
- Telecommuting policies are formalized, making HP one of the first companies worldwide to encourage telecommuting

1995

- Employee Privacy Policy updated

1997

- HP Planet Partners inkjet print cartridge return and recycling program launched

1998

- First online privacy statement published

1999

- Accessibility Program Office created
- Better Business Bureau OnLine's Privacy Seal Program initiated, with HP as a founding sponsor

2000

- Accessibility Policy published
- e-inclusion program launched
- First Digital Village founded in East Palo Alto, CA

2001

- HP self-certified to EU Safe Harbor Privacy Principles

2002

- First combined HP Social and Environmental Responsibility Report published
- Supply Chain Code of Conduct released
- UN Global Compact endorsed

2003

- Master Privacy Policy published
- HP recycled plastic included in first hardware product
- Supply Chain Social and Environmental Responsibility (SER) program rolled out
- Global Citizenship Policy and Human Rights and Labor Policy adopted
- Half a billion pounds of electronic products and supplies recycled

2004

- Thirty-four e-inclusion projects managed, in 19 countries on five continents
- Electronic Industry Code of Conduct (EICC) co-developed by HP
- Business Leaders Initiative on Human Rights (BLIHR) joined
- First nationwide in-store electronics recycling pilot program in the United States offered with Office Depot
- 'Envelope-in-the-box' inkjet cartridge return and recycling program extended to 13 countries throughout Europe

2005

- Fifty-four suppliers at 85 sites audited in Latin America, Asia and Europe.
- More than 140 million pounds (approximately 64,000 tonnes) of used products recycled
- Handled approximately 2.5 million product units for various reuse options
- e-inclusion and education projects conducted in more than 40 countries across six continents

2006

- 165 million pounds (75,000 tonnes) of products collected and recycled
- \$45.6 million contributed to social investment projects
- International climate change initiative launched with the conservation organization World Wildlife Fund (WWF)
- Dynamic Smart Cooling launched, which can reduce data center energy consumption related to cooling by 15% to 40%
- Two capability building projects started for suppliers, in China and Central Europe
- PVC eliminated in new packaging designs for HP product models

Select HP goals:

2007

- Audit 95% of high risk product materials, component and manufacturing supplier sites
- Recycle 1 billion pounds of electronic products and supplies by the end of 2007
- Increase purchases of renewable energy in the United States to 50 million kWh/year from the 2006 level of 11 million kWh

2010

- Reduce the combined energy consumption of HP operations and products 20% below 2005 levels¹
- Improve energy efficiency for high volume server families by 50%, relative to 2005²
- Improve energy efficiency for high volume printer families by 30%, relative to 2005³

¹ Goal applies to HP owned and leased facilities globally and to average energy efficiency across identified high volume product families, using industry standard measurement benchmarks and holding ship rates constant using IDC reported figures for 2005. Identified product families include products in the following categories: notebook and desktop computers, inkjet and LaserJet printers and industry standard servers.

² Efficiency is defined in terms of kWh/transactions per minute (using SPEC or another benchmark appropriate to the server class). Goal applies to industry standard servers, referenced in footnote seven. These families currently represent 50% of sales volume in this category.

³ Efficiency is defined in terms of kWh (using the Total Electrical Consumption Method)/pages per minute. Goal applies to printers referenced in footnote seven. These families represent more than 35% of inkjet printers and more than 45% of LaserJet printers shipped in 2005.

Stakeholder engagement

Stakeholder engagement is an integral part of global citizenship and contributes to business success. Effective engagement improves our understanding of issues, helps us to recognize trends and opportunities and strengthens our brand.

We integrate stakeholder engagement into our core business strategy to increase the value of our interactions for both HP and our stakeholders. We interact with a wide range of stakeholders, including customers, employees, investors and suppliers, as well as community groups, industry analysts/media, non-governmental organizations (NGOs) and regulators.



We seek relationships and alliances with stakeholders to provide insightful and constructive feedback on our global citizenship programs and help us to progress our efforts. We focus on HP's priority issues, and engage in other areas as well. We identify appropriate stakeholders by assessing their expertise on the subject matter, their willingness to collaborate with business, their reputation, location, and their relationship with government bodies and other stakeholders. Then, we determine the appropriate level and form of engagement.

We also belong to several membership organizations that address global citizenship issues.

Engagement in 2006

Highlights of our activity in 2006 are:

- Development of the joint initiative on climate change with the environmental group World Wildlife Fund (WWF) (see Energy efficiency – Collaboration).
- A stakeholder meeting to provide feedback on our global citizenship programs, which brought together HP managers, NGOs, socially responsible investors and peer companies.
- An independent survey to gather systematic feedback on our Global Citizenship Report from 23 external stakeholders in the United States, Europe and Asia (see About this report).

Environment and supply chain were the main issues raised by stakeholders. These are two examples of how we are responding:

- We agreed that we need to do more to educate customers and others about environmental issues and the impacts of our products. We will address this through our collaboration with WWF.
- We agreed that we need to focus on building our suppliers' capability to improve their social and environmental performance. We are addressing this through our supply chain program (see Capability building).

The following table lists our main stakeholder groups and how we engage with each, including examples of our activities in 2006 and links to more detail. Feedback and learning from these and other engagements are then factored into our global citizenship strategic planning process.

Group	How we engage	Example from 2006
Communities	<ul style="list-style-type: none"> • Employee volunteering • Philanthropy • Tours of facilities 	HP Germany launched Mitarbeiter vor Ort, through which employees donate products to organizations where they volunteer, to increase employee engagement in local communities. See Employee giving and volunteerism.
Customers	<ul style="list-style-type: none"> • Customer loyalty surveys management • Commercial contacts • Inquiries and responses regarding customer Requests for Proposal (RFP) 	Include questions on product recycling and other environmentally responsible services in our customer loyalty surveys. See Customers and global citizenship.

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Employees	<ul style="list-style-type: none"> • @hp web portal • Employee surveys • Networking groups • Open Door policy • Briefings, meetings and appraisals 	In response to feedback on its global employee survey, HP is working to further clarify career paths, expectations and rewards for employee success. See Communications.
Investors	<ul style="list-style-type: none"> • Statutory and other disclosures and reporting • Annual meeting of stockholders • Regular meetings and briefings • "SRI tour" 	HP met with a few socially responsible investment firms to address concerns raised about our privacy policies in response to the events concerning our Board of Directors. See Investors. HP has since strengthened those policies. See Privacy.
Legislators and regulators	<ul style="list-style-type: none"> • Public engagement program • Regular meetings and briefings • Membership in trade associations and business organizations 	Supported the European Union (EU) adoption of the Imaging Equipment criteria for Energy Star® and continuation of the Energy Star® Program with the United States for the next five years.
Industry analysts/media	<ul style="list-style-type: none"> • Direct engagement on topics of interest • Interviews, meetings and briefings regarding global citizenship • Partnership on articles and books regarding global citizenship 	To increase understanding of our efforts in product recycling, HP provided tours of product recycling facilities to several industry analysts and members of the media.
Non-governmental organizations	<ul style="list-style-type: none"> • Meetings and conferences • Partnerships • Direct engagement on topics of interest 	HP launched a joint initiative with WWF to reduce our greenhouse gas emissions, improve the energy efficiency of our products and broaden our action on climate change. See Collaboration.
Suppliers	<ul style="list-style-type: none"> • Supply Chain Social and Environmental Responsibility Program • Procurement Management Process 	HP, with BSR's China Training Institute and several other organizations, launched the Focused Improvement Supplier Initiative to provide social and environmental capability training to 30 key suppliers in China. See Capability building.

Stakeholder feedback is also highlighted on the Perspectives pages throughout this report.

Stakeholder Advisory Council

In 2006, we created a Stakeholder Advisory Council to provide strategic advice on our global citizenship work. The Council is made up of NGO representatives and senior HP managers from our business units. The Council will provide HP with advice on current and emerging corporate citizenship issues, and it will help us to better anticipate and respond to business risks and leadership opportunities.

The NGO representatives to the Council were selected according to their expertise in the areas that are HP's global citizenship priorities, their willingness to collaborate with HP, their geographic locations, and their reputation with government bodies and other stakeholders. They include:

- David Schilling, Interfaith Center for Corporate Responsibility
- Peter Madden, Forum for the Future
- Stephen Frost, CSR Asia
- Suzanne Apple, World Wildlife Fund
- Ted Smith, Computer TakeBack Campaign

The Council will meet for the first time in 2007.

Investors

HP engages with investors on global citizenship. We explain our global citizenship strategy and business strategy, how we manage global citizenship risks and opportunities, and our performance on key global citizenship issues. We also seek feedback from investors and consider their expectations and concerns when developing global citizenship-related policies and plans.

For example, during 2006, a few socially responsible investment firms raised concerns about our privacy policies in response to events concerning our Board of Directors. We met with these groups to explain our response, including measures introduced to prevent a recurrence. See our Ethics and compliance and Privacy sections for more detail.

Analyses by socially responsible investment (SRI) specialists also provide useful feedback and benchmarking of our performance. For example, Innovest, a leading global SRI research firm, issued a report on the computer & peripherals sector in September 2006 which rated HP as the sector leader out of 16 assessed companies. HP received a AAA rating on environmental, social and governance issues.

Innovest identified these HP strengths:

- Comprehensive approach to detecting and managing emerging sustainability issues
- Significant efforts to increase access to products and services
- Good response to emerging European environmental legislation

The firm identified labor tensions as a potential weakness following the workforce reduction announced in 2005, but rated HP as joint first with Dell on workplace issues such as training, diversity and health and safety.



Other assessments and rankings from 2006 are shown in the table.

Organization	Ranking or rating
Bank Sarasin	HP received the highest rating (HIGH) for our industry group in 2006.
Business in the Community Environmental Index	In 2005, HP ranked 42 with score of 91.3/100.
Calvert	HP rated as an industry leader, receiving the highest score possible in four of the five assessment areas, including Environment.
Corporate Knights & Innovest – 2006 Global 100 Most Sustainable Corporations in the World	HP is the only company from the Computer and Peripherals sector included on the list.
Covalence (Europe)	In its Ethical Ranking 2006 for technology companies, HP was rated as "Best Ethical Score" and "Best Reported Performance" and second in "Best Ethical Quote Progress".
Dow Jones Sustainability Index (DJSI)	HP has been listed on the DJSI since 2003. Our total score in 2006 was 72%, compared with an industry average for listed companies of 48% and the sector leading score of 75%. HP scores for all elements were above average.
Ethibel/Stock at Stake	HP is included on the Ethibel Register.
FTSE4Good	HP has been listed on all FTSE4Good indices since 2003.
Innovest	HP received a AAA rating in 2006.
KLD Research & Analytics	HP is included in the Domini 400 Social Index, the KLD Select Social Index, the Large Cap Social Index and the Broad Market Social Index.
OEKOM Research (Europe)	HP rated 3rd of 13 companies in the IT/Computers, Peripherals & Office Electronics Sector. Overall Score: "B-" Social "B" Environment "B-"

Customers and global citizenship

HP's success depends on meeting customer needs and expectations – our global citizenship programs are one important way that we do this.

Research shows that social and environmental performance are increasingly becoming significant factors in information technology (IT) purchasing decisions for many customers. Energy efficiency, product take-back and recycling, supply chain responsibility, privacy and accessibility are being considered by customers along with traditional product features.

Concern regarding these issues among public sector and enterprise (large business) customers has gradually increased over the last decade. We believe this interest is now at a tipping point and we expect it to grow strongly in the next few years.



This trend is not confined to Europe, Japan and North America. Many customers (particularly in the public sector) in Brazil, Russia, India and China are concerned about issues such as product energy

use and recycling. These countries combined are now our second largest source of revenue after the United States.

We work to raise customer awareness of our global citizenship performance and that of our products – from our supply chain to our end-of-life recycling programs. We believe this will help us to attract and retain more customers.

Understanding customer requirements

HP seeks to better understand customer views on global citizenship and the impact of these views on purchasing decisions.

In 2006, this included:

- Monitoring customer inquiries on global citizenship issues, including inquiries from consumers and requests for proposals (RFPs) from public sector and enterprise customers (see graphs below).
- Analyzing HP website traffic.
- Including two environmental questions in our customer loyalty surveys.
- Conducting a survey of industry analysts to determine their awareness of HP's global citizenship initiatives and their assessment of customer interest. Analysts monitor trends in our industry and we estimate their opinions affected purchasing decisions accounting for approximately \$13-17 billion of HP's revenue in 2006.
- Using results from public opinion surveys and customized research.

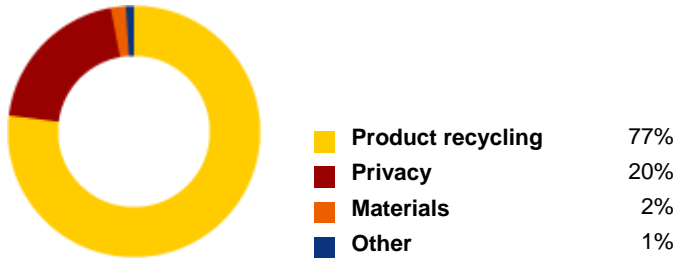
What we have learned

Price, performance and quality remain the most important purchasing decision factors for most customers. However, global citizenship issues – in particular, product recycling, eco-labels, product design, accessibility and privacy – have become significant for an increasing number of customers during the last three years.

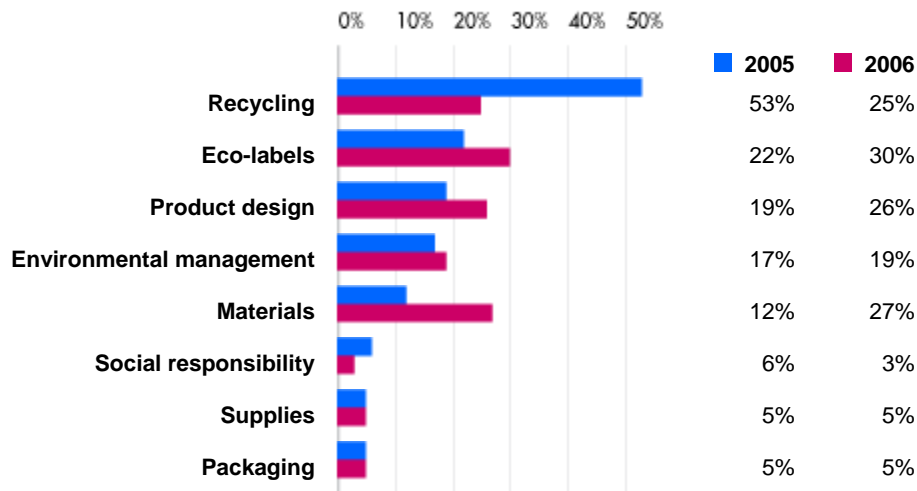
This trend varies by country and customer type. In general, interest in global citizenship is strongest among public sector and enterprise customers. In 2006, product environmental performance was a condition of HP winning public sector and enterprise contracts worth several billion dollars.

Our data suggests that customers in Europe have been interested in these issues for several years. We are now seeing similar trends in the Asia Pacific and Japan region, and increasingly in the Americas as well as in key emerging markets. Some customers in regions outside the EU are integrating compliance with European standards, such as the Restriction of Hazardous Substances (RoHS) Directive, into their procurement criteria. For example, in 2006, RoHS compliance was a factor in HP winning several public sector contracts.

Global citizenship consumer inquiries, 2006 [% of total]



Customer global citizenship requirements in requests for proposals (RFPs), 2005-2006



Customer education

Increasing awareness of HP's global citizenship programs and the environmental features of our products benefits both our customers and HP. A sampling of our efforts in this area includes the following:

- An online Global Citizenship News Bulletin for our Europe, Middle East and Africa region
- Customer brochures about HP's product recycling programs, made available through Starbucks coffee shops in the United States in 2006
- Communication at major customer events such as the Consumer Electronics Show (CES) in the United States and Technology@work 2006 in Berlin, Germany
- Blogs in our Asia Pacific and Japan and Europe, Middle East and Africa regions covering various global citizenship issues

We plan to increase our customer education efforts during 2007, and will conduct further research and educate our customers about the global citizenship related benefits of HP products and services.

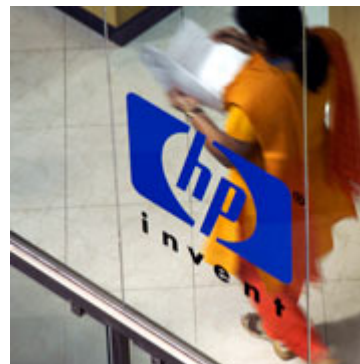
Cause-related marketing

We run cause-related marketing campaigns that link product sales to good causes. This raises HP's profile and benefits our partner charities. In 2006, we ran a retail campaign associated with the Ayrton Senna Institute, one of the best known charities in Brazil, which supports the development of children and adolescents. During the campaign we sold more than 142,000 products, exceeding targets by 23% for that period, and raised \$323,000 for the Ayrton Senna Institute.

Brand value and global citizenship

There are more than 30,000 widely recognized brands, but fewer than 100 truly global ones. HP is one of those – and one of the top five global technology brands. According to one recent external analysis¹, the HP brand was worth almost \$20 billion in 2006. Global citizenship is an important component of HP's brand.

Brands and brand management are strategically and financially important for companies such as HP. Brands help to create differentiation, support employee and customer loyalty and drive business growth. When brands are managed as strategic and financial assets, they can drive demand for products and services, help companies achieve above-average share growth in strong markets and protect against market downturns. However, poor or unfocused investment and management of a brand threatens shareholder value.



Shareholder value is heavily influenced by financial performance. It is also directly impacted by non-financial factors such as R&D spending, community/culture, human capital and corporate reputation. All these non-financial elements are collectively referred to as "Brand." Investing in brand includes direct support through marketing, advertising and promotions, but also includes indirect investments that support reputation, human capital and other intangible assets related to global citizenship. Inadequate investment in these areas could threaten shareholder value. For example, research has shown that significant brand value may be at risk in companies that do not address climate change².

The importance of brands to the investment community can be quantified and measured over time. Our analysis (based on 2005 data for more than 300 companies) shows that while financial performance remains the strongest driver of shareholder value, the importance of non-financial performance – brand – has grown substantially. Today, brand accounts for 47% of what drives shareholder value³ creation in the information technology sector, compared to 30% several years ago. All things being equal, this means that a strong brand will outperform a weaker brand by as much as 47%.

Corporate innovation (broader than R&D spending) continues to have the greatest direct impact on shareholder value. Community/culture was the second-strongest non-financial factor, directly affecting shareholder value and surpassing corporate reputation in influence since the previous analysis.

¹ The brand specialists Millward Brown Optimor (a WPP Company) who compile the annual BRANDZ™ ranking.

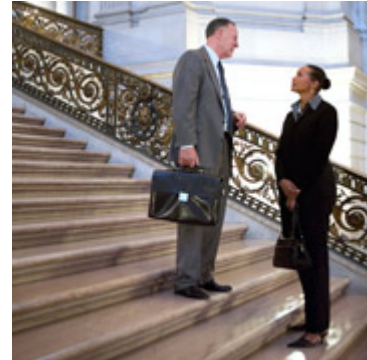
² "Brand value potentially at risk from climate change," Carbon Trust, UK.

³ HP proprietary research done by HP Brand Strategy & Management in partnership with Lippincott Mercer.

Public policy

HP has a long-standing tradition of civic engagement. Our involvement in the political process and global public policy debate is a natural extension of our core values and we consider it an important, necessary and appropriate part of doing business.

Lawmakers at all levels of government make public policy decisions that impact HP's ability to innovate. HP builds relationships with governments and regulators worldwide to advance our business objectives. We meet regularly with government officials, community leaders and key stakeholders to discuss emerging issues and the potential impact on their region, and to describe our position. We work in compliance with applicable laws and HP's Standards of Business Conduct.



Policy initiatives

We focus our public policy work on three priority areas, which are identified in the following paragraphs with highlights of key activities and accomplishments in 2006.

Innovation and competitiveness. We support policy that encourages entrepreneurship and economic growth, promotes consumer choice, provides incentives for innovation and R&D, increases investment in education, strengthens the "Rule of Law"¹ in developing countries, supports access to technology and rewards good citizenship.

- Advocated U.S. Congressional passage of the R&D tax credit extension and enhancement. This provides a significant incentive to HP and other U.S. companies to make additional R&D investments.
- Participated in the National Institute of Standards and Technology summit to address standards-related issues that affect U.S. competitiveness in the global marketplace.
- Worked with fellow industry leaders to educate legislators and governments globally, including the U.S. Congress and the Bush Administration, on the importance of patent litigation reform.
- Promoted the use of radio frequency identification (RFID) technology and collaborated with legislative and standards bodies, partners, customers and NGOs to drive the adoption of privacy principles for RFID to protect consumer rights.

Access to markets. More than 60% of HP's revenues are from sales outside the United States. Open trade policies are therefore vital to our growth and success. We support efforts to eliminate trade barriers and reduce or remove tariffs. We favor comprehensive and progressive multilateral, bilateral and regional trade agreements that eliminate tariffs on IT products, modernize customs procedures to reduce costs and speed up delivery of products globally, and promote transparency in government procurement and liberalization of IT services.

- Participated in a trade development mission to Central America with the U.S. Secretary of Commerce following the passage of the U.S.-Dominican Republic Central American Free Trade Agreement (FTA).
- Testified and lobbied for FTAs with Bahrain, Oman, Malaysia and Korea. FTAs with Bahrain and Oman have been signed into law.
- Advocated in support of the Doha Round of the World Trade Organization.

Environment. HP works to minimize the environmental impact of our products, services and operations. We support policies that promote energy efficient technologies and producer responsibility for electronic recycling.

- Supported the European Union (EU) adoption of the Imaging Equipment criteria for Energy Star® and continuation of the Energy Star® Program with the United States for the next five years.
- Continued to work with EU institutions and member state governments to ensure successful implementation of the RoHS and WEEE Directives.
- Representatives of local government participated with HP in announcing the launch of HP's Planet Partners Program for LaserJet cartridges in Chile and Peru.

For more information, see the Global Issue Briefs and Policy News Briefs on our Government Affairs website.

Industry coalitions and association memberships

We are members of numerous industry associations in our major product and geographic markets. HP's positions on public policy issues are often communicated through these organizations, which enables us to reach government officials more efficiently and in concert with industry partners. We list the major associations we belong to on our Government Affairs website.

HP also participates in standards bodies and industry coalitions to advance its business and global citizenship objectives. This includes collaborations to develop industry standards in areas such as energy efficiency and supply chain responsibility to create competitive, level playing fields that raise standards globally.

Political engagement

We encourage interested employees to participate in public debate through the HP Government Affairs Network. Members of this voluntary employee network receive regular updates on policy issues of importance to HP and, in the United States, members are encouraged to write to their elected officials when important legislation is pending.

In 2006, HP contributed \$731,440 to state and local candidates and ballot measure campaigns in the United States. These contributions were consistent with our policy positions and corporate political guidelines.

U.S. law prohibits corporate contributions to federal political candidates. However, eligible employees can make individual donations to the HP Political Action Committee (HP PAC). The HP PAC contributes to bipartisan campaigns for congressional candidates who share our policy views. Contributions to fund the HP PAC, a separate legal entity, are voluntary. In 2006, the HP PAC contributed \$220,100.

HP does not make political contributions outside the United States.

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More information is available on our Government Affairs website, including:

- HP's policies for corporate and PAC political contributions
- Our criteria for approving political contributions and the HP employees or departments responsible for approving contributions
- A list of the candidates that received HP corporate or HP PAC contributions in 2006
- A list of the "section 527 organizations"² that received contributions from HP in 2006

¹ HP's definition of the "Rule of law" is the governance structure pursuant to a country's laws in accordance with its legitimate, established and transparent regulatory procedures.

² The term "527 organization" refers to a U.S. political organization that is not regulated by the Federal Election Commission. These organizations are created under Section 527 of the Internal Revenue Code.

Ethics and compliance



HP has a long-standing commitment to conducting business with uncompromising integrity, which is core to everything we stand for as a company. Unfortunately, the recent events connected with HP's investigation into leaks of confidential information from the Board of Directors have tarnished HP's reputation in this area. We are embarrassed by our actions and deeply regret our failure to meet our own high expectations for corporate behavior, as well as the expectations of our employees, customers and stockholders.

Our well-publicized misstep has led HP to renew its commitment to the areas of governance, ethics and compliance. HP is engaged in a broad review of its policies, practices and procedures to ensure that they are best-in-class. Our goal is to regain our position as a leader in the area of corporate ethics, and we are actively working towards that goal. Mark Hurd, HP's chairman, CEO and president, has pledged that HP will regain its reputation as a model citizen with the highest ethical standards. The Board has committed to lead our efforts to promote a culture of integrity and accountability throughout HP.

As part of those efforts, HP has entered into an agreement with the California Attorney General whereby HP agreed to pay \$13.5 million to create a Privacy and Piracy Fund to help California state prosecutors investigate and prosecute consumer privacy and information piracy violations and agreed to implement a series of corporate governance changes. The approach page details how we have enhanced our governance and ethics and compliance systems to ensure that HP, our Board, our officers, employees and contractors all uphold the highest standards. Please also see the Privacy section for details of specific actions on privacy.

In this section:

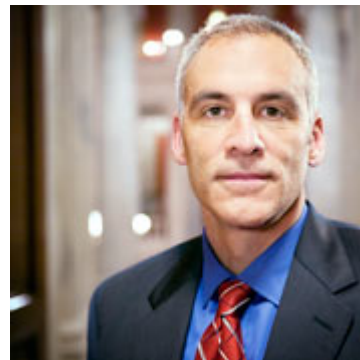
- » Approach
- » Seeking guidance
- » Perspective

Approach

HP was founded on a few simple beliefs:

- Trust, respect and integrity really matter
- How we do things is as important as what we do
- While a company's objective is to make a profit, it must also make a contribution

These beliefs remain at the core of everything we do and underpin our commitment to conduct business with uncompromising integrity. They are reflected in HP's Standards of Business Conduct (SBC), the foundation of our ethical behavior that guides the actions and decisions of everyone at HP. The SBC covers relationships with suppliers, partners, customers and competitors, addressing issues such as conflicts of interest and sensitive information.



The events of 2006 have motivated us to improve our performance and develop a best-in-class program. The following are the principal elements of our response to those events:

Board responsibilities

The Board has five main responsibilities as it pertains to ethics and compliance:

- Provides oversight of Ethics and Compliance at HP
- Sets and enforces "tone at the top"
- Encourages a company culture of ethical conduct and compliance
- Establishes procedures and a forum for review of significant ethical complaints
- Helps implement the agreement with the California Attorney General

The Board has nine members, with Mark Hurd serving as Chairman, Chief Executive Officer and President as of September 22, 2006. Seven members have no material relationship with HP under our director independence standards, which incorporate the standards established by the U.S. Securities and Exchange Commission and those of the New York Stock Exchange, where HP's shares are traded. The remaining member, Bob Wayman, is HP's former Chief Financial Officer. He will retain his seat on the Board until the 2007 annual stockholders' meeting in March, but will not stand for re-election.

Richard Hackborn has been named lead Independent director. In that capacity, he will chair Board meetings when the CEO/Chairman is not present, including at executive sessions, serve as a liaison between the CEO/Chairman and independent directors, provide input regarding Board committee assignments, participate in the performance review of the CEO, be available for consultation and direct communication with major stockholders upon request and perform such other functions and responsibilities as requested by the Board from time to time.

The Board has designated its newest member, G. Kennedy Thompson (appointed in November 2006), as its independent director responsible to review and report to the Board on HP's compliance with legal and ethical requirements related to the conduct of investigations. In that role, he will:

- Review and authorize all investigations related to the Board
- Provide guidance to the Chief Ethics and Compliance Officer
- Review copies of any report created by the Compliance Council
- Review and approve the ethics and compliance training program

In addition, under the terms of HP's agreement with the California Attorney General, he must report to the California Attorney General any violations of California law or the terms of that agreement.

The Audit Committee of the Board will serve as a guide to HP's ethics and compliance program. It will be actively engaged as a direct resource for the Chief Ethics and Compliance Officer. The Audit Committee will review results of compliance risk assessments, ensure that the ethics and compliance program has sufficient resources, and will resolve any disputes between management and the Lead Independent Director, the Chief Ethics and Compliance Officer, the Chief Privacy Officer or the Qualified Authority, an expert in the field of investigative practices retained to conduct a comprehensive review of HP's investigative practices and assist the Chief Ethics and Compliance Officer in making improvements where appropriate.

See information regarding HP's Board Committees and composition, Corporate Governance Guidelines and director compensation.

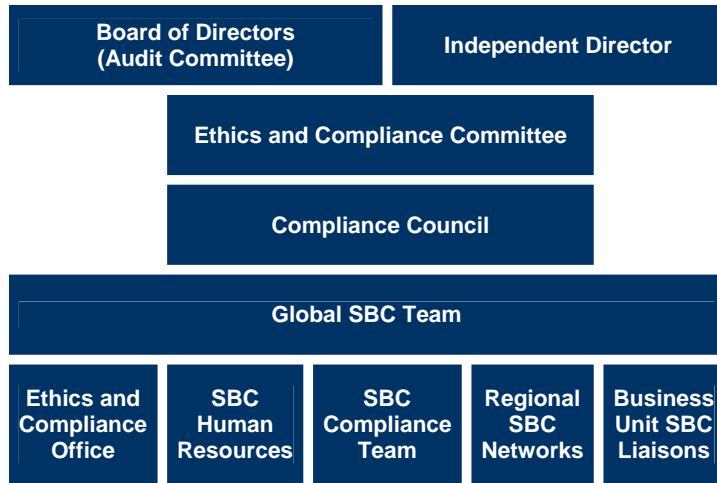
Chief ethics and compliance officer and organization structure

In October 2006, HP appointed Jon Hoak to the newly created position of Chief Ethics and Compliance Officer, to provide oversight of the ethics and compliance program. He reports directly to the CEO, the independent director responsible for HP's compliance with legal and ethical requirements related to the conduct of investigations, and the entire Board on HP's investigative practices and ethics and compliance program.

This new position is part of expanded and more comprehensive ethics and compliance activity, overseen by the Ethics and Compliance Committee (E&CC). The Committee, chaired by the Chief Ethics and Compliance Officer, provides oversight and guidance for the design and implementation of HP's ethics and compliance program. The E&CC ensures that the company is committed to the Standards of Business Conduct, the core value of uncompromising integrity, and the development of an ethical and compliance-based culture. The E&CC is comprised of senior HP executives, including the Chief Ethics and Compliance Officer, the Controller, the Executive Vice President of Human Resources, the General Counsel, the Chief Financial Officer, and at least one executive liaison representative of a business segment on a rotating basis.

A newly formed entity, the Compliance Council, is a team comprised of compliance experts from across the company. The Compliance Council is charged with capturing an inventory of compliance areas across the company, conducting a risk assessment to determine highest risk areas, developing training, assessing the gaps of processes and practices in those high risk areas, and developing action plans to mitigate those risks. The E&CC maintains oversight responsibility for HP's Compliance Council.

Structure of Ethics and Compliance program



External review

HP has retained Bart M. Schwartz, a former U.S. prosecutor, to perform an independent review of investigative methods and the company's SBC processes. He will make recommendations for implementing best practices in 2007.

Vendor management

In 2006, HP began modifying HP's vendor relationships and agreements to include legal and ethical standards applicable to the conduct of investigations.

Communications

In late 2006, we launched an ongoing campaign to reinforce our SBC and to remind employees of our ethics standards.

Training

Our ethics program emphasizes that every person at HP can be an ethical leader, regardless of title or job responsibilities. We aim to provide all employees with ethics training every year. In 2006 we achieved more than 95% participation. Our goal for 2007 is to expand ethics and compliance training across individual businesses and regions with specialized ethics and compliance training, including key areas such as privacy and data protection, public sector sales, global trade, kickbacks and procurement issues, and channels and contra revenue.

In 2006, we addressed the challenge of achieving consistency with ethics and compliance in over 170 countries. We conducted employee focus groups in seven of our larger markets (including Japan, China, Singapore, Germany, Switzerland, the United States and the UK), conducted ethics surveys to determine awareness of ethics resources and program effectiveness, and used annual all-employee survey data to assess the company's ethics and compliance performance. These activities, and analyses of alleged ethics infractions, help shape the direction of future ethics programs.

Also in 2006, we provided specific training to employees engaged in investigations for HP, and we will expand this training in 2007.

Advancement of ethics

We continue to seek opportunities to lead, sponsor and advance business ethics. In 2006, we sponsored a study on ethics in business communications conducted by the IABC Research Foundation. We are also discussing the creation of an Ethics Fellowship at a leading business school.

Seeking guidance

Employees have several mechanisms to raise ethical concerns. We encourage employees to talk first with their manager or the next level of management, following HP's Open Door policy. Alternatively, employees can submit concerns to compliance experts or SBC Liaisons.

HP's Global SBC Team manages formal, confidential communications channels for employees and other stakeholders to report potential violations of law, company policy or the SBC. Reporting can be done anonymously, if preferred. Communications channels include:

Telephone. A confidential 24-hour resource line, called The GuideLine, is available globally. In the United States, contact +1 800 424 2965. International dialing instructions can be found on our business ethics website.

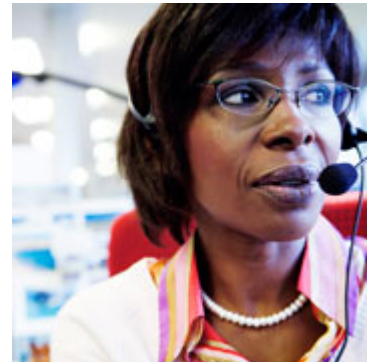
E-mail. Using an online form.

Postal mail.

HP Global SBC Team
PO Box 692015
Houston, TX 77269-2015
United States

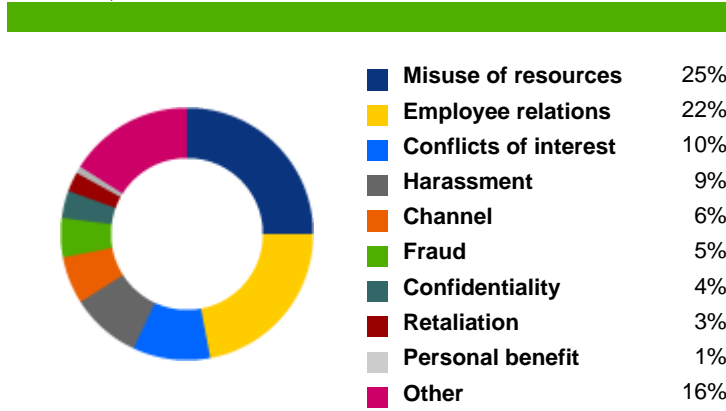
HP promptly investigates all allegations related to SBC violations and takes appropriate action.

In 2006, over 900 inquiry and allegation items were reported through the formal reporting mechanisms managed by the Global SBC team or escalated through other compliance reporting mechanisms (see pie chart). All items were reviewed and addressed.



In 2006, we terminated, warned or demoted over 450 employees as a result of ethics violations. We are continuing to increase external reporting efforts.

Items reported to the Global SBC Team or other compliance functions, 2006¹



¹ Total is greater than 100% due to rounding.

Perspective

Kirk O. Hanson

University Professor of Organizations and Society and
Executive Director, Markkula Center for Applied Ethics
Santa Clara University



The events of 2006 clearly shook HP's confidence in the strength of its ethics and governance processes – well they should have. The 2006 crisis was both a Board of Directors and a Company failure. That an organization with such a superb record of values management could stumble should be a wake-up call to all of us.

I believe HP's major transitions of the past four years – the merger with Compaq, the transition from Carly Fiorina's leadership to that of Mark Hurd, the rapid evolution of HP's markets and businesses, and changes in the leadership of the company's ethics efforts – have strained its attention to ethical concerns. HP's experience is a lesson for all American companies that managing the ethics and values of the firm requires constant attention and must remain a priority in times of transition.

The failure was simply that the HP board members, officers, and managers who looked at the investigation of Board leaks did not ask the needed questions about the ethical – and reputational – implications of what was proposed. The many ethics initiatives now under way show a determination not to let this happen again, and should be applauded.

What is needed in HP and in every other company is both a system for reinforcing continually that every board member, officer and employee has the responsibility to bring to light and ensure discussion of ethical concerns. In prior times, Dave Packard's and Bill Hewlett's very presence served as a daily reminder to raise ethical issues. Under successor leadership, getting every employee to do this is harder. In volatile times, it is harder still.

HP and other companies need to understand where the company's ethical commitments are under the greatest challenge – where budgets are tightest, where competition is most severe, in non-U.S. settings where many businesses and agents don't follow the same standards. These areas of "ethics risk" require extra focus and resources to insure that managers and employees follow the company's values even under difficult conditions.

Supply chain responsibility



HP is providing leadership to the electronics industry's efforts to raise labor and environmental standards in its **supply chain** through collaboration, supplier audits and capability building

The global scope of HP's supply chain and our value as a customer provide us the opportunity to impact the human rights, health, safety, environmental and ethical performance of the thousands of businesses worldwide that constitute our supply chain. HP spends approximately \$50 billion annually to procure materials, components, manufacturing and distribution services for our products. Our supply chain spans about 600 suppliers worldwide, with more than 300,000 workers at the supplier sites at which our products are made.

HP remains committed to being a positive force in the communities in which we operate and ask our partners to do the same. Investing in supply chain social and environmental responsibility (SER) meets stakeholder expectations, protects our reputation and decreases risks to HP from inadequate supplier standards. Although our industry has made considerable progress, we continue to face the challenge of achieving HP's SER standards at each of our suppliers' factories.

Supply chain SER is relatively new to our industry. We believe our supplier SER program is the most comprehensive in the electronics sector. In 2006, we introduced new programs to train suppliers in processes to meet our standards.

Because we share our suppliers with others in the industry, we believe that supplier SER is addressed most effectively on an industry-wide basis, and we continue to take a leadership role in our industry's efforts in this area. We invite other electronics companies as well as customers, shareowners, governments and stakeholders worldwide to share in developing sustainable solutions that protect workers' rights, health, safety and the environment.

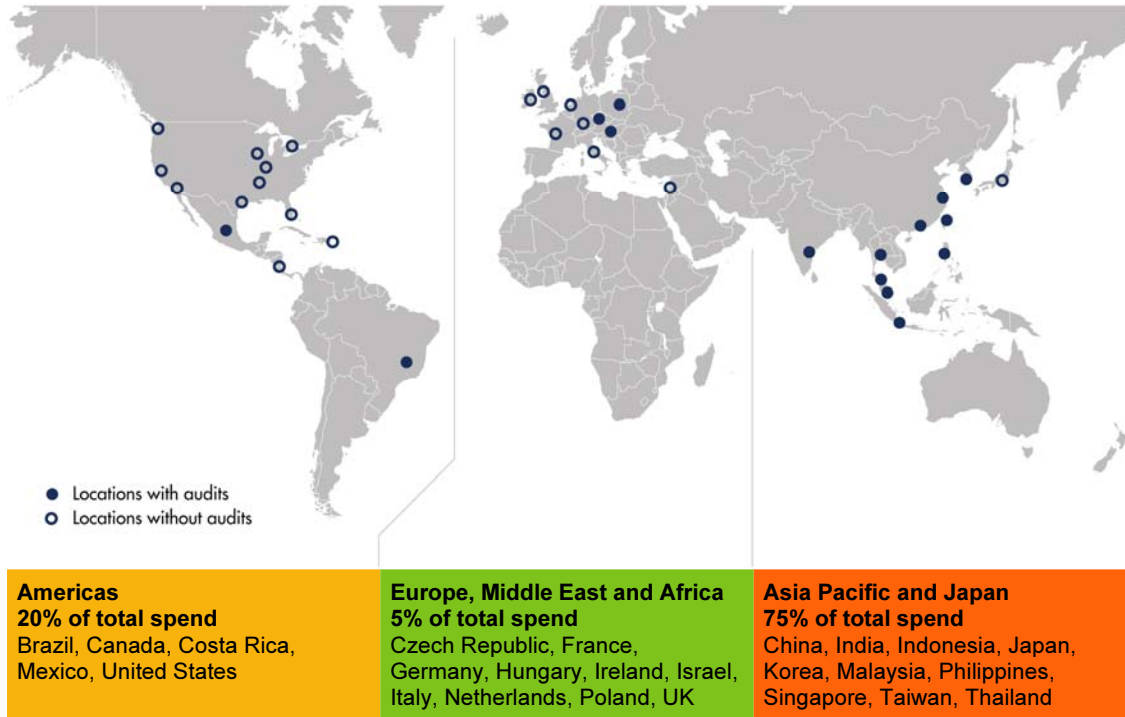
In this section:

- » Approach
- » Standards
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- » Case studies
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- » Supplier diversity

About HP's supply chain

HP has one of the largest and most complex supply chains in the IT sector. The suppliers from whom we purchase the materials, components, manufacturing and distribution services for our products are located worldwide (see map). Their manufacturing locations number over 1,000.

Major locations of HP product materials, components and services suppliers¹



¹ Sites on the map are representative and not an exact description. Locations with the largest sourcing expenditures are shown. Actual manufacturing locations may differ in some cases. Does not include HP-owned and operated manufacturing sites (see Operations).

Approach

HP's approach to implementing social and environmental responsibility in our supply chain is based on early, frequent and proactive involvement with key suppliers to develop a partnership for improvement.

Our long-term commitment is to achieve sustained improvement by building our suppliers' social and environmental capability. Specifically, our commitment is to:

- Integrate supplier social and environmental responsibility (SER) into our sourcing operations
- Protect worker rights
- Improve suppliers' working conditions and health and safety
- Reduce suppliers' environmental footprint
- Collaborate with non-governmental organizations (NGO) and stakeholders to validate, inform and improve our efforts
- Participate in industry-wide initiatives to leverage our efforts across the electronics sector



Our program incorporates these elements, but challenges remain. We have identified the following areas for improvement:

- Improve follow-up and verification of closure to nonconformances and corrective action plans
- Better integrate supplier SER into sourcing decisions
- Get our suppliers to introduce the supplier SER program to their suppliers
- Ensure that workers have access to basic information about their rights and the EICC at all the factories with which we do business
- Increase our activities with governments, academia and industry
- Expand NGO and worker involvement in identifying and addressing nonconformances

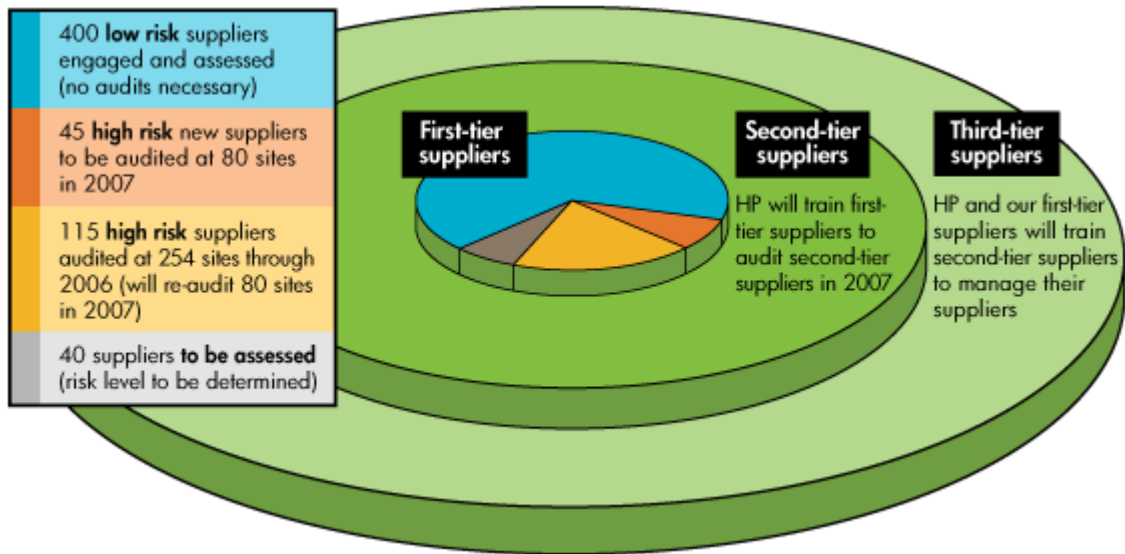
Leading through alliances

HP works through alliances, and collaborates with suppliers and industry peers to extend our impact. We worked with our industry peers and major suppliers to establish the Electronic Industry Code of Conduct (EICC). Published in 2004, the EICC provides the foundation for our efforts, and those of many others in our industry, to improve working standards across the electronics industry supply chain.

Risk-based program

HP has roughly 600 suppliers operating from more than 1,000 manufacturing locations around the world who provide HP with materials, components and manufacturing and distribution services for our products. We implement our SER program using a risk-based approach (see diagram). The first-tier suppliers, with whom we have a contractual relationship and deal directly, select and manage their own suppliers, also known as second or sub-tier suppliers or subcontractors, who do not deal directly with us.

Risk-based approach to supply chain social and environmental responsibility



We prioritize suppliers for further review, self-assessment, audits and capability-building programs based on several risk categories:

- Location – risk is higher in some locations than others
- Process – risk is higher in manufacturing, chemical-intensive manufacturing and labor-intensive assembly than in services
- Relationships – risk is higher for some types of contracts (such as large contracts for branded products, or new suppliers)
- Company information – information from previous audits, press articles, incidents and or accidents may impact our assessment of supplier risk

Applying these criteria, we determined that 160 of our direct material suppliers together have more than 300 factories in countries we identified as higher risk countries. These suppliers are the focus of HP's SER program. HP has audited 115 of these suppliers at more than 250 factory sites and in 2007 will audit an additional 45. We are also committed to teach first-tier suppliers (who deal directly with us) how to audit their suppliers.

As of the end of 2006, we have introduced our supplier SER program to 557 suppliers. Of those, 445 have completed self-assessments and 115 suppliers have been audited at 254 sites (see Performance for details).

Benefits of supply chain SER

Awareness of social and environmental issues in the electronics industry supply chain is increasing among the public, our customers, NGOs, investors and the media.

These stakeholders expect us to demonstrate that our long-standing commitment to global citizenship extends to our supply chain and to show evidence of improved performance and greater transparency in this area. Our supply chain SER program responds to these stakeholder expectations.

Suppliers often question whether they can meet HP's SER standards and cost requirements simultaneously. We believe that our sourcing needs should not require major nonconformances such as excessive working hours or violations of the law, and that higher labor and environmental standards ultimately lead to higher quality products.

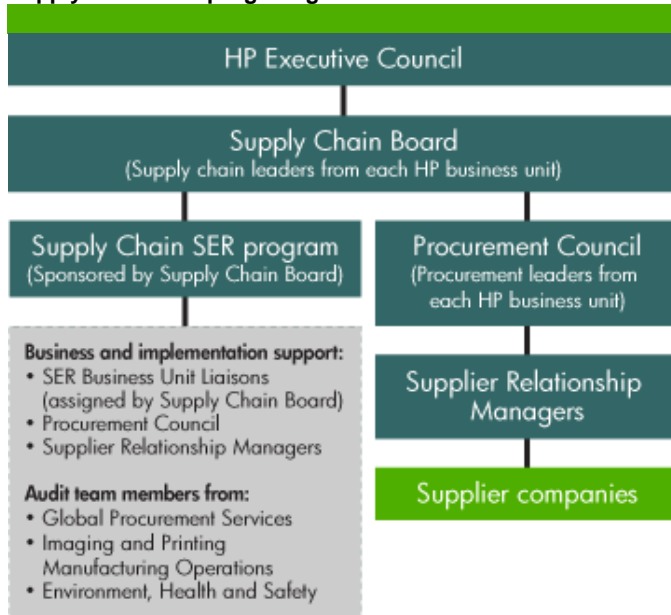
During 2006, we began training suppliers to increase their understanding of how raising their SER standards and practices will benefit their business. We aim to demonstrate how SER standards enhance business performance by reducing employee turnover, accidents and illnesses and by improving productivity and quality.

Governance

We integrate social and environmental considerations into our core sourcing practices. Our supply chain social and environmental responsibility (SER) governance system clarifies reporting and responsibility across relevant HP businesses and functions.

All HP businesses sponsor and support our supply chain SER program through the Supply Chain Board, which meets monthly and reports directly to HP's Executive Council. See more information.

Supply chain SER program governance structure

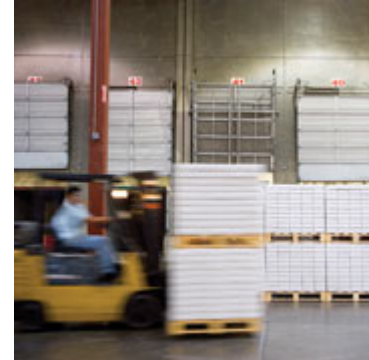


Sourcing

HP's suppliers are in two main categories:

- Suppliers of direct materials, such as contract manufacturers, original design manufacturers, and original equipment manufacturers, product design support, transportation and product repair services
- Goods and services suppliers for HP's operations and employees worldwide

Currently, our supply chain social and environmental responsibility (SER) program focuses on the first category. For more information, see sourcing map.



How we integrate supplier SER into sourcing teams

For the supplier SER program to succeed, HP's procurement teams must understand SER issues and consider them in their day-to-day sourcing decisions. Our supplier relationship managers (SRMs) complete six courses, as well as refresher training, on the supplier SER program.

How we integrate supplier SER into supplier assessment

HP's Procurement Management Process defines how our procurement organizations worldwide manage suppliers. Supply chain SER is included in the Supplier Evaluation, Contract Development and Execution Management phases of this process. Compliance with our Procurement Management Process is audited internally and by external organizations that certify HP's quality system (ISO 9000).

HP uses a scorecard to evaluate and improve overall supplier performance. The scorecard has five equally weighted performance categories, one of which includes Social and Environmental Responsibility (SER). The other categories include Cost, Quality, Supply and Technology.

For its supplier SER program, HP employees conduct audits of suppliers, a sample of which are verified by an external organization. If an HP auditor finds a major non-conformance, the supplier has from 30 to 180 days to commit to address the non-conformance. They must include a timeline for closing nonconformances in their detailed corrective action plan. The HP supplier relationship manager and audit team monitor supplier progress closely and ensure that the supplier resolves all major nonconformances in a timely manner. Suppliers have 180 to 360 days to address minor nonconformances.

HP has identified several "zero tolerance" items, including underage child workers (below the legal age for work or apprenticeship), forced labor, health and safety issues that cause immediate danger to life or serious injury, and violation of environmental laws that causes serious and immediate harm to the community. If and when they occur, a supplier must correct zero tolerance items within 30 days of notification.

We have the greatest impact on conditions in our supply chain by remaining engaged with suppliers

and providing support and tools to raise their capabilities to improve their performance. However, if this approach is rejected by a supplier, HP will not tolerate serious or repeated violations of our Code and will terminate the relationship. HP recognizes the negative implications associated with terminating a contract, including the loss of jobs for workers, and we prefer to work diligently to collaborate with suppliers to improve conditions at supplier factories.

Collaboration

Collaborative efforts within our industry are an effective way to leverage the efforts of each individual company to raise supply chain standards. Suppliers generally work with several major corporate customers. Receiving a consistent message from each of those customers is likely to have the greatest impact. The EICC envisions that each company will act independently to implement its own program.

Working through industry groups also enables participants to share resources and knowledge, standardize tools and processes, avoid duplication of effort and develop consistent approaches to the industry's most difficult issues.



Below are summaries of recent activity in the key industry-wide efforts in which HP takes part.

EICC and GeSI

The Electronic Industry Code of Conduct (EICC) and Global e-Sustainability Initiative (GeSI) industry groups are collaborating to develop and deploy tools and processes to monitor supply chain corporate responsibility performance across the information and communications technology (ICT) sector.

HP is the Vice Chair of the EICC Implementation Group and belongs to the EICC steering committee and work groups. HP is also an active member of GeSI. We believe that if all companies that have adopted the EICC and all GeSI members adopt and use these tools in their supplier SER programs, our suppliers will receive consistent SER requirements from their major customers. We have shared knowledge, templates and data with these groups to develop risk-assessment and supplier self-assessment tools.

HP co-leads the working groups on:

- Audit and third-party validation (EICC)
- Common web tool development (EICC/GeSI)
- Communications and stakeholder engagement (EICC)
- Learning and capability building (EICC/GeSI)

HP also participates in a multi-stakeholder capability-building initiative that aims to raise standards in the electronic sector concentrated in the southern region of China through Foreign Investment Advisory Service (FIAS) of the World Bank, which advises governments of developing and emerging countries on how to improve their investment climate for domestic and foreign investors. This effort, which is sponsored by GeSI, EICC, BSR, the World Bank, the Shenzhen Government and the Shenzhen Digital Electronics Association, seeks to build an overall capability building strategy for the electronics sector in China.

CEREAL / CANIETI



CÁMARA NACIONAL DE LA INDUSTRIA ELECTRÓNICA
DE TELECOMUNICACIONES E INFORMÁTICA

In 1997, several electronics and telecommunication companies located in the Guadalajara, Mexico area formed an industry group, National Chamber of the Electronics, Telecommunications and Informatics Industry (CANIETI). HP and other EICC members belong to the organization.

In 2006, CANIETI members and a Mexican NGO, Centro de Reflexión y Acción Laboral (CEREAL) in Guadalajara, agreed to work together to improve labor conditions in the electronics sector, through worker communications and education.

CEREAL works as a liaison and grievance management organization for workers to raise concerns to several factory management teams. CEREAL has provided feedback to HP. See Perspectives.

Collaborating to raise third-party monitoring standards

We are increasing our investment in third-party monitoring, which provides independent oversight of our own supplier auditing. The quality of third-party monitoring is therefore important to us. The consensus among EICC members is that standards among third-party monitoring companies are variable and that the monitoring industry needs support to build capability and achieve a consistent standard.

As part of a validation effort, HP co-led an EICC initiative to establish a comprehensive three-phase evaluation for third-party monitoring entities. A sub-team of EICC member companies assessed the experience and processes of individual auditors and auditing firms. The assessment included certification, field work, internal and external training, knowledge of management systems and root cause analysis, and audits conducted.

See more information about what we have learned through collaborative efforts in our industry.

Standards

Strong and appropriate standards are essential to improving conditions in the supply chain. Consistency in the standards used by major electronics companies strengthens the message and allows more efficient implementation.

In 2002, HP was the first electronics company to publish a Social and Environmental Responsibility Supplier Code of Conduct. In 2004, we helped lead the development of the Electronic Industry Code of Conduct (EICC), the standard we now apply. The EICC fosters responsible management and operational practices in labor, human rights, the environment, health and safety, and ethics across the electronics industry's global supply chain.



In response to stakeholder feedback concerning the EICC's freedom of association provision, HP modified this clause in 2005 and published it in the FY05 Global Citizenship Report to make it stronger.

In addition, HP suppliers must follow our General Specification for the Environment, regarding the materials restricted from use in our products and manufacturing processes (see Materials).

See detailed information about HP's SER standards for suppliers.

See a summary of the EICC.

Human rights

Every human being has universal rights, and status, regardless of legal jurisdiction. Human rights include the right to life and liberty, freedom of thought and expression, and equality before the law.

The basis of international standards on human rights stems from the United Nations (UN) Universal Declaration of Human Rights (UDHR), established in 1948. Other sources for human rights standards or guidelines include:

- Rights outlined in the 10 principles of the UN Global Compact
- The International Labour Organization (ILO) Fundamental Conventions

These international conventions are reflected in HP's Human Rights policy and our Supplier SER program, as well as in HP's Global Citizenship Policy and HP's Policy on Human Rights and Labor. HP supports and respects the protection of international human rights within our sphere of influence and ensures that we are not complicit in human rights abuses. HP expects its suppliers to observe the same policies.

HP belongs to the Business Leaders Initiative on Human Rights (BLIHR), a group of 14 global companies working to protect human rights, supported by Honorary Chair Mary Robinson, former UN High Commissioner for Human Rights.

BLIHR works to apply the aspirations of the UDHR within a business context and to inspire other

businesses to do likewise, by integrating human rights into business management and mainstreaming human rights into the global business community.

We share our learnings from industry collaboration with BLIHR members.

Conformity assessment

Our approach to assessing supplier conformity with our Supplier Code of Conduct seeks long-lasting change. Monitoring for specific areas of nonconformance may correct a particular issue but at the same time allow a new problem to occur. We believe that monitoring should combine a focus on evaluating management systems with identification of any specific areas of nonconformance.



HP's supply chain social and environmental responsibility (SER) management system

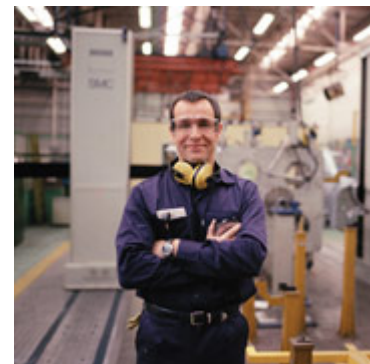
Our SER program follows four phases that promote a continual improvement cycle in supplier companies (see table). HP has developed a network of local auditing teams along with independent verification efforts in the regions from which we purchase. We do not rely solely on supplier certification to external standards such as ISO 14000, OHSAS 18000 and SA 8000. Our experience has shown that standards vary even among certified companies and that some suppliers who are not certified have equally rigorous SER management systems.

Supply chain SER management system

Phase 1: Introduction	Phase 2: Assessment	Phase 3: Validation	Phase 4: Continual improvement
<p>HP conducts preliminary risk assessment of suppliers.</p> <p>For risk factors see: Risk-based program.</p> <p>Suppliers identified as potential SER risks are prioritized for introduction to HP's SER requirements.</p>	<p>SER contractual requirements confirmed in the HP Supplier contract.</p> <p>Supplier completes an SER agreement and a self-assessment for each factory manufacturing for HP. HP reviews the assessment and provides feedback, which often leads to ongoing dialogue.</p> <p>HP determines if the supplier is a priority for an onsite audit.</p>	<p>HP conducts onsite audits. When audits reveal nonconformance with code provisions, we work with the supplier to establish a corrective action plan. At a minimum, the supplier must submit an improvement plan and schedule for completion.</p> <p>After implementation, we re-audit (several times if needed) and verify that the nonconformance and its causes have been addressed.</p>	<p>We help suppliers build capability by acquiring the necessary skills, tools and expertise to continually improve.</p> <p>HP works with several organizations to identify the most important focus areas for education.</p>
Progress (through October 2006)			
<p>557 suppliers (835 sites) risk assessed and engaged.</p>	<p>445 suppliers (638 sites) completed self-assessments.</p>	<p>HP audited 115 suppliers (254 sites).</p> <p>107 Corrective Action Plans in progress between supplier and HP.</p>	<p>In China and Central Europe, HP has 1-2 year ongoing training courses for more than 50 key first and second tier suppliers in 2006.</p> <p>Held HP supplier forums in China, India, Mexico and Singapore with more than 150 supplier representatives in 2006.</p>

Performance

HP continues to develop our reporting of our supply chain's social and environmental performance. This year we added a regional breakdown of data in our audit conformance summary table and details about the number of audits conducted by country. HP does not disclose a list of suppliers. Although some companies share this information, doing so would violate our nondisclosure agreements and contracts with suppliers and compromise our competitive advantage.



Audit results

We conducted 190 initial and 64 follow-up audits since 2004.

Audits conducted, 2004-2006 [cumulative]

	Audits conducted		
Location	Initial	Follow-up	# of workers at sites audited ¹
Greater China			
China	88	39	210,000
Taiwan	6	2	8,000
Central Europe			
Czech Republic	9	2	9,000
Hungary	8	1	11,200
Poland	2	0	400
Latin America			
Brazil	6	1	4,500
Mexico	20	15	14,000
Asia Pacific			
India	3	0	300
Indonesia	4	0	4,000
Korea	5	0	1,500
Malaysia	15	2	14,500
Philippines	2	0	4,000
Singapore	15	0	11,000
Thailand	7	2	8,000
Total	190	64	300,400

During 2006, we performed 45 supplier follow-up verification audits to track 758 open nonconformances that were identified during initial audits. The results show that 237 findings (31.3%) have been closed and 521 (68.7%) are still not closed to our satisfaction. Of the open items, 63 have shown a positive change (reduced from major to minor or minor to observation), 53 have had a negative change (increased from minor to major or observation to minor), and 405 have shown no change or have not yet been addressed. Some nonconformances remain open because HP deemed corrective actions taken by the supplier to be insufficient. See the 2005-2006 HP Social and Environmental Responsibility audit nonconformance summary table on the following pages.

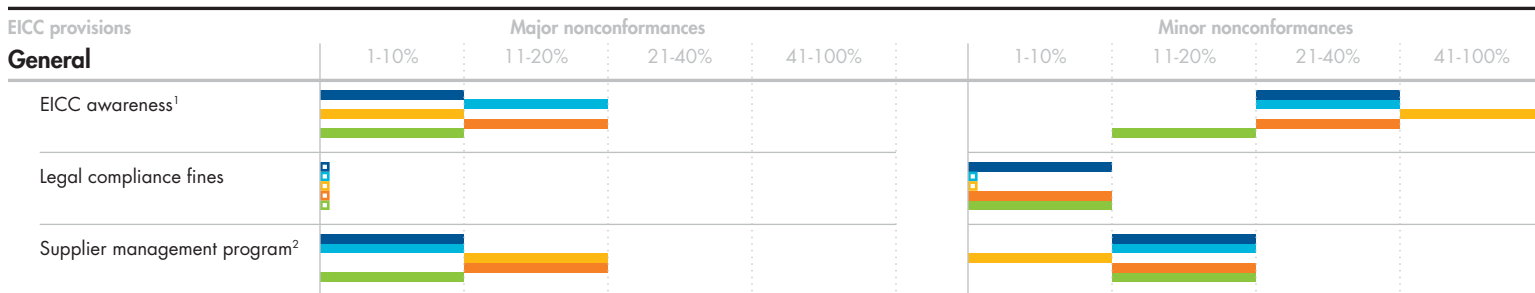
HP Social and Environmental Responsibility audit nonconformance summary table, 2005-2006

[% of nonconformance among sites audited]

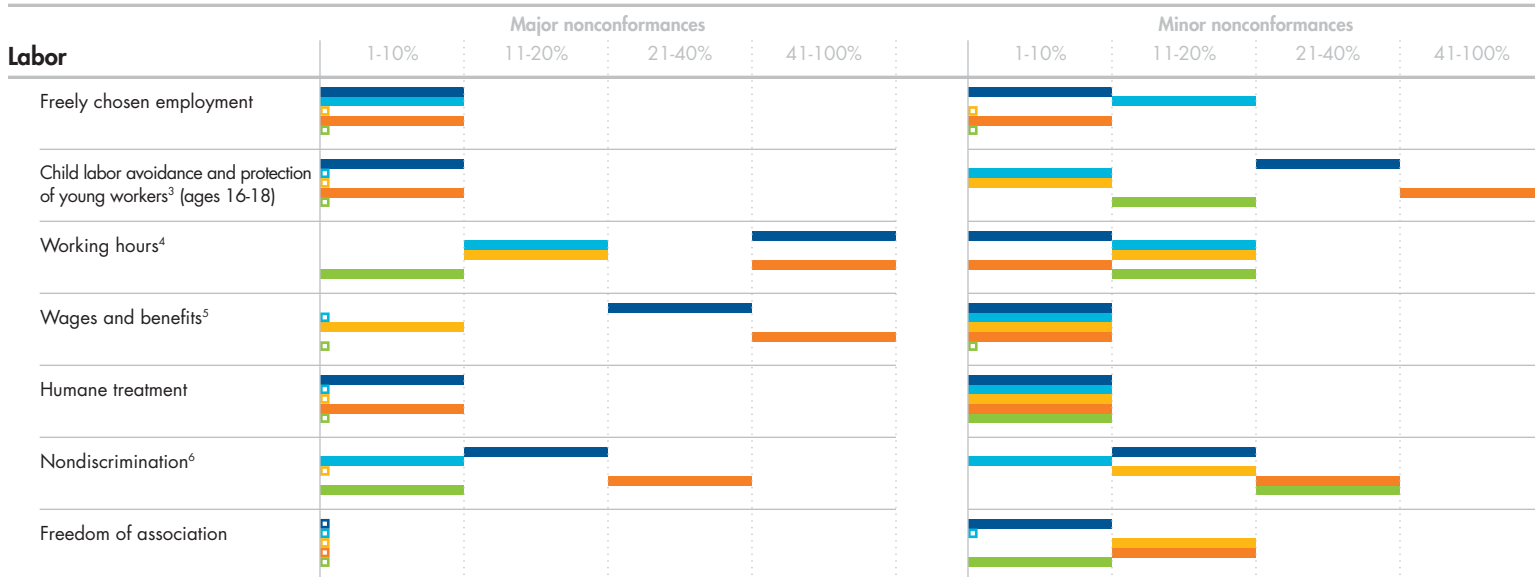


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This table represents the incidence of major and minor nonconformances by EICC provision, overall and broken down by region. Results are based on audits conducted in 2005 and 2006. In cases where HP re-audited a supplier site, the most recent audit results are included to reflect current assessment of performance. Footnotes describe the most significant causes of nonconformance. The range reads from left to right: 0% of sites having a nonconformance is most desirable and 41-100% of sites having a nonconformance is least desirable.



- Some factory management are not sufficiently aware of HP's Supplier SER requirements. In some cases the requirements are not adequately integrated into factory management processes. HP holds supplier forums and training programs, such as the Focused Improvement Supplier Initiative (FISI) and the Central Europe Supplier Responsibility (CESR) Project to raise awareness and offer best practice suggestions. HP recognizes that this is a long-term process and we are committed to working with our suppliers so that they integrate SER requirements into their business.
- Supplier management, as practiced by our suppliers, more frequently covers environmental and quality practices than labor, health and safety, or ethics. A major challenge in addressing SER practices at second-tier suppliers is that HP does not have a direct relationship or contract with these suppliers, and so we must work through our first-tier suppliers to evaluate conformance or influence change. Currently, HP is leading an 18-month training for some of our first-tier suppliers and their suppliers in Central and Eastern Europe. This is the first program in the electronic sector focused on second-tier suppliers.



- Nonconformances generally relate to the facility's procedures for ensuring young workers (ages 16-18) are properly restricted from hazardous work, night work or overtime.
- Excessive working hours (more than 60 hours per week) are most frequent in Greater China. Many factories state that if they do not provide workers with ample overtime, the workers will go elsewhere. Excessive overtime will continue to be a significant challenge, as the practice is widespread in many industries. In some cases, workers indicate that they want to work more overtime to maximize their earnings before returning home.
- In some regions, some suppliers pay workers below the minimum wage, overtime payments are not calculated properly and workers are not provided with social insurance. Workers often do not know how their wages and overtime pay are calculated, and what benefits are legally owed to them. Wage deductions for food and housing can result in total pay that is below the minimum wage and HP audits for these deductions. Disciplinary wage deductions are unacceptable and the supplier must cease these immediately. During our 2006 follow-up verification audits, we found that 19% of the sites revisited with a nonconformance in this provision have changed their policies and practices regarding wage deductions for food, housing and disciplinary deductions.
- Some factories used hiring advertisements indicating preferences for age or sex. Some factories refused to hire pregnant or married workers. There is also evidence of discrimination in how workers are selected for promotions. During our 2006 follow-up verification audits, we found that half of the sites revisited with a nonconformance in this provision have changed their hiring advertisements to remove discriminatory hiring specifications or have developed nondiscrimination policies.

HP Social and Environmental Responsibility audit nonconformance summary table, 2005-2006

[% of nonconformance among sites audited]



EICC provisions	Major nonconformances				Minor nonconformances			
	1-10%	11-20%	21-40%	41-100%	1-10%	11-20%	21-40%	41-100%
Labor management system								
Management system elements ⁷								

7. Labor management system – labor/ethics risk assessment and risk management: Suppliers frequently do not have a system to identify, assess and control labor risks. In some cases, suppliers assess risks but have not established controls to manage those risks. Our audits and training emphasize the need for management systems.

Health and safety	Major nonconformances				Minor nonconformances			
	1-10%	11-20%	21-40%	41-100%	1-10%	11-20%	21-40%	41-100%
Occupational safety								
Emergency preparedness ⁸								
Occupational injury and illness								
Industrial hygiene								
Physically demanding work								
Machine safeguarding								
Dormitories and canteens ⁹								

8. Some suppliers have insufficient fire extinguishers, evacuation maps, drills, fire alarms, sprinkler systems, emergency lighting and exit facilities (including locked or blocked emergency exits). During our 2006 follow-up verification audits, we found that 37% of the sites revisited with a nonconformance in this provision have made improvements in their emergency practices by installing proper fire systems, conducting evacuation drills, clearing aisles and establishing written emergency procedures.

9. Workers in China generally reside in dormitories, on or close to the factory site. Common nonconformances identified were poor hygiene conditions, lack of personal space in the dormitories, inadequate food preparation and food storage facilities, and poor cleanliness in canteens. During the audit process, supplier management sometimes states that they do not view the dormitories and canteens as an extension of the factory. Several suppliers have begun correcting the issues identified in the audits and at least two suppliers have built more dormitories and canteens for workers.

Environmental	Major nonconformances				Minor nonconformances			
	1-10%	11-20%	21-40%	41-100%	1-10%	11-20%	21-40%	41-100%
Environmental permits and reporting								
Pollution prevention and resource reduction								
Hazardous substances ¹⁰								
Wastewater and solid waste								
Air emissions								
Product content ¹¹								

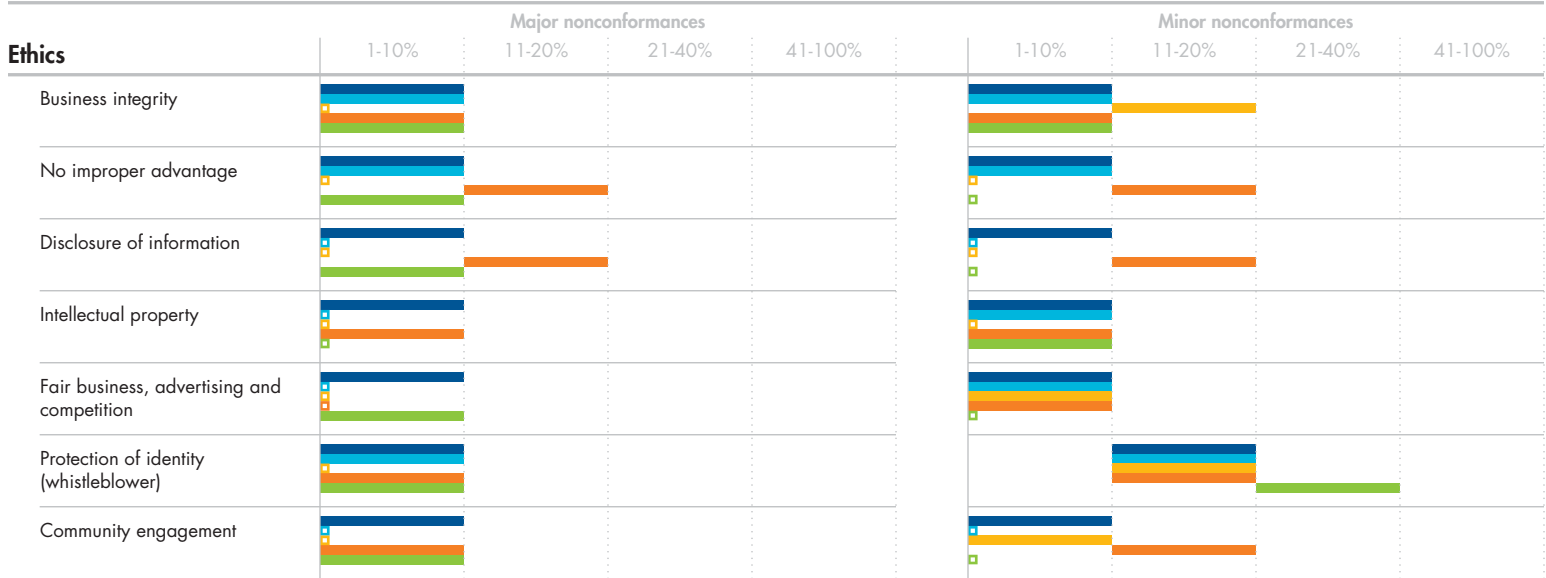
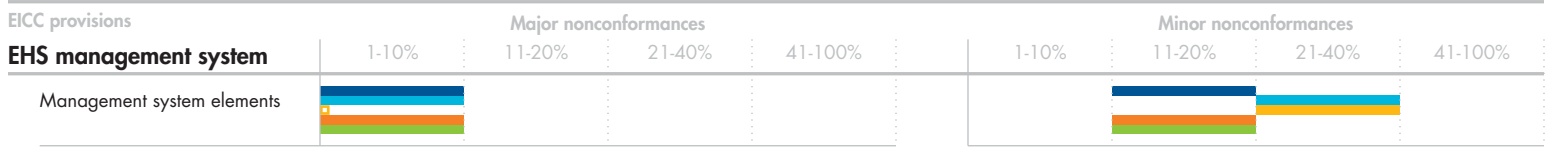
10. Some suppliers do not have rigorous practices for safe handling and storage of chemicals and hazardous wastes. Typical issues identified are lack of secondary containment for spill prevention in chemical storage areas, incorrect labeling and classification of hazardous waste and absence of emergency eye wash and personal protection equipment. Our verification audits indicate that suppliers are making improvements to their storage facilities and providing appropriate training and personal protective equipment to workers in these areas.

11. See "Materials substitution and elimination" in Materials section.

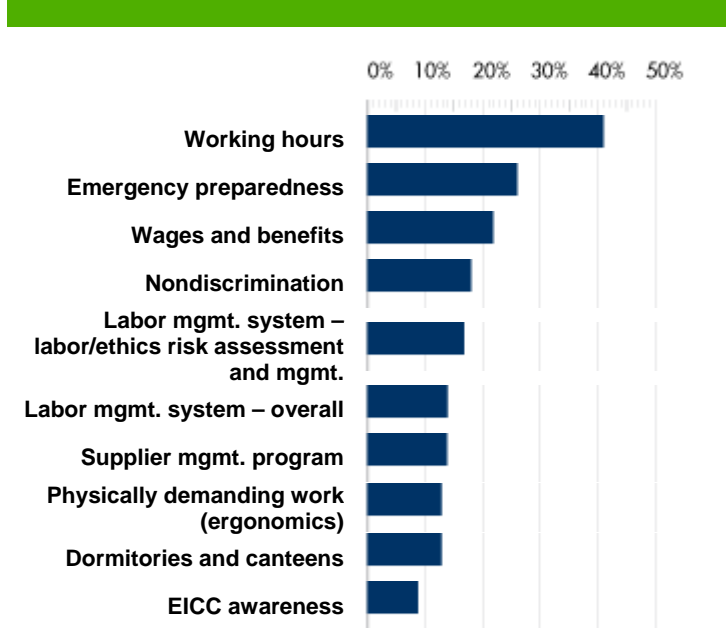
HP Social and Environmental Responsibility audit nonconformance summary table, 2005-2006

[% of nonconformance among sites audited]

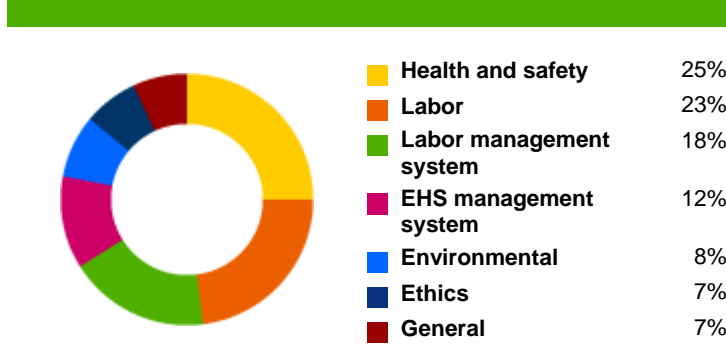
- Overall
- Asia Pacific
- Central Europe
- Greater China
- Latin America
- (indicates 0% of sites)



Frequency of top 10 major nonconformances in global audits of high risk suppliers, 2005-2006 [% of audits with nonconformance]



Total major nonconformances by EICC section for global audits of high-risk suppliers, 2005-2006 [% by section]



¹ All workers at the factory, or workers on production lines dedicated to HP products, where applicable.

External verification

In 2006, we engaged Environmental Resources Management (ERM), a third-party auditing firm, to review our supply chain SER program. Its review assessed our policies, procedures, tools, resources, audit model and auditor qualifications. ERM also conducted verification audits of 24 supplier sites in China, Malaysia, Mexico and Thailand.

Here is ERM's unedited report:



Statement by Environmental Resources Management (ERM)

Objective and Review Method

Environmental Resources Management (ERM) was retained by HP to conduct an independent review of the company's Supply Chain Social and Environmental Responsibility (SER) Audit Program (Program). The objective of the review was to assess the quality, completeness and robustness of the processes and tools used for conducting effective supplier audits against HP's SC SER Policy and the Electronic Industry Code of Conduct (EICC).

In support of the objective, ERM reviewed all components of the SER Audit Program and their interaction with relevant HP business functions and processes. The review was followed by 're-audits' or verification audits of 14% of the supplier sites audited by HP's internal auditors during FY04 and FY05 to assess audit outputs and follow-up. ERM received full support from HP throughout the project, and full and transparent disclosure was made of all information requested.

Conclusions

HP has a strong audit program in place to meet its policy commitment to work collaboratively with suppliers to encourage their compliance with the principles of legal and regulatory compliance, with continual improvement and information access. The Program goals and objectives, resources and responsibilities, governance structure, and specific processes and procedures are clearly described and communicated to all Program participants. SER Program Office staff are highly engaged with all aspects of the program management as planned and with program participants. In addition, the SER Program Office demonstrably meets Program goals, and drives continual program improvements.

Supplier Engagement: The Program adopts a risk-based approach to supplier engagement, prioritizing focus on suppliers that represent the highest potential risk with respect to labor, health and safety, environmental and ethics issues. The primary role for engaging suppliers in the Program is assigned to Supplier Relationship Managers (SRMs) supported by the SER Program Office staff and auditors.

SER expectations for suppliers, and steps and tools for engaging them in the Program are clearly documented and communicated to SRMs. These include a corrective action process and steps for integrating SER performance in supplier performance score cards and into the procurement process. Comprehensive training on the Program, steps and tools are also available to SRMs.

Awareness and deployment of these SER expectations, and feedback on improvement initiatives are incorporated into the ISO 9000 Global Procurement and HP formal business procurement audits for several key business units, the results of which are reviewed by the Procurement Council, and the extension of which is being considered for other regions. Finally, there is evidence that supplier SER performance is considered, and has previously influenced decisions regarding supplier retention at executive management level.

Other supplier engagement initiatives include a training program on SER-related topics for select suppliers.

Auditor Selection and Training: Audits are conducted by a global network of HP employees from the Global Procurement and Environmental, Health and Safety business support groups. All auditors attend HP's internal five day annual audit training course that includes theoretical and practical training on auditing skills and techniques, and on conducting audits against the EICC.

Supplier Audit Process: The Audit Program developed and managed by the SER Program Office incorporates all substantive and process-related components of a model SER audit program (summarized in the table below).

General	Pre-Audit	Audit	Post-Audit
<ul style="list-style-type: none"> Guidance manual Roles and responsibilities Auditor selection & training Supplier selection & prioritization Communication Continuous improvement 	<ul style="list-style-type: none"> Pre-audit questionnaire & supplier preparation Audit team selection & responsibilities assignment Supplier notification & audit agenda Team preparation meeting 	<ul style="list-style-type: none"> Opening conference Orientation tour Records reviews Interviews Facility inspections Audit guidance Audit checklist completion Closing conference 	<ul style="list-style-type: none"> Report completion Report distribution & review Corrective action & follow-up process

Considerations (ERM)

Quality, Completeness and Robustness of the Audit Process and Outputs: Based on findings from the verification audits, ERM concluded that HP's supplier audits uncovered the majority of applicable non-conformances with the EICC. However, the observation was made that ERM findings differed more frequently in nature or scale from HP's findings in the categories of health and safety, environment, and management systems than in the category of labor.

Actions over which the SER Program Office may have control, and that could improve the robustness of the process and the consistency of audit outputs include:

Training:

- The Program's internal auditor training course, while comprehensive, is more suitable for experienced auditors.
- The incorporation of more case studies for auditing each EICC topic area, or more in-depth practical mentoring, could help to improve completeness and consistency of outputs.
- In addition, some auditors may benefit from focused training on risks and local regulations pertinent to health and safety, and environmental topics (important due to their influence on topic area content).

Audit Protocols: The audit checklists, while complete and thorough, may benefit from the development of supporting protocols to help ensure a consistent approach to evidence discovery and root cause analysis between auditors. [Note – HP is transitioning to the use of EICC tools which may address this issue].

Effectiveness of Supplier Audits: A measure of the effectiveness or value of an audit includes the satisfactory and timely close-out of corrective actions. Over 85% of suppliers audited had developed, and were engaged in implementing, corrective actions in response to HP audit findings. However, only 40% of these showed satisfactory close-out or progress of 50% or more of the corrective actions audited.

Key improvement actions that the SER Program Office can continue to influence include:

Improved Integration with the Procurement Process: The present level of responsiveness to the Program is partially predicated on the level of interest of SRMs and suppliers. Responsiveness could be improved by:

1. Formalizing SRM's responsibility for engaging suppliers in the full life-cycle of the SER Audit Program,
2. Establishing accountability at the appropriate level of management, and
3. Over the longer term, transitioning the incorporation of supplier SER management into contract clauses, purchase order terms and conditions, and supplier performance reviews and scoring from a discretionary to a routine measure. It is noted that the SER Program Office continues to engage with Procurement personnel on these integration efforts.

SER Program Office Resources: Staffing may be sufficient to meet current program and data management demand; however, additional resources may be beneficial as the program and the number of initiatives managed by the Office continues to expand.

Capability building

We promote sustainable improvement in our suppliers' factories. We believe that focusing on management systems and analyzing the root causes of nonconformances increases the probability of lasting change. To achieve this, in addition to auditing our suppliers, we provide training and support to build their internal capabilities.

Sustainable change in the factory requires participation at all levels: factory owners, senior management, product line and mid-level factory floor managers and workers. During 2006, HP started two capability building projects: the Focused Improvement Supplier Initiative (FISI) in China and the Central Europe Supplier Responsibility (CESR) Project.



Focused Improvement Supplier Initiative

HP launched the Focused Improvement Supplier Initiative (FISI) with Business for Social Responsibility's China Training Institute and several organizations with experience conducting training in China (such as Verite, ENSR, WSP, ERM and GED). The FISI program is providing monthly social and environmental management training sessions to 30 of our suppliers in China, who employ approximately 100,000 people, between June 2006 and June 2007.

Factory managers as well as managers in quality, human resources and environmental, health and safety attend the sessions. Each person receives between two and four days of mandatory training per month for a year. The FISI training sessions cover increasing productivity, working hours, wages and benefits, worker communications, management systems, root cause analysis, Chinese laws and regulations, the environment and health and safety. Suppliers provide HP with monthly progress reports of corrective actions, improvements and metrics.

Central Europe Supplier Responsibility Project

The Partnership for Sustainable Competitiveness is a joint initiative between HP, The Copenhagen Centre for Corporate Responsibility (TCC) and the Copenhagen Business School (CBS). It is funded by the European Commission's program for "Mainstreaming Corporate Social Responsibility among SMEs."

HP is working with a group of first- and second-tier suppliers in an 18-month initiative ending in November 2007 to help small suppliers develop social and environmental responsibility (SER) expertise. As in China, the goal is to help suppliers understand the connection between improved standards and business efficiency. We have completed initial meetings, assessments and training, and we have provided advice on SER standards and the management systems to achieve them.

Five major HP suppliers have nominated approximately 20 of their small- to medium-size suppliers (companies with less than 250 employees) located in the Czech Republic, Hungary and Poland to participate. The suppliers listed below have provided permission for HP to recognize their participation in CESR by including them in the following table.

Central Europe Supplier Responsibility Project

1st tier suppliers	2nd tier suppliers		
	Czech Republic	Hungary	Poland
Asustek	JM Partners Tart		
Flextronics		Worldmark	
Foxconn	Duropack EPE Iretex JM Partners Tart Unipap Vyva Plast		
Sanmina-SCI		Dunapack ModusLink Wolters Worldmark	
Teleplan			Polpak Thornmann

Goals

Goals for 2006

Training

- Design and conduct research on training in supply chain SER.
Progress: Achieved through FISI and CESR training programs.
- Expand dialogue with cross-industry, government regulators and NGOs on supplier and worker education and training.
Progress: Achieved. HP collaborated with CANIETI, CEREAL, GeSI, EICC, Shenzhen Government and CAFOD during 2006.
- Conduct auditor training and supplier forums in India, Mexico, Central Europe and China.
Progress: Achieved. Held seven events in these countries.

Integration

- Conduct initial risk assessments with additional 50 major product materials suppliers and obtain self-assessments and agreements from high priority suppliers.
Progress: Achieved. Conducted 81 risk assessments in 2006.
- Conduct initial risk assessment and extend supply chain SER policy and program to relevant, high priority operations, services and logistics suppliers.
Progress: In process. Extending the SER program to services suppliers started with audits of labor agencies in Mexico and a logistics supplier in India.
- Conduct new and follow-up/verification audits at 90 sites.
Progress: Achieved. Conducted 125 site audits.
- Select third-party provider to conduct external verification of HP audits.
Progress: Achieved. Selected ERM, which conducted 24 verification audits and analyzed HP's SER processes.
- Redesign HP's internal processes and tools to align with the new common industry templates and e-tool.
Progress: Achieved. HP is using EICC audit checklists.

Collaboration

- Design and implement standardized assessment and auditing tools with electronic industry including EICC and GeSI partners.
Achieved. EICC / GeSI assessment and audit tools developed.
- Begin work with cross-industry partners and third-party auditing firms on improving worldwide monitoring standards.
Progress: Achieved. Third-party auditors now are evaluated against an EICC standard.

Goals for 2007



Training

- Complete initial training programs in China (FISI) and Central Europe (CESR).
- Design and launch next phase of FISI China training. Conduct auditor training and supplier forums in Brazil, Central Europe, China, India, Southeast Asia and Vietnam.
- Co-lead program in China to create a capability building strategy for the electronic sector in cooperation with World Bank, Chinese Government and Shenzhen Electronics Association.

Integration

- Engage and assess 95% of product materials, components, manufacturing and transportation suppliers by number and by spend.
- Audit 95% of high risk product materials, component and manufacturing supplier sites.
- Conduct initial risk assessments and complete first-tier supplier engagement with 45 suppliers.
- Conduct new and follow-up verification audits at 100 sites.
- Integrate recommendations from 2006 third-party auditing process review and continue external verification model.

Collaboration

- Transition HP suppliers into industry-wide automated systems for self-assessment.
- Launch standardized risk and supplier assessment tools with EICC and GeSI electronic industry groups and integrate into HP's processes.
- Test third-party monitors that have been qualified by EICC and communicate benefits of improved worldwide monitoring standards to larger CSR community.
- Pilot industry-wide reporting format and tools for communicating progress to stakeholder community.

Innovation

- Design strategy for determining environmental footprint of HP's supply chain.

Goals for 2008



Training

- Implement advanced supplier training program in China and extend to new set of suppliers, including second tier.
- Participate in industry-wide training efforts based on capability building strategy prepared in 2007, which includes Chinese government and electronics associations.
- Publish findings about impact of SER capability training on supplier SER and business performance.

Integration

- Integrate SER supplier audit scorecard into sourcing and provide metrics for product materials and manufacturing sourcing managers.
- Engage and assess high-priority goods and services suppliers to HP's operations in supply chain SER program.
- Conduct new and follow-up verification audits at 100 sites, including external verification efforts.

Collaboration

- Complete launch of standardized risk and supplier assessment and auditing tools with EICC and GeSI. Complete supplier transition into industry tool.
- Use industry-wide reporting format and tools and begin aggregate reporting.
- Pilot multi-industry capability building program.

Case studies

The challenge of multi-site suppliers

One of the greatest challenges HP's supply chain social and environmental responsibility (SER) program faces is dealing efficiently with suppliers that have several manufacturing sites. In many supplier companies, individual sites have different policies and practices, which requires us to visit each facility. When a supplier understands our SER expectations and ensures that the policies and practices at each of its sites around the globe meet those expectations, our task is much easier.

Our auditors uncovered one such example when they visited a factory in the Czech Republic. HP had audited the company's other sites in China and Mexico, and in advance of our visit to the Czech Republic, the supplier had implemented programs and procedures to ensure conformance to HP's Code. It had also informed its local suppliers and service providers about HP's requirements. As a result, ten of the company's local suppliers attended the opening audit conference with HP auditors to learn more about HP's SER requirements.

China: Strengthened supplier SER awareness

With the extensive effort HP spends on SER audits, the FISl program and supplier communications in China, we have begun to observe greater awareness of the EICC by our suppliers in that country.

Although there are still many cases of nonconformance with the EICC requirements, we see indications of a more open and receptive climate. Our suppliers are establishing SER management structures and processes to monitor their performance metrics to the Code requirements. We have observed progress in the following areas:

- Overtime control: change from no limit to limit of no more than 60 hours per week for all work, including overtime, at some facilities.
- Minimum wage: some suppliers have changed practices so that workers are paid according to the local labor laws (including overtime wages).
- Child labor: suppliers have tightened their monitoring procedures. Some suppliers only recruit workers over 18 years old, to minimize their risk.
- Communication/feedback: suppliers are paying more attention to communication and listening more to workers. A number of factories have established social committees comprised of worker representatives.
- Environmental health & safety (EHS): improvements have been observed in industrial hygiene, safety, dormitory and canteen conditions.

In addition, corporate responsibility is becoming a topic that is being discussed generally in China. This has also strengthened supplier awareness of and participation in our SER program.

Mexico: Employment agencies and NGO collaboration

HP is collaborating with CEREAL (a Mexican NGO) to monitor suppliers' conformance to the EICC (see Perspective).

HP engaged with employment agencies and service suppliers following complaints made by workers to CEREAL. We held supplier forums with 45 service suppliers in Guadalajara and Mexico City to educate them about EICC requirements.

Following this training, we requested that suppliers conduct employee satisfaction surveys and address issues that were raised. In March 2006, as part of HP's verification of the survey findings and corrective actions, we selected five employment agencies to be audited based on labor practices and ethics. These suppliers have provided HP with corrective action plans for nonconformances found during the audits, and communicated EICC requirements to their own suppliers.

HP's audit findings were:

- Employment agency adoption of EICC is progressing
- Some agencies have contracts lacking clearly defined terms (such as duration and job description)
- Communication with employees needs to be strengthened about the benefits they will receive, as well as roles and responsibilities

Employment agencies made the following recommendations:

- Clarify roles and responsibilities between the brand companies, major suppliers and employment agencies so that employees know how and where to address work-related issues
- Have a desk or office at each site to provide employees with better support

We are pleased with this constructive response.

Perspectives

Below are statements by three organizations with experience of HP's Supply Chain Social and Environmental Responsibility program:

- CEREAL (Centre for Reflection and Action on Labor Issues), an NGO that has conducted independent audits of HP suppliers in Mexico.
- Flextronics, a major electronic component supplier to HP.
- AU Optronics – Focused Improvement Supplier Initiative (FISI) supplier participant, producer of LCDs for HP Notebooks and PCs in China.

CEREAL (Centre for Reflection and Action on Labor Issues)

Jorge Barajas

CEREAL
Guadalajara, Mexico
October 27th 2006

Work experience with HP Mexico Social and Environmental Responsibility SER Team – April to September 2006

During the last six months, the work experience of CEREAL with the HP Mexico SER team has taken place mainly in three areas of activity:



1. Direct relationship with HP's SER team in Mexico.
2. Relationship lead by HP's local SER team with contract manufacturers (CMs), Original design manufacturers (ODMs) and other suppliers in Mexico.
3. Relationship with the electronic industry in Mexico in conjunction with HP's local SER team and CANIETI.

These activities support implementation of the Electronic Industry Code of Conduct, which is adopted by HP and monitored by CEREAL.

In general terms, CEREAL's evaluation of HP SER actions in Mexico is positive so far. In comparison to other companies, HP has one of the most advanced philosophies and one of the best practices concerning corporate social responsibility.

In regards to ODMs, CMs and suppliers of HP Mexico we found that:

- a. HP's SER team in Mexico gives continuous follow-up to their suppliers (through regular visits, questionnaires, courses and audits) with the purpose of helping them fulfill the EICC requirements.
- b. If a supplier does not comply with EICC requirements, the HP SER team will request corrective actions that will resolve the problem. During the last six months, CEREAL has not received any news of HP ending a business relationship with a supplier due to a noncompliance issue.
- c. The HP team has facilitated communication between their suppliers and CEREAL, where noncompliance issues have been taken care of and documented by our organization.

Due to the complex and extensive supply chain of HP in Mexico, the conditions that CEREAL has found vary among the different suppliers. There are companies with a commitment almost as strong as HP, but there are also companies that do not apply the necessary corrective measures sufficiently or promptly. We believe these circumstances are due to the recent birth of the EICC and we are confident that these challenges will be resolved.

It is worth mentioning the social responsibility leadership role that HP has played through the Electronics, Telecommunications and Informatics Industry National Chamber (CANIETI). HP has facilitated conversations between CEREAL and companies that are not part of HP's supply chain, where HP recognizes the importance of having social responsibility practices. These conversations between CEREAL and companies have allowed the resolution of several labor conflicts in a more effective and prompt manner than could be achieved by relying solely on required legal mechanisms.

The relationship during this year between HP, CEREAL and HP's suppliers has highlighted disagreements and differences about the manner in which we should all work together. However, it is obvious that these differences have been worked out along the year and agreements are taking place to ensure our efforts are better coordinated.

Flextronics

Darryl Chen

Global Program Manager, SER
HP Global Account Management
FLEXTRONICS



HP has been in the forefront of social responsibility activities and initiatives, and is a global partner and co-member in the EICC committee. Flextronics continues to work with HP to organise supplier forums and many other supply-chain SER initiatives. Flextronics views SER as an area in which we can develop a competitive advantage, and has taken a proactive approach toward SER compliance.

With the rollout of HP's SER initiative, about nine sites globally have been audited so far, of which three have gone through a follow-up audit. Also, representatives from all China-based factories that manufacture for HP attend the monthly FISl training sessions. A global program manager also attends the training sessions to ensure that the learning will be shared amongst other sites outside of China to enhance effectiveness and competitiveness in achieving SER compliance globally.

The concept of gathering top tier suppliers to spend a day or two to discuss the problems and issues faced in meeting compliance requirements is innovative and ground breaking. This approach allows suppliers to speed up their learning curves by learning from each other. Case studies used during the training sessions always leave the participants with interesting learning experiences and principles for implementation, as well as some "food for thought".

HP has taken a unique approach to implementing SER, not only within its own organisation, but also by influencing their suppliers to join the cause. With their active engagement of suppliers, and the desire to educate and create opportunities for learning in this area, HP has shown that its commitment to SER is different from its peers and competitors. Flextronics remains proud to be a partner of HP.

AU Optronics

Sean Yang

Sr. Sales Engineer
AU Optronics Corporation
America

Jean Lee

Risk & ESH Management
Department
AU Optronics Corporation

Bryan Kuo / Eli Yang

Human Resources Division
AU Optronics Corporation

AU Optronics has participated in HP's SER program and in the Focused Improvement Supplier Initiative (FISI) capability building program in China in 2006. Here, they respond to questions about the program.

How many sites have been audited?

Two sites in China (Suzhou and Songjiang) have been audited.

How was AUO involved with the FISl training sessions?

Corporate departments including Risk & ESH Management Dept. and HR Division have joined the FISl training sessions, and perform the company-wide coordination role of the corporate SER program within AUO group. The ESH department and HR department of our China sites have been particularly involved with the FISl training to strengthen the implementation of SER requirements at our China sites.

Is the FISl training addressing the right issues?

Yes, the FISl training has focused on the right issues and discusses how to improve these problems. However, some classes are either too theoretical or too general, that may lack practical solution to real cases. For example, the class for ESH this October was very general and basic for ESH staffs. Our people from HR think the material cannot be applied to their daily work.

Is the process appropriate? How could it be improved?

Yes, it is appropriate. We suggest that more explanation of laws and the EICC and more case studies will be helpful in practice. At the class for HR issues in December, we had a brief introduction and explanation on EICC labor regulations, followed by a real case discussion which helped people a lot.

How does HP's supply chain SER initiative/EICC differ from its peers/competitors?

The difference is HP gives the training as well as the opportunity to share the experiences among suppliers. Many companies just conduct the audit activities to their suppliers without a training program.



AU Optronics held a supplier forum to extend SER expectations and requirements to AUO's own suppliers.

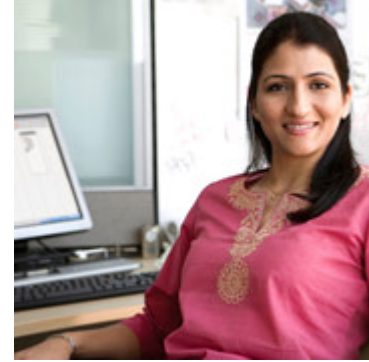
Supplier diversity

HP promotes diversity in its supply chain because diverse suppliers have fresh ideas, offer innovative products and processes, and contribute to the economic strength of the communities in which we operate. Our supplier diversity program provides access to suppliers who would not normally approach HP and helps us reflect the demographics of our customer base.

Supplier diversity reflects our global citizenship principles and also presents an opportunity to gain competitive advantage. Supplier diversity is mandatory for fulfilling U.S. Federal Government contracts as well as the requirements of many major public and private sector customers. In the United States, the main categories of businesses supported by our supplier diversity program are minority-owned, women-owned and veteran-owned.

We are expanding our supplier diversity program into Europe. This requires establishing new regional definitions of diversity that reflect local society and culture, and we are working with governments and others to do so.

HP has maintained a Corporate Supplier Diversity Program Office for more than 30 years in the United States, and belongs to more than 20 supplier diversity organizations in the United States, Canada and Europe.



Performance

U.S. supplier diversity

During 2006, we exceeded all of our targets (see Goals). We extended our supplier diversity spending in the United States to a larger number of suppliers by encouraging our suppliers to purchase from diverse suppliers in their own supply chains.

U.S. supplier diversity purchasing results^{1,2} [Million \$U.S.]

Category	2004	2005	2006
Total small businesses	\$3,040	\$3,011	\$3,510
Minority-owned small businesses	\$909	\$1,052	\$1,150
Women-owned small businesses	\$362	\$407	\$380
Total minority-owned firms	\$1,100	\$1,100	\$1,200
Total women-owned firms	\$397	\$424	\$400



Diverse supplier events

HP hosts events with local business councils and participates in national events that introduce diverse suppliers to potential customers. In 2006, HP procurement professionals participated in over 20 diverse supplier sourcing events throughout the United States, Puerto Rico and Canada.

In the United States, HP collaborates with the U.S. Small Business Administration, SCORE (the Service Corps of Retired Executives) and the multi-city Business Matchmaking Program to organize and sponsor events promoting diverse suppliers.

The events match small businesses with government agencies and private companies seeking suppliers of products and services. In 2006, more than 15,000 meetings were conducted at the events, including 300 between potential suppliers and HP. Since its inception, Business Matchmaking has connected small business sellers with representative buyers in nearly 40,000 meetings, resulting in more than \$700 million in contracts.

Global supplier diversity

HP is planning to apply the expertise we have developed in the United States to other markets, including Canada, France, Germany, South Africa and the UK. HP will continue to broaden the scope of its program internationally, working with governments and various organizations to establish local definitions for underrepresented businesses, taking into account sensitivities regarding this issue.

In 2006, HP established a team of local supplier diversity "champions" in France, Germany and the UK to implement HP's sourcing activities locally. We also enhanced our web-based supplier registration tool to facilitate the registration of Canadian, French, German, and UK based business enterprises. We will begin reporting data on international supplier diversity in 2007.

We received a research grant from The Copenhagen Centre to participate in "Small Suppliers in Global Supply Chains – Partnerships for Competitive Sustainability," a program funded and sponsored by the EU Commission. HP has requested our suppliers to identify their small- and medium-sized business suppliers in Central and Eastern Europe to participate in the program. Objectives include establishing the business case for social and environmental responsibility and creating regional best practice forums for our second-tier suppliers.

Diverse resellers

In addition to promoting diversity in our supply chain, we advance diversity in our resellers through mutually beneficial relationships. Through our HP PartnerONE Diversity network, we maintained relationships with, and provided marketing and sales support to, over 300 diverse resellers in 2006.

¹ All figures are for U.S. purchases from U.S.-based businesses.

² Data is for the 12-month period ending September 30 of the year noted.

Goals

Goals for 2006

- Award \$2.5 billion of U.S. purchases to U.S.-based small businesses.
Progress: \$3.51 billion awarded.
- Award \$720 million of U.S. purchases to U.S.-based minority-owned small businesses.
Progress: \$1.15 billion awarded.
- Award \$300 million of U.S. purchases to U.S.-based women-owned small businesses.
Progress: \$380 million awarded.
- Launch UK supplier diversity program and develop first supplier diversity expenditure report for the United Kingdom and Canada.
Progress: Partially completed. HP successfully launched its UK supplier diversity program in 2006. Initial data reporting for UK and Canada is planned for 2007.

Goals for 2007

- Award \$3.1 billion of U.S. purchases to U.S.-based small businesses.
- Award \$1.0 billion of U.S. purchases to U.S.-based minority-owned small businesses.
- Award \$400 million of U.S. purchases to U.S.-based women-owned small businesses.
- Establish goals for diverse supplier spending in Europe.

Case study

SpringBoard is a diverse supplier to HP

SpringBoard Technology is a minority business enterprise that provides reverse supply chain service solutions including repair, warranty, inventory and planning, order fulfillment and logistics management to the computing and electronics industry.

SpringBoard's relationship with HP dates back to the predecessor companies Digital Equipment Corporation and Compaq, which ultimately became part of HP. Since supplying HP directly, SpringBoard has benefited considerably, in large part from HP's informal mentor program. Under the relationship, HP has committed resources and helped SpringBoard understand and anticipate industry trends, allowing SpringBoard to make critical infrastructure and human resources investments proactively and position itself for future growth.

One of the market shifts HP helped the company navigate was the move away from a traditional repair business, where the customer deals with the brand owner who then forwards the repair work to the supplier. Under a new business model, SpringBoard manages the customer interface on behalf of the brand owner such as HP, and also undertakes repairs. This adds more value to the brand owner and is more efficient for the customer.

Advice and support from HP Services was instrumental in doubling HP's business with SpringBoard in less than four years and enabling SpringBoard to expand its service offerings to the electronics sector.

This success story has been recognized by awards two years in a row from the New England Minority Suppliers Development Council, as well as the National Minority Supplier Development Council, The U.S. Department of Commerce and the Entrepreneur of the Year.

"We have had a tremendous relationship and HP has always been there as a partner. If I have one suggestion, it would be to formalize their informal mentor programs as they have been so effective with it. It would behoove them to measure their results and expand their efforts in a formal Mentor Protégé Program; this would clearly have an even wider impact on the minority business community and the economy at large. I know HP would want to understand and share the wonderful impact they are having today on SpringBoard Technology and like companies."

Tony Dolphin
Chairman and CEO
SpringBoard



Energy efficiency



Energy use is an important issue for HP, our customers and other stakeholders. Rising energy prices, concerns about energy security and increasing pressure from society to reduce greenhouse gas (GHG) emissions related to fossil fuels, have heightened the demand for energy efficiency and renewable energy sources. HP is increasing the energy efficiency of our products as well as our operations and working with others to extend our reach.

Our most significant impact on energy consumption is through the use of our products, and energy efficiency has been a key element in our Design for Environment program since its inception in 1992. We help customers decrease energy use and save money through innovative design and technologies across our product portfolio, from the computer chip to the data center.

For example, in 2006 we launched Dynamic Smart Cooling, which addresses the growing challenge of data center cooling and can reduce data center energy consumption related to cooling by 15% to 40% (see case study). We also introduced goals to improve energy efficiency of our printers and servers.

In this section:

- » Products
- » Operations
- » Collaboration
- » Goals
- » Case studies
- » Perspective

HP has set a goal to reduce the combined energy consumption of HP operations and products 20% below 2005 levels by 2010¹

In our operations, energy use is the most significant environmental aspect of HP owned and HP leased facilities. We launched HP Workplace Transformation during 2006, an initiative to consolidate facilities worldwide. As part of this program, we are upgrading our core sites in a phased approach over time, with new technology and by utilizing space more effectively. Through this and other energy efficiency initiatives, we reduced absolute energy use from operations by 1% in 2006, equal to approximately 35 million kWh, thus avoiding 18,000 tonnes of carbon dioxide (CO₂). Our goal is to reduce by 2010 energy consumption and the resulting CO₂ emissions from HP owned and HP leased facilities worldwide to 15% below 2006 levels.

Addressing climate change effectively requires broad collaboration of business, governments, and NGOs, as well as action by individual companies. We collaborate on several energy standards and policy initiatives. In November 2006, we launched an initiative with WWF (World Wildlife Fund), through which we will work to reduce our own energy use, develop targets for product energy efficiency, and contribute to specific WWF projects to measure climate change impacts in identified areas.

¹ Goal applies to HP owned and leased facilities globally and to average energy efficiency across identified high volume product families, using industry standard measurement benchmarks and holding ship rates constant using IDC reported figures for 2005. Identified product families include products in the following categories: notebook and desktop computers, inkjet and LaserJet printers and industry standard servers.

Products

Computers and other technology equipment are responsible for a growing amount of energy use. For example, in 2000 the U.S. Department of Commerce estimated that office and telecom equipment were estimated to account for almost 10% of U.S. commercial electricity consumption, with PCs, workstations, servers, networks and printers responsible for about two-thirds of that (or about 6% of the total)¹. Due to the rapid growth of IT worldwide, energy efficiency is important to conserving energy and addressing climate change. HP innovation has focused for years on reducing energy consumed by our products, saving customers money and reducing carbon dioxide (CO₂) emissions that contribute to climate change. Because most electricity is produced by power plants burning fossil fuels, reducing energy consumption enables our customers not only to save money on their utility bills but also to play a part in addressing climate change.



Product energy efficiency complements energy reduction in our operations. We also extend our reach by working with organizations such as WWF (World Wildlife Fund) and collaboration with international industry groups and governments to develop energy efficiency metrics and standards.

HP began addressing energy efficiency in the design phase of our products in 1992, with the launch of our Design for Environment (DfE) program. In 1996, HP Labs established a Power and Cooling Team and we now hold a large number of patents worldwide in this area.

Our product energy strategy is to deliver energy-efficient products and services through innovative design, effective partnerships, and advanced research by HP Labs. Our objective is to offer products that can save customers energy and money and that minimize environmental impact.

HP has set a goal to reduce the combined energy consumption of our operations and products by 20% by 2010. We also set energy efficiency goals for several product segments (see Goals for further explanation). Achieving these goals is part of our strategy to be an industry leader in energy efficiency.

Innovation from the chip to the data center

We offer energy-saving innovations across the spectrum of our products and services – such as using energy-efficient computer chips developed by our suppliers in the semiconductor industry, creating servers with breakthrough technology and developing industry-leading services for data centers.

Energy savings can result from small improvements multiplied across a large number of products, as well as from more sizable advances in specific products and services.

For example, HP servers launched in 2006 take advantage of partner innovations by using processors that can reduce processor power consumption by 24% when utilization is low. In 2007, we have redesigned our HP Deskjet printers to reduce their off-mode power consumption to less than 1W. This will enable customers to save on their energy bill for printing and reduce associated CO₂ emissions related to electricity generation.

Our latest PCs and workstations are more efficient than the HP products they replace. For example, our Blade PC incorporates low-voltage processors that are 10 times more efficient than those in a typical desktop PC². In addition, we now offer power supplies on several commercial PCs that are on average 15% more energy efficient than previous power supplies.

Our c-Class Server Blades, launched in 2006, use only two-thirds the power of conventional server blades due to innovative Thermal Logic power and cooling technologies such as Dynamic Power Saver, which monitors power consumption data to intelligently control power supplies, and Active Cool fans, which were inspired by model jet aircraft engines.

Enterprises with data centers can save even more energy by using HP's industry-leading Dynamic Smart Cooling (DSC) service. Cooling can represent 60% to 70% of the total power needs of a data center. DSC can reduce energy consumption related to cooling by as much as 40% for a small center. For larger data centers, the power savings can represent more than 5,000 tonnes of CO₂ avoided per year (see case study).

For details of specific developments in 2006, see the Performance page.

Energy efficient solutions from the chip to the data center

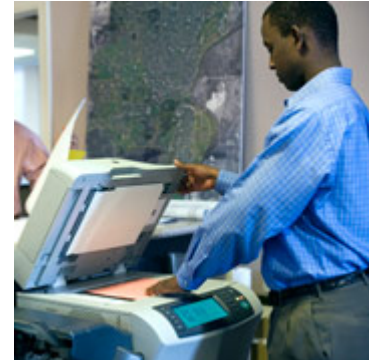
Chip	Printers and PCs	Servers	Data center
Best partner solutions: <ul style="list-style-type: none"> • AMD PowerNow! • Intel Xeon • Microsoft power management • Small form factor drives 	<ul style="list-style-type: none"> • Linux Power Management • xw6400 workstations • All inkjet, LaserJet, All-in-One and multi-function printers have sleep and off modes with fast recovery time • Inkjets with < 1 W in off mode • Blade PC • Instant-on fusing technology • HP Compaq dx2250 Desktop PC 	<ul style="list-style-type: none"> • Energy efficient server blades • Thermal Logic • Adaptive Fan • Thermal monitoring and management • Modular Cooling System (MCS) • Power regulator 	<ul style="list-style-type: none"> • Thermal assessment • Dynamic Smart Cooling • Data center design • Virtualization and consolidation
Power and cooling teams			

¹ Figures for 2000, from Energy consumption by office and telecommunications equipment in commercial buildings, Vol 1, report for US Department of Commerce, 2002.

² Blade PCs allow smaller businesses to network their desktop computers and storage into a datacenter-like system while retaining traditional PC user interfaces and capabilities.

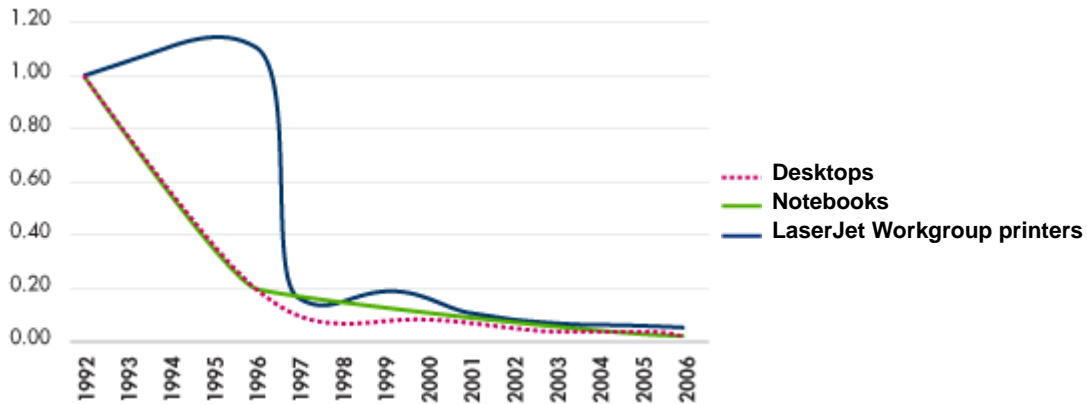
Performance

Due to the diverse range of products and multiple configurations, it is not feasible to calculate total energy consumption for HP's entire product portfolio. HP participates in global industry-wide groups (such as ECMA, ASHRAE, The Uptime Institute and the Green Grid) that are working to improve computer energy efficiency measurement and standards. We have set goals to improve product energy efficiency of many HP products including identified high volume product families of our printers and our servers by 2010. In addition, our personal computer business is also working to reduce the energy consumption of its systems by continuing to offer the latest in power efficient components, such as lower wattage processors and more efficient power supplies.



The chart below illustrates that product performance relative to energy use has increased substantially during the last 15 years, as a result of dramatic improvements in processing power and energy efficiency innovations. HP's product environmental profiles include energy data for individual products.

Product group energy efficiency, 1992-2006
 [Approximate energy/performance, 1992 = 1]

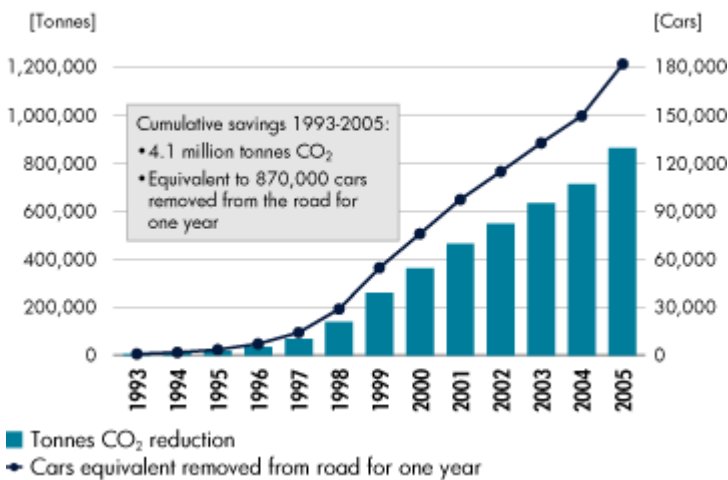


The following examples illustrate our progress in improving the energy efficiency of our products.

Printers

In 1993, we introduced "instant-on fusing"¹ for HP LaserJet printers, which saves energy when the machine is idle. We estimate that for our monochrome LaserJet products, the total energy consumption saved since 1993 from use of this technology represents 4.1 million tonnes of carbon dioxide (CO₂), equivalent to removing 870,000 cars from the road for one year².

Monochrome LaserJet workgroup printer savings from instant-on fusing, 1993-2005



PCs and workstations

HP's new products in 2006 included many energy-saving improvements:

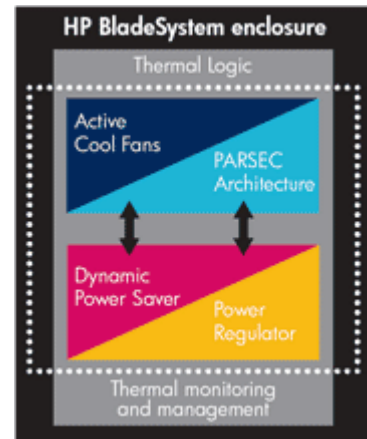
- Processing performance per unit of energy increased more than five-fold for the HP xw6400 Workstation, compared to the product it replaced (the HP xw6200 Workstation), from 23 to 118 tasks per kWh³.
- HP led the effort to make power management options available in Linux workstations. Now all HP workstations have power management capability that gives customers the ability to use sleep mode instead of leaving systems in idle mode. The projected annual savings per workstation is 1,800 kWh, which for every 10 systems will save enough energy to light an average home for one year⁴.
- All new HP Windows workstations now have the default setting to sleep (low power) or hibernate (very low power), as appropriate, without negatively affecting performance.
- New HP commercial desktop products utilizing the latest energy efficient microprocessors and 80% efficient power supplies improve the desktop product energy efficiency by 15% to 40%, compared to previous generation products.

Servers and storage

We designed our c-Class Server Blades⁵, launched in 2006, to save energy. These servers require only two-thirds the operating power of conventional rack-mounted servers, saving energy through power management, monitoring technologies and innovative cooling. On average, racks of servers require as much energy for cooling as is required to run the servers. However, HP BladeSystem c-Class Server Blades require 70% less power for cooling than conventional rack mounted servers.

Energy technologies in c-Class Server Blades include:

- HP Dynamic Power Saver – adjusts power consumption to use only the energy immediately needed for tasks underway.
- HP Thermal Logic – enables users to monitor and adjust power according to equipment demands. Compared to typical servers, this technology requires 50 percent less airflow and 70 percent less power for cooling.
- Insight Management – utilizes hundreds of embedded sensors throughout the server enclosure that enable monitoring and precise management of power demand, heat and cooling resources.
- PARSEC Architecture – optimizes air flow within the enclosure.
- HP Active Cool fans (20 patents pending) – cools 16 server blades using as little as 100 W of power. The design, inspired by model aircraft engines, was developed by one of HP's fan technologists specifically for c-Class Server Blades.



Small form-factor disk drives, which can replace traditional 3.5 inch drives in some servers and storage solutions, reduce energy consumption as much as 10 W per drive or 88 kWh per year, estimated to equal the CO₂ emissions from a car burning four gallons of gasoline. HP plans to use these small form factor disk drives in most of our future servers and storage systems.

Data centers

In November 2006, we launched Dynamic Smart Cooling (DSC) to manage data center cooling resources, to help customers save energy and money, and to increase data center computing density.

DSC addresses the increasingly important challenge of efficiently cooling high-density data centers that house hundreds or even thousands of racks of servers. DSC can reduce cooling costs by 15% to 40% (see case study). We are in the process of applying this technology in our own HP data centers.

¹ Instant-on fusing technology allows printers to respond to jobs instantly without using energy to keep the print mechanism constantly warm.

² The tonnes of CO₂ avoided is based on power plant emissions that otherwise would occur to generate the electricity saved; cars removed is based on annual emissions from cars burning gasoline.

³ This data is based on a benchmark for HP's financial customers.

⁴ See <http://pmdb.cadmusdev.com/powermanagement/quickCalc.html#calculatorTop>.

⁵ A server blade is a compact, high-density server in a specially designed enclosure.

Operations

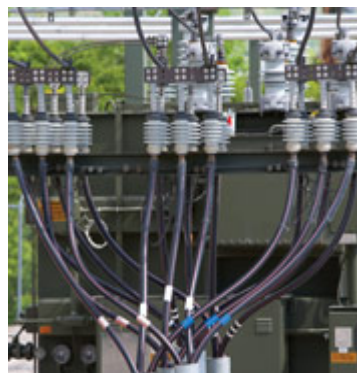
HP's most significant source of greenhouse gas (GHG) emissions from operations is energy consumption, primarily electricity. Energy use accounts for 97% of our GHG emissions. Our environmental operations strategy focuses on consolidating our operations into core sites, with our HP Workplace Transformation initiative enabling us to improve space utilization and install more energy efficient equipment, in a phased approach over time. Our goal is to reduce energy consumption and the resulting carbon dioxide emissions from HP owned and HP leased facilities worldwide to 15% below 2006 levels, by 2010.



We are expanding our use of renewable energy, by purchasing green electricity and installing onsite generation at selected locations. As explained below, we also have specific efforts that target company vehicles, employee business travel and commuting, and GHG emissions from manufacturing.

Energy use

Energy use accounts for 97% of HP's greenhouse gas (GHG) emissions from operations. During 2006, energy use decreased 1% while energy costs increased by more than 13%. Energy is one of the largest costs of operating our buildings, and energy efficiency is a company-wide priority. We continually identify and implement energy saving initiatives to reduce energy consumption and costs.



In May 2006, we announced HP Workplace Transformation, an initiative to consolidate our operational locations to core sites. As part of this program, we set a goal to reduce our energy use at HP owned and HP leased sites worldwide by 15% by 2010. We will achieve this reduction by upgrading building infrastructure and reducing total floorspace.

The upgraded sites will use the latest energy efficient HP technology. For example, updating cathode ray tube (CRT) monitors with flat panel displays would reduce energy use by more than 4 million kWh/year, which equals approximately 2,000 tonnes CO₂ or about \$320,000¹ in annual savings. We are also installing networked printers throughout our facilities, which use less energy than desk-side models, and have demonstrated a 10% reduction in paper consumption.

We have already implemented HP's Static Smart Cooling technology into many of our data centers, reducing energy consumption on average by 8.7%. In May 2006, we announced plans to consolidate 85 data centers in 29 countries into six data centers in three U.S. locations. These data centers will incorporate our second generation of Smart Cooling technology, HP Dynamic Smart Cooling (DSC) (see case study). This technology enables real-time changes to air conditioners, fans, vents and even computing, and it is anticipated to reduce our data center energy consumption related to cooling by 15% to 40%.

2006 energy audits

HP's energy goal for 2006 was to conduct energy audits at 53 of our largest facilities and implement measurable energy efficiency projects at each one. Eight of the planned audits were cancelled due to consolidation plans. We completed the remaining 45 audits, which have currently yielded projects resulting in energy savings of approximately 27 million kWh/year (\$1.9 million). A few sites are still in the process of implementing projects. Examples include:

Singapore. Installed a solids filtration system to the facility's air conditioning system. This decreased bacteria growth and reduced the need for water and water treatment chemicals and the level of required maintenance. This change will save 90,000 kWh/year (\$7,200) in energy alone.

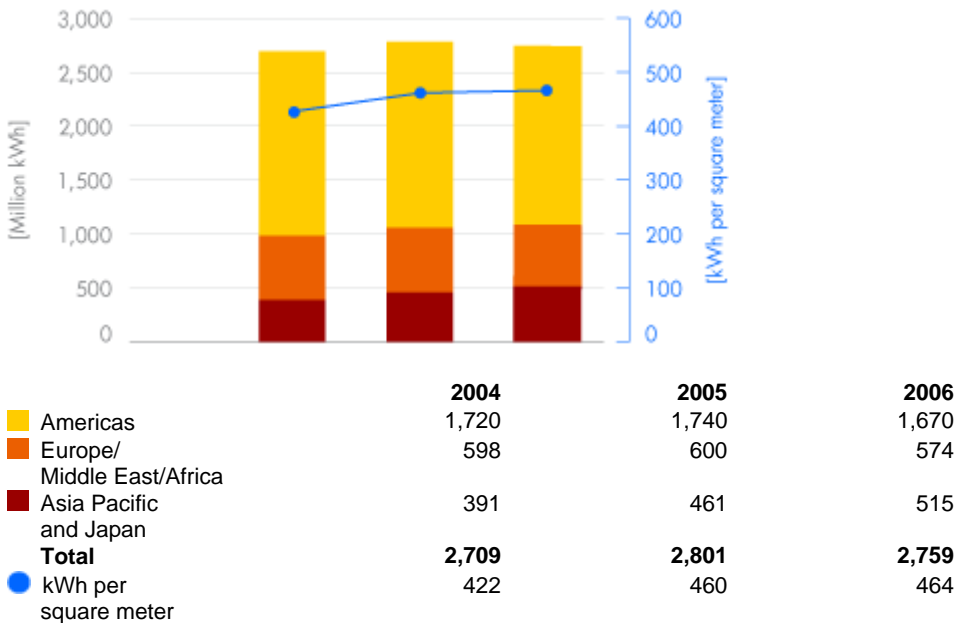
Erskine, UK. Installed energy efficiency controllers to 25 pumps and air handling motors, which reduced their energy consumption by 46%, saving 482,000 kWh/year (\$38,600).

Cupertino, California. Implemented changes in our computer labs that will save almost 4.6 million kWh/year (\$700,000). Changes include adjusting the configuration of rows of computers to align the hot (front) and cold (back) sides, plugging air leaks in the raised floor and managing lighting controls in eight computer labs. We are applying what we learned in these labs to our other computer labs throughout the company.

Electricity use

HP measures electricity consumption in absolute use (million kWh) and normalized per unit of floor space (kWh/square meter). Electricity use during 2006 decreased by 1% compared to 2005, saving 42 million kWh. We achieved this primarily through our site consolidation program.

Electricity use, 2004-2006 [Million kWh]

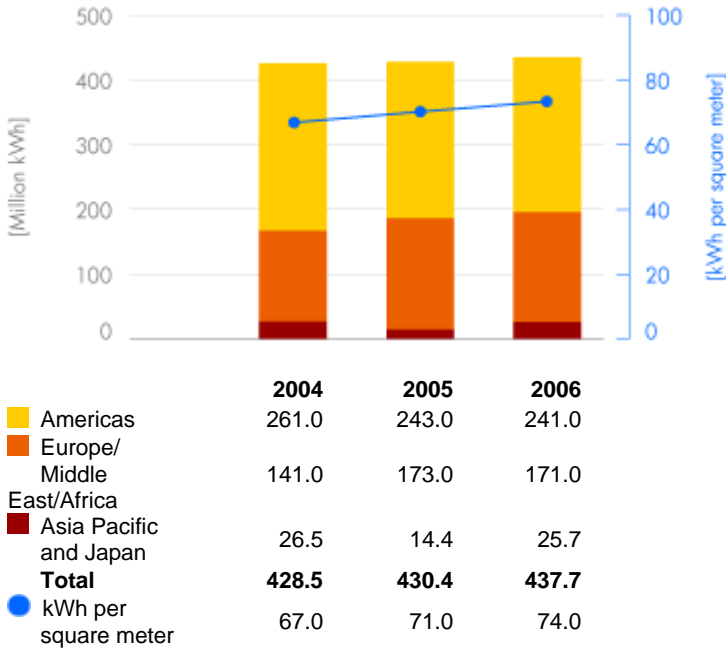


See regional breakdown of electricity use per square meter in the data table.

Gas use

From 2005 to 2006, our gas use increased by 7.3 million kWh, or 2%. Consumption decreased 1% in the Americas and Europe, Middle East and Africa. This decrease was primarily due to consolidation efforts. Gas use increased 79% in Asia Pacific and Japan, primarily due to business growth, which offset performance in other regions.

Natural gas use, 2004-2006 [Million kWh]



See regional breakdown of natural gas use per square meter in the data table.

Renewable energy

HP continues to increase renewable electricity use by purchasing electricity from third parties and installing solar systems at two of our facilities.

In 2006, we purchased 11 million kWh of renewable energy. In December 2006, we joined the U.S. Environmental Protection Agency's (EPA) Green Power Purchase program and are participating in their challenge to Fortune 500 companies to double their renewable energy purchases by the end of 2007. We plan to increase our renewable energy purchases by more than 350% by procuring 50 million kWh of renewable electricity during 2007.

We investigated purchases outside of the United States, but found that cost and availability can be limiting factors in certain countries. We will continue to evaluate renewable energy purchases outside the United States.

Renewable energy purchasing, 2006

Site	Amount of energy (million kWh)
Boise, Idaho	2.4
Corvallis, Oregon	4.3
Fort Collins, Colorado	0.5
Palo Alto, California	0.9
Roseville, California	2.6
Vancouver, Washington	0.7
Total	11.4

In 2006, our Vancouver, Washington site installed two pole-mounted, solar photovoltaic arrays consisting of six modules each. The arrays, prominently located near the site entrance, will produce more than 2,500 kWh annually.

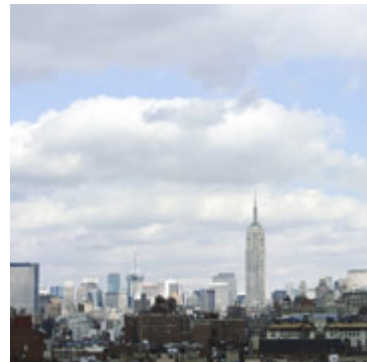
In 2005, our Barcelona site installed a hot water solar system that generates 22,000 kWh/year, representing approximately 0.2% of the site's total electricity demand.

These are our first projects and we are investigating others.

¹ Throughout this section, we calculate savings assuming a cost of \$0.08 per kWh, based on our global spending average.

Greenhouse gas emissions

Governments, businesses and individuals must all play a role in reducing greenhouse gas (GHG) emissions that cause climate change. Increasingly, our customers and shareholders expect us to decrease our climate impact. Against a background of rising global energy prices, there is a strong business case for investing in energy efficient technology. HP continues to lead the IT industry in reducing the energy used by our operations and products.

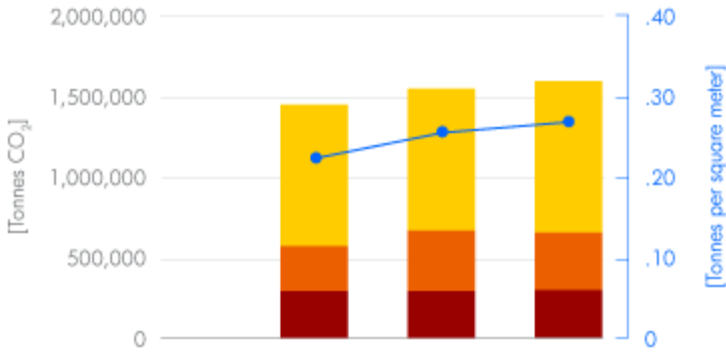


Performance

Although our total energy use in operations decreased by 1% from 2005 to 2006, our 2006 emissions of greenhouse gases increased 3% or by 47,200 tonnes of CO₂ equivalent. This is due to changes in the global energy mix for electricity generation. In April 2006, the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) updated its GHG Protocol emission factors for electricity generation, to reflect these changes. Using the old factors, HP's GHG emissions would have decreased 5%.

Emissions per unit of floor space increased 5% due to the changes in electricity conversion factors and a 2% reduction in floor space. Emissions per unit revenue, a measure of overall efficiency, decreased by 3%.

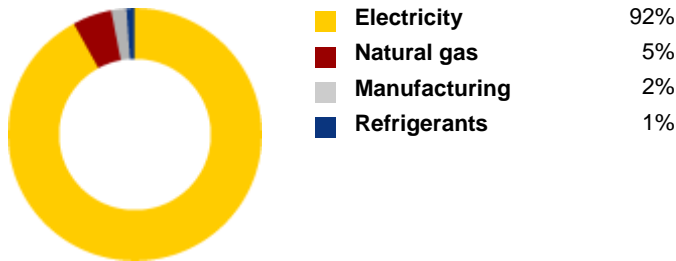
Greenhouse gas emissions, 2004-2006 [Tonnes CO₂]



	2004	2005	2006
Americas	882,300	882,700	943,400
Europe/ Middle East/Africa	291,900	290,600	294,200
Asia Pacific and Japan	277,500	378,000	360,900
Total	1,451,700	1,551,300	1,598,500
● Tonnes per square meter	0.226	0.255	0.269

See regional breakdown of GHG emissions per square meter in the data table.

Sources of greenhouse gas emissions, 2006

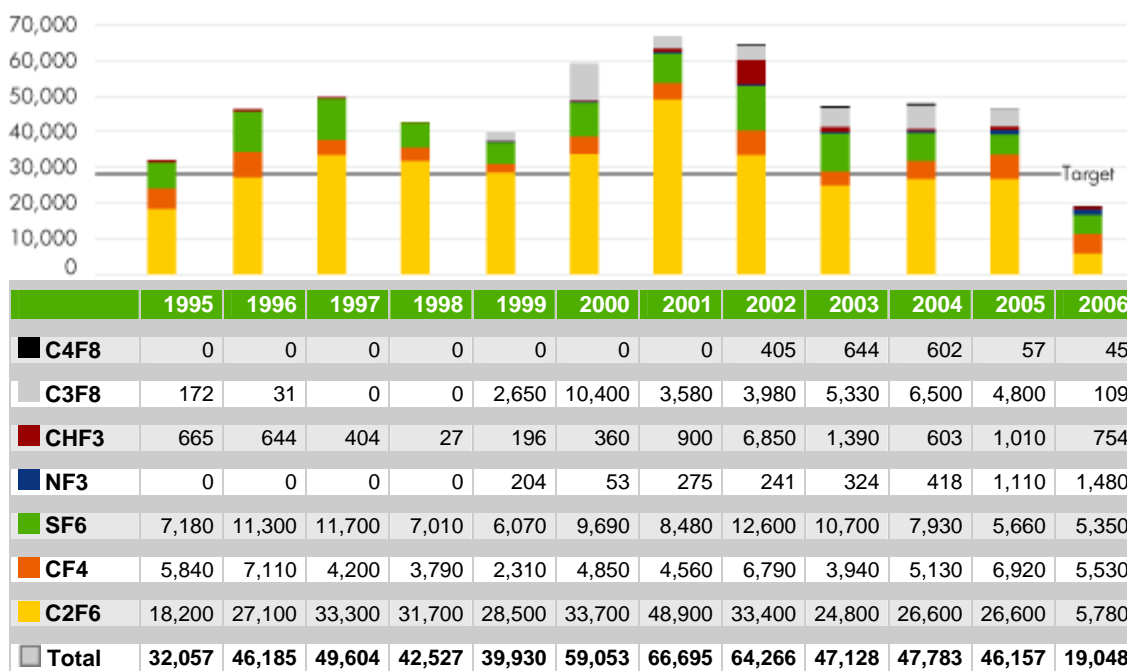


Perfluorocarbons

Perfluorocarbons (PFCs) are gases used widely in the semiconductor industry for cleaning and etching processes. The global warming potential of PFCs ranges from 6,500 to 23,900 times greater than CO₂.

In the United States, HP participates in the PFC Reduction Climate Partnership, a voluntary initiative with the U.S. Environmental Protection Agency (EPA) to reduce specified PFC emissions by 10% from 1995 levels by the end of 2010. In 2006, HP decreased its PFC emissions by 59% from 2005, to 34% below the 1995 level. Installing additional abatement technology at our manufacturing plants enabled us to meet the 2010 EPA goal in 2006¹.

PFC emissions, 1995-2006² [Tonnes CO₂ equivalent]



¹ The EPA program goal was to reduce the annual absolute PFC emissions of the participating companies collectively by ten percent on a Metric Tonne Carbon Equivalent basis below the 1995 baseline PFC emissions. We report the emissions in tonnes CO₂ equivalent for consistency with the rest of the report. To convert to MTCE, divide by 3.67.

² These data are calendar year.

Reporting and verification

Reliable and verifiable data is essential to managing the greenhouse gas (GHG) emissions from our operations. We measure, verify, and publicly report every year the GHG emissions from our HP owned and HP leased facilities worldwide. We also report our California emissions to the California Climate Action Registry. During this process, we correct any errors from misreading or mistyping data in HP's tracking system; we investigate any change in performance greater than 5%; and we conduct a root cause analysis if we discover a systemic error. For electricity we purchase from utility companies, we adjust conversion factors to account for how the emissions are generated to reflect the most recent data available.



In addition to our internal review, we commission independent auditor Bureau Veritas Certification to verify our GHG emissions measurements and annual reporting under the protocols of the World Economic Forum's (WEF) Global Greenhouse Gas Registry. Bureau Veritas Certification also verified our 2005 California CO₂ emissions using the protocols from the California Climate Action Registry (CCAR). We plan to commission similar reviews of our 2006 GHG emissions data and we may expand the verification under the CCAR protocols to our U.S. operations in the future.

See details regarding the WEF and CCAR verification of 2005 data online.

Comment by the independent auditor:

"Although some minor discrepancies were noted during the verification, these did not appear to be significant and there is a good approach in place for addressing any discrepancies found during internal and external verification audits. I also felt that HP has greatly improved their data collection process and has made significant progress in improving data accuracy. Overall, I had confidence that the data reviewed was generally accurate and assumptions or estimations made seemed reasonable."

Carol Osgood

Auditor

Bureau Veritas Certification

Travel

Business travel

HP recognizes the impact on climate change of carbon dioxide (CO₂) emissions that result from employee business air travel. Emissions have increased roughly in line with business growth.

Carbon dioxide emissions from employee business air travel, 2004-2006 [Tonnes CO₂]

	2004	2005	2006
	253,000	279,000	289,000



We encourage employees to use teleconferencing whenever possible, to reduce CO₂ emissions from transportation and to cut costs. Employees frequently use web-based meetings and conference calls for training and collaboration. We provide several solutions, including the HP Virtual Room and the HP Halo Virtual Collaboration System (see case study).

HP owned cars and planes

HP has a small number of aircraft and a fleet of company cars for sales and services employees. The aircraft represent a small portion of our total CO₂ emissions from employee business travel. CO₂ emissions from our U.S. and Canadian auto fleet totaled 89,400 tonnes CO₂ in 2006. CO₂ emissions from our Europe, Middle East and Africa auto fleet totaled 85,400 tonnes CO₂ in 2006. We are expanding data collection to include our fleet in Asia Pacific and Japan.

Carbon dioxide emissions from HP auto fleet, 2004-2006 [Tonnes CO₂]

	2004	2005	2006
United States and Canada	85,600	86,600	89,400
Europe, Middle East and Africa	NA	70,600	85,400

Employee commuting

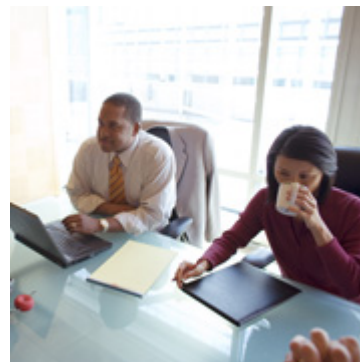
While CO₂ emissions from employee commuting are not directly within HP's control, we have programs designed to reduce them. Our global Telework program allows employees to work from home whenever consistent with business needs.

We currently have nearly 13,000 employees worldwide who work exclusively from home offices. Approximately 10,400 of those employees work in the United States and Canada. We estimate that in 2006, the Telework program saved almost 2.5 million round-trip commutes, avoiding approximately 65 million miles of road travel and almost 28,000 tonnes of CO₂ emissions. Other employees work at an HP site only a few days a week. We are considering how to calculate the CO₂ savings for these employees as well.

Collaboration

We expand our efforts related to energy efficiency and climate change by collaborating with other organizations to develop common standards, by promoting effective policies and through partnerships that enable us to share our knowledge and benefit from others' expertise.

For example, HP participated in the multi-stakeholder process that developed the environmental performance standard (ANSI-IEEE 1680), which is the basis for EPEAT registration in the United States. For more information see Design for Environment. HP also works with governments to promote energy efficiency. For example, in Europe, HP supports the European Commission's Sustainable Energy Europe Campaign 2005-2008.



HP serves on the Board of Directors of the California Climate Action Registry (CCAR), which has developed protocols used worldwide to calculate greenhouse gas (GHG) emissions.

In November 2006, we launched an international climate change initiative with the conservation organization World Wildlife Fund (WWF). This initiative seeks to strengthen both our and WWF's efforts to broaden our action on climate change through education and outreach, provide funding and technology to advance climate change science, and reduce carbon dioxide (CO₂) emissions related to energy use. Key components of the initiative are:

- By 2010, HP will reduce energy consumption and the resulting CO₂ emissions from HP-owned and HP-leased facilities worldwide to 15% below 2006 levels.
- We will continue to report and verify CO₂ emissions from these facilities.
- We will develop energy efficiency metrics and goals, and report publicly on progress.
- WWF and HP will develop and implement educational programs to address climate change with key stakeholders, including business leaders, HP customers and employees, opinion leaders and the media, to explain the need for every individual to address climate change and highlight best practices for doing so.

WWF and HP will use HP technology in specific projects designed to advance scientific understanding of climate change in identified locales. For example, an initial project will provide project finance and technology for a pilot project to assess the impact of climate change in the Bering Sea in Alaska.

Goals

Goals for 2006

- Reduce HP's on-site greenhouse gas (GHG) emissions by 18% from 2005 levels.
Progress: Through several process changes, we reduced site emissions by 31%.
- Conduct energy audits at 53 of our largest facilities and implement measurable energy efficiency projects at each facility.
Progress: Eight planned audits were cancelled due to consolidation plans. We completed the remaining 45 audits, which resulted in projects saving approximately 27 million kWh/year (\$1.9 million).

Goal for 2007

- Increase purchases of renewable energy in the United States to 50 million kWh/year from the 2006 level of 11 million kWh.

Goals for 2010

- Reduce the combined energy consumption of HP operations and products 20% below 2005 levels.¹
- Improve energy efficiency for high volume server families by 50%, relative to 2005.²
- Improve energy efficiency for high volume printer families by 30%, relative to 2005.³
- Reduce energy consumption and the resulting carbon dioxide emissions from HP-owned and HP-leased facilities worldwide to 15% below 2006 levels.

¹ Goal applies to HP owned and leased facilities globally and to average energy efficiency across identified high volume product families, using industry standard measurement benchmarks and holding ship rates constant using IDC reported figures for 2005. Identified product families include products in the following categories: notebook and desktop computers, inkjet and LaserJet printers and industry standard servers.

² Efficiency is defined in terms of kWh/transactions per minute (using SPEC or another benchmark appropriate to the server class). Goal applies to industry standard servers, referenced in footnote one. These families currently represent 50% of sales volume in this category.

³ Efficiency is defined in terms of kWh (using the Total Electrical Consumption Method)/pages per minute. Goal applies to printers referenced in footnote one. These families represent more than 35% of inkjet printers and more than 45% of LaserJet printers shipped in 2005.

Case studies

Dynamic Smart Cooling

In 2006, HP introduced Dynamic Smart Cooling (DSC), a new approach to data center cooling that builds on on a large number of HP patents worldwide in this area and 12 years of HP innovation. DSC complements our efforts related to AC conversion and server efficiency, two other areas of our focus for improving data center efficiency.

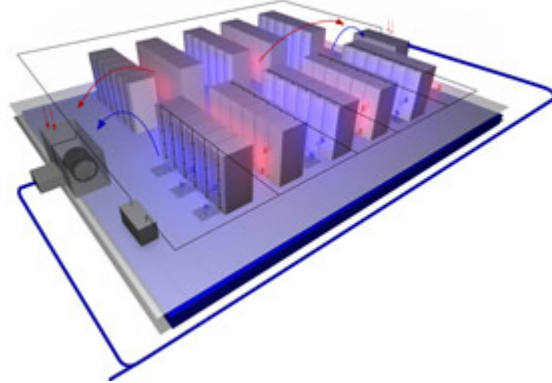
DSC addresses the growing challenge of cooling high-density data centers that house hundreds or even thousands of racks of servers. It can require more energy to cool a center than it does to power it, and as data center densities continue to grow, efficient cooling is increasingly important.

Our innovative approach uses a thermal sensing grid across the data center racks to monitor temperatures in real time. Specialized software adjusts air conditioning settings dynamically.

Most data centers can use DSC, which incorporates standard interfaces to most air conditioning and building management systems. DSC can cut cooling costs by 15% to 40%, giving the customer the option to lower energy consumption or add additional servers while maintaining energy use constant.

HP is adopting DSC for its three new consolidated data centers (see Sustainable building design).

The table below estimates financial savings and carbon dioxide (CO₂) emissions avoided for data centers of various sizes. Percentage savings are higher in smaller centers, which tend to use air cooling exclusively, since DSC targets air cooling.



This is a conceptual view of Dynamic Smart Cooling components, sensing temperature at the inlet and controlling air conditioning flow and temperature to maintain data center efficiency.

Estimated savings due to Dynamic Smart Cooling (DSC)

Category	Size of data center		
	Small (air cooling)	Medium (air and chilled water cooling)	Large (air and chilled water cooling)
Typical size	10,000 square feet (930 square meters)	30,000 square feet (2,800 square meters)	>35,000 square feet (>3,300 square meters)
Energy savings by using DSC (% of cooling costs)	40%	30%	15%
Annual cost savings (based on local energy costs)			
United States (\$0.08/kWh)	\$430,000	\$750,000	\$860,000
Europe, Middle East and Africa (\$0.15/kWh)	\$790,000	\$1,400,000	\$1,600,000
Asia Pacific and Japan (\$0.24/kWh)	\$1,300,000	\$2,200,000	\$2,500,000
MWh saved	5,300	9,100	10,500
CO ₂ emissions for electricity generation avoided (tonnes/year) ¹	2,600	4,600	5,300
Equivalent to: ²	560 cars off the road for a year or 300,000 gallons of gas	1,000 cars off the road for a year or 520,000 gallons of gas	1,100 cars off the road for a year or 600,000 gallons of gas

See our DSC website for more information.

¹ Source: U.S.-Climate Technology Cooperation (U.S.-CTC) <http://www.usctcgateway.net/tool/>.

² Calculation is based on the annual emissions of cars burning gasoline.

Energy adaptive displays

In handheld and notebook PC products, screens typically account for half the energy use. Because these products are designed to constantly accommodate the most energy intensive uses, some energy is wasted. For example, a handheld device that supports video playback would typically support a high-color, high-resolution, large-sized display, although this may rarely be required by many users.

In the past, most attempts to reduce power have concentrated on turning off the screen when it is not in use or designing screen systems with lower-quality or smaller displays.

HP Labs developed an alternative approach – "energy adaptive displays" – that uses highly efficient light emitting diode (LED) screens and specialized software to save energy by adjusting the display to match the user's activity. For example, these energy adaptive displays:

- Turn pixels off when they are not required – because black backgrounds use less power than white backgrounds
- Only highlight the needed screen area
- Use primary colors when feasible, which require less energy than other colors

These energy adaptive displays use 30% to 90% less energy than existing displays and can extend display battery life by a factor of 20. These displays are being evaluated for inclusion in future HP handheld products.

Project Halo

HP's Halo video conferencing technology, with high definition video and no speech delay, simulates a face-to-face meeting. Using studios at HP's major facilities, project teams often meet virtually and avoid flying to meetings. As confidence grows in the technology, employees are using it for increasingly complex assignments.

One of the most demanding to date was moving a manufacturing assembly line from its R&D beginnings in Corvallis, Oregon, to its permanent home in Singapore. Transfer logistics were particularly complex due to the need to not disrupt operations at either location.



Halo enabled teams located in different countries to meet frequently, build relationships, and share detailed information. Typically, assembly line transfers at HP require 12 months and extensive team member travel. In this case, the project team credited Halo with saving six months and 44 international trips.

HP currently has 29 halo rooms in nine countries, and has plans for further expansion.

Learn more about Halo.

Perspective

Noah Horowitz

Sr. Scientist
Natural Resources Defense Council

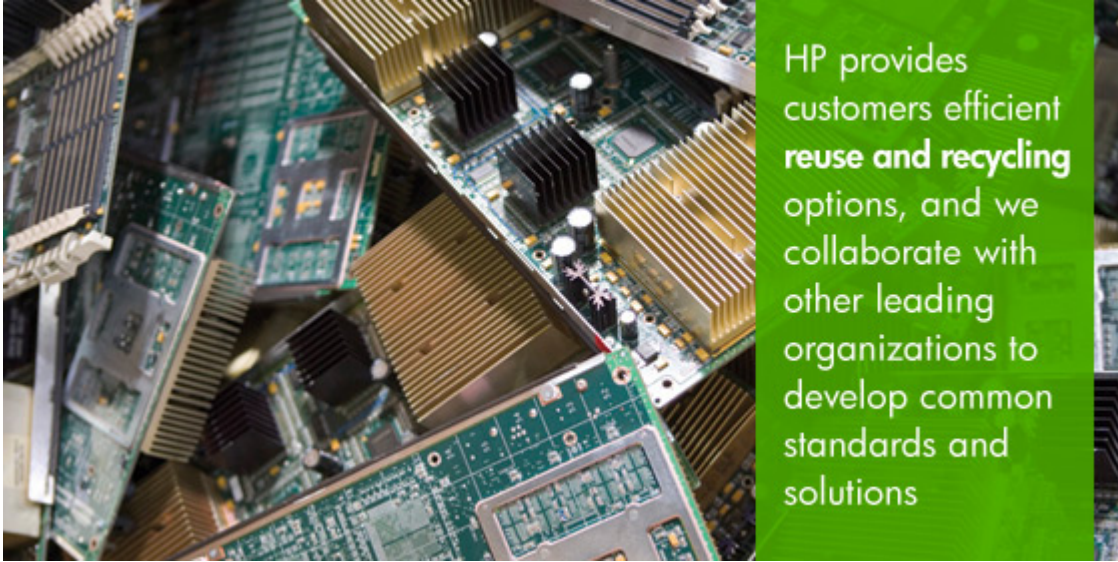


Many consumer electronics products are shipped with an external AC to DC power supply (EPS). In the United States, it's not uncommon for a typical home to have five or more EPS adapters to help power their laptop computer, cell phones, MP3 players, computer printers, cordless phones, electric shavers, etc. Historically most of the external power supplies that were sold were inefficient as they converted a large percentage of the incoming electricity into waste heat. Until recently, more often than not, the product manufacturers selected the less efficient EPS, as it costs a few cents less to purchase than the more efficient models available on the market. Additionally, any electric bill savings would go to the consumer and not to the manufacturers' bottom line.

To help put this opportunity into perspective, the Natural Resources Defense Council (NRDC), a leading environmental advocacy group, found that worldwide sales of EPS are over 1.5 billion per year and that the move to more efficient models in the United States could save about 2 billion kWh per year, preventing the release of about 1.3 million tons of greenhouse gas emissions – the equivalent of removing nearly 200,000 cars from the road. The NRDC worked with policy makers in the United States, China and Australia to develop a harmonized test method and efficiency specification for EPS.

In 2004, the California Energy Commission (CEC) established mandatory energy performance requirements for EPS. Even though the CEC provided a long lead time and established standards that were cost effective for consumers, there was industry pressure to overturn this standard. To their credit, Hewlett-Packard submitted comments to the CEC in support of keeping these standards in place and advocated against the roll back others were seeking. NRDC commends HP for taking leadership on this issue and wants to recognize the key role HP played in helping to preserve this important standard.

Product reuse and recycling



In this section:

- » Reuse
- » Recycling
- » Performance
- » Goals
- » Case study
- » Perspective

More than 200 million new PCs are bought each year worldwide.¹ Many of these (and other IT products such as printers and servers) replace existing equipment. Managing used and end of life IT equipment through responsible reuse and recycling programs conserves scarce natural resources.

HP also benefits from responsible handling of the used equipment we receive. For example, remarketing is profitable, and businesses and consumers alike increasingly require responsible reuse and recycling options for their used equipment and seek out manufacturers who offer such services. Additionally, many governments have introduced legislation to mandate recycling of discarded equipment, such as the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive. Manufacturers must provide for recycling services for their products to maintain access to these markets.

HP has offered recycling services since 1987, and began to remarket used equipment in 1981. Product reuse and recycling² remains one of HP's key global citizenship priorities. Along with customers, resellers, governments and other stakeholders, HP accepts its portion of a shared responsibility to manage the cost and responsible disposition of the HP products that we have sold. We offer customers a variety of HP reuse and recycling programs to properly manage their IT equipment when it is no longer needed. We are on track to meet our goal to recycle 1 billion pounds (450,000 tonnes) of equipment and supplies by the end of 2007.

We help customers manage used equipment responsibly, offering services covering asset management, data security, asset recovery and recycling. To better serve our business customers, we are working to offer these choices through a single point of HP contact for both our reuse and our recycling programs.

When possible, we follow the hierarchy of options below to maximize the value and minimize the environmental impact of IT products returned to us for reuse and recycling:

- Reuse of the product by others, including by other businesses and consumers
- Reuse of components in used equipment and refurbished spare parts markets
- Recycling of materials into raw materials for use in new products
- Energy recovery³
- Responsible disposal

We have processes in place to protect customers' personal information under all these options.

To underpin our efforts, we design products with consideration for ease of reuse and recycling in mind, which we term Design for Recyclability (DfR). For example, we make certain components easily removable, avoid paint when practicable, mark any potentially hazardous components clearly and publish disassembly information for many products on hp.com (for more information see our Design for Environment section and our End-of-life website).

To make customers aware of the importance of reuse and recycling and our offerings in this area, we publicize our services. We will continue our efforts to raise customer awareness in 2007.

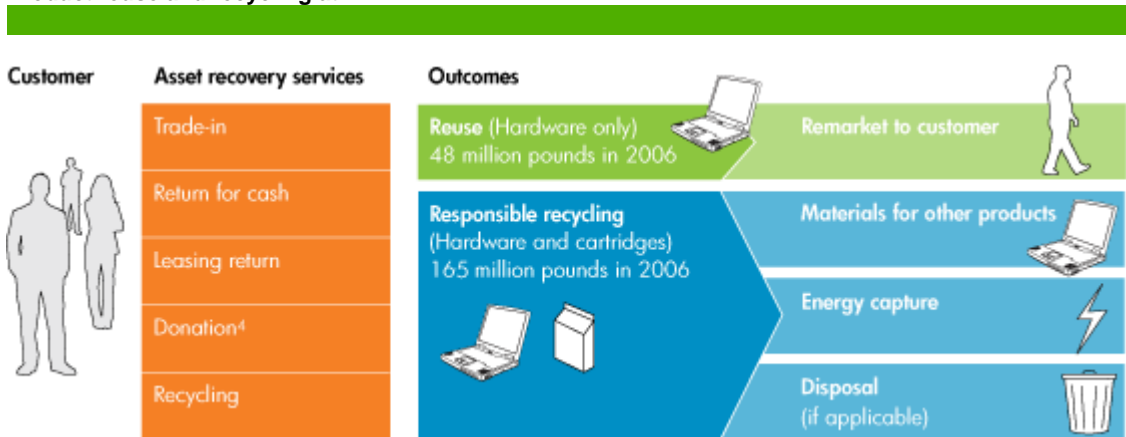
In 2006, we extended HP LaserJet print cartridge recycling programs to Chile, introduced recycling of certain customer rechargeable batteries in the United States and Canada, and expanded our reuse programs.

During the year, HP also participated in the development of StEP – an initiative that brings together various United Nations organizations, government agencies, companies and academics to help address responsible recycling of IT equipment, especially in developing countries.

We also participate with e-Bay on the Rethink Initiative, which provides information and opportunities to sell, donate or recycle used computers and electronics to users of the e-Bay website.

The following graphic and table summarize HP's reuse and recycling offerings.

Product reuse and recycling at HP



HP FY06 Global Citizenship Report - Web Content

Return option	Description ⁵	Availability ⁵	Data security	Charge or credit to customer ⁶
Trade-in	We accept any manufacturer's equipment when customers are upgrading to new HP products. We pay a trade-in allowance for the returned hardware.	Worldwide	Yes	Credit
Return for cash	We issue a cash credit, revenue share or credit for new purchase for used equipment.	Worldwide	Yes	Depends on program selected
Leasing return	We accept equipment leased by HP at the end of the lease period.	Worldwide	HP has data security capabilities, but lessee retains responsibility	Lessee pays logistics costs
Donation	We work with the National Cristina Foundation to provide suitable equipment from customer trade-ins to those who may not otherwise have access to computer technology.	United States	Customers are instructed to remove all data	May be costs associated with shipping
Recycling – hardware	Some equipment taken back under the schemes above is not suitable for reuse and is recycled for materials recovery; other equipment is directed to the recycling center for materials recovery without resale.	See map	Yes	See web site
Recycling – printing supplies	We provide return postage and recycling for most Original HP print cartridges.	See map	Not applicable	No charge
Recycling – batteries	We offer battery recycling for certain rechargeable batteries.	United States and Canada	Not applicable	No charge

Find more information on availability and terms of all the above product return options.

¹ "PC Market Surged in 2005, Will Settle in 2006," by Michael Kanellos, January 28, 2006, CNET News.com.

² In this section, "reuse" refers to the return to use of complete electronic products. "Recycling" refers to the processing of waste electronic devices and consumable items for recovery of materials or energy.

³ "Energy recovery" means that heat is captured from the process and used for heating or other beneficial purposes.

⁴ Donations are in the United States only. Relationship is directly between customer and charity.

⁵ Find more information on availability and terms of all the above product return options.

⁶ Refers to whether option is at cost to customer, and whether the customer receives credit.

Reuse

HP extends the life of information technology equipment, reduces environmental impacts and makes products accessible to more people through our hardware repair and remanufacturing programs.

Our remarketing programs enable customers to purchase pre-owned equipment returned to HP. These programs now include sale of pre-owned equipment configured to a buyer's specific needs and disassembling pre-owned assets to reuse parts, where possible.

Equipment available may include the latest products – for example, the HP Renew program offers remanufactured HP hardware products as little as six months old. This program now generates worldwide revenues of more than \$500 million and operates in all major regions.

Remanufactured HP hardware comes from various sources, including customer returns and cancelled orders, products damaged during shipping, trade-in and buy-back programs and lease returns. Most of these products are returned after marketing demonstrations; or they are loaned equipment, lease returns, equipment returned by customers for asset recovery, or factory excess. They are refurbished or remanufactured, reboxed and then resold, often with an HP warranty. We offer remarketed products on most of our HP product lines, including printers, personal computers and monitors; we have even remarketed entire data centers. We do not offer remanufactured print cartridges as they do not meet our quality and reliability standards. Read our FY05 report (page 29) to learn why.

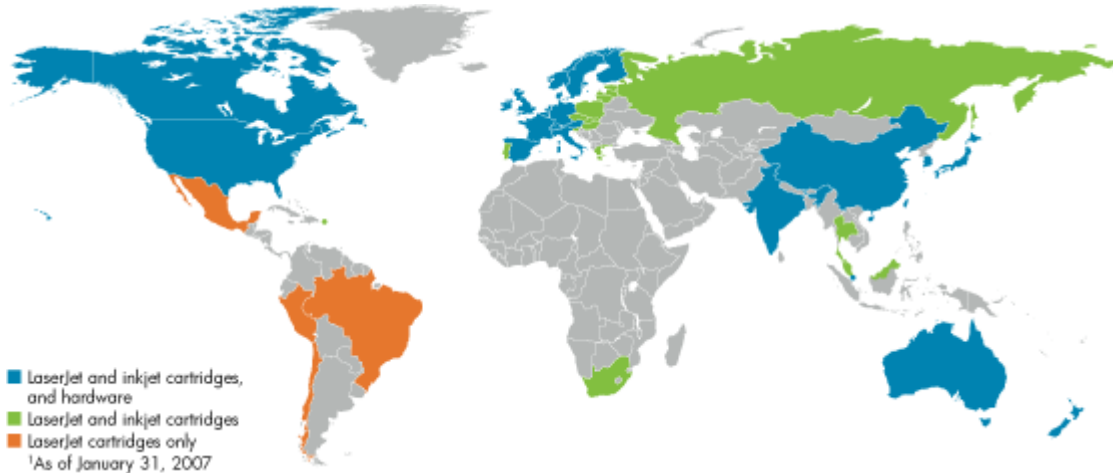
Reusable hardware products that are unsuitable for remarketing by HP, including other manufacturers' equipment returned to HP, are sold through brokers into the reuse market. We follow processes to protect customer privacy by removing personal data before resale.



Recycling

HP has been recycling information technology products since 1987. We now offer recycling services in 45 countries or territories (see map). We are on track to meet our goal of recycling 1 billion pounds of products (450,000 tonnes) since the program's inception.

Availability of HP return and recycling programs¹



We support effective, low-cost options to make recycling efficient for customers. A growing number of countries are implementing take-back legislation, but those systems can be inefficient and costly if rules vary by country and result in recycling monopolies. We promote uniform recycling standards across countries and regions, based on common legislative approaches.

Recycling processes

We use HP-approved recycling vendors to handle returned equipment not suitable for reuse and cartridges that customers return through our free programs (see www.hp.com/recycle for more details). The recyclers dismantle equipment and process components and materials to extract as much value as possible. In Europe, we have been instrumental in creating the European Recycling Platform and Nordic Electronics Recycling Association, to comply with European Union producer responsibility recycling legislation.

Some materials are more readily reusable than others, but this varies by region. Typically, leaded glass, metals and certain plastics can be processed for reuse. Their value, especially for precious metals, helps to defray overall recycling costs.

Other components and materials are more difficult to reuse, such as older plastics that may contain additives that are now restricted, such as brominated flame retardants restricted under the RoHS directive. These materials are disposed of in an environmentally responsible manner. In some instances, we must send material to landfill because local regulations prohibit more environmentally preferable forms of disposal and no other alternative is available.

Returned cartridges are processed to recover plastic and metal for reuse. No materials from print cartridges are sent to landfill.

Global recycling standards

We require recycling vendors to meet our general Supplier Code of Conduct and also specific global recycling standards and policies (see page 30 of our FY05 report). These standards require vendors to store, handle and process equipment in ways that prevent releases to the environment, and prohibit export of whole equipment or recovered materials without our approval. We monitor compliance through site audits.

¹ As of January 31, 2006.

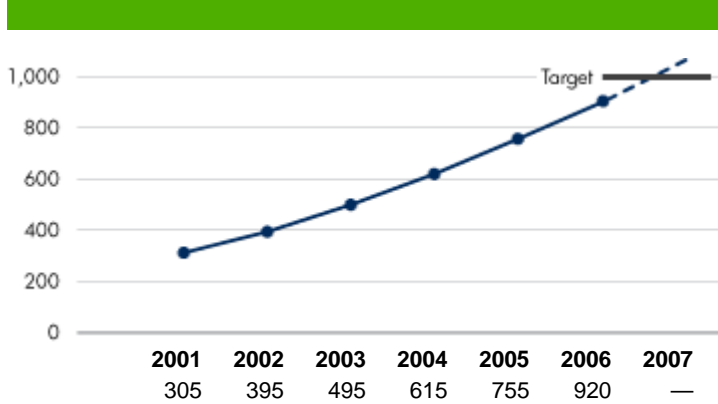
Performance

HP collected and recycled about 165 million pounds (75,000 tonnes) of products in 2006, equivalent to the weight of 600 jumbo jets. This brings the cumulative total of products recycled since 1987 to more than 920 million pounds (420,000 tonnes), approaching our goal of recycling 1 billion pounds (450,000 tonnes) by the end of 2007. In 2006, we also recovered more than 10.4 million pounds (4,700 tonnes) of plastics that was subsequently used to make new products such as trays, shoe soles and roof tiles.

In 2006, HP collected approximately 2.4 million units weighing 48 million pounds (22,000 tonnes) of products for reuse. Including remarketed equipment, we achieved a total reuse and recycling rate in 2006 of 10% of relevant sales, essentially unchanged since 2005¹. These figures take into account the time difference between when HP products are sold and when they are returned for reuse or recycling, to reflect changes in sales volumes during that period.



Total cumulative recycling
[Million pounds]



See the data table for detailed reuse and recycling performance information.

¹ HP reports annually the total weight of electronic products and supplies that it recycles. Stakeholders have expressed interest in other reuse/recycling metrics. One type of metric compares generally the number of product units reused and recycled with the number of similar product units sold. Calculating the recycling and reuse rates for electronics products and consumable items versus the weight of products sold (based on the original sales year of the product) is complex. There is great variation in the time between product sale and product return, because product lifetimes vary depending on product type and customer usage. Owners may delay returning equipment after they no longer use it, storing it for years before it is returned. Finally, our measurement is complicated by the fact that we take back hardware equipment produced by any manufacturer. Therefore, the equipment we receive in a year represents sales from a number of different years and from a variety of manufacturers. Further experience with this type of metric needs to be gained to determine if it is feasible and provides useful information.

After evaluating several take-back studies performed by the U.S. EPA, universities and HP, we have developed the following initial methodology:

- Hardware products returned for refurbishment and reuse tend to be two to four years old. HP calculates a ratio of the weights of hardware products returned for refurbishment against our product sales for the yearly average of the preceding three years.
- Hardware products from HP's recycling programs tend to be five to nine years old, with a small percentage being younger than five years and some exceeding 10 years and older. HP calculates a ratio of the weights of recycled hardware products returned against our product sales for the yearly average of the previous five through nine years.
- Consumable items tend to be one year old or less. HP calculates a ratio of the weights of recycled consumables against our consumable sales for a representative 12-month period.

The recycling and hardware refurbishment ratios are combined to provide an overall comparison to our product sales. Last year, we reported a rate of 10.3%, but have since determined that our estimation methodology does not support a decimal place of accuracy.

Goals

Goals for 2007

- Recycle 1 billion pounds of electronic products and supplies by the end of 2007.
- Progress: To date, HP has recycled more than 920 million pounds since 1987.
- Simplify the Asset Recovery Services customer offering in the Americas and Europe, Middle East and Africa regions to provide a single point of contact for our customers.
- Commission a third-party provider to conduct external verification of HP's vendor audits.
- Develop new goal that integrates reuse and recycling.

Case study

The European Recycling Platform

HP worked with Braun, Electrolux and Sony to establish the European Recycling Platform (ERP) in 2004, to achieve a competitive, effective pan-European recycling market once the member countries of the European Union (EU) implemented the EU's Directive for Waste Electrical and Electronic Equipment (WEEE), beginning in 2005. The ERP sets standards and conditions for contractors and conducts audits to ensure the high recycling standards of its vendors are applied.

By the end of 2006, ERP had treated almost 100,000 tonnes of equipment on behalf of HP and more than 750 producers who are using the services of ERP in the nine major countries of the EU. ERP is exploring the conditions to expand to the remaining EU member states.

The ERP has achieved high recycling standards and the initial experience suggests that competition among contractors decreases costs. In 2006, HP investigated prices of various take-back schemes in Europe and found that recycling costs are lower in countries with more competition. For example, in Austria, France, Germany and Spain, where ERP has ensured competition between recycling schemes, the cost burden of mandatory take-back on products sold is significantly lower (up to three times, often only several cents per product) than in countries with just one take-back scheme, a phenomenon that can also be observed in other areas of take-back, such as packaging.

Perspective

Elizabeth McGeeran

Vice President, Governance & Sustainable Investment
F&C Asset Management plc

Hewlett Packard took an early lead among IT hardware manufacturers by minimizing the impact of its products on the environment. By designing more environmentally responsible equipment and helping consumers recycle out-dated computers, it has offered a practical solution that helps its customers while creating a business opportunity for the company.

Overall, HP has positioned itself to benefit from new regulations in the Europe Union and select U.S. states by designing products that are easily disassembled for component reuse or recycling. In addition, the company's phase-out of toxic materials, and its early commitment to recycle 1 billion pounds of electronic products by 2007, reflect best practice.

HP has made it easier for its customers to dispose of old computer hardware responsibly by enabling them to mail back used equipment, thereby diverting electronic waste from landfills. The one gap that remains in closing the garbage loop and truly facilitating PC recycling will be to establish a long-term partnership with a large electronics retailer or other national organization that will give consumers the option to drop off used equipment easily for safe disposal.

Hewlett Packard has also worked to get its metrics right. Not only does it measure waste collected and recycled, but it puts these numbers into context of historic sales rates. This allows investors and stakeholders to evaluate the company's overall environmental footprint to see what percentage of computers are being taken back. We applaud HP's 2007 goal to establish a target that integrates reuse and recycling. The final step will be for HP and its peers to harmonise their targets and metrics, which will enable investors to determine who is truly the race leader in "end of life solutions" going forward.



Products



In this section:

HP's greatest environmental impact is through customer use of our products and services. Our goal is to improve customers' lives and work by providing simple, valuable and trusted experiences with technology. We integrate environmental considerations into our business strategy because this results in better products.

- » DfE
- » Materials
- » Packaging
- » Logistics
- » Accessibility

Customers increasingly value environmental aspects of products, such as energy efficiency and provisions for reuse and recycling, two of HP's global citizenship priorities (discussed in detail in those sections). We differentiate our products by integrating such features to deliver lower total cost of ownership and improved user experience.

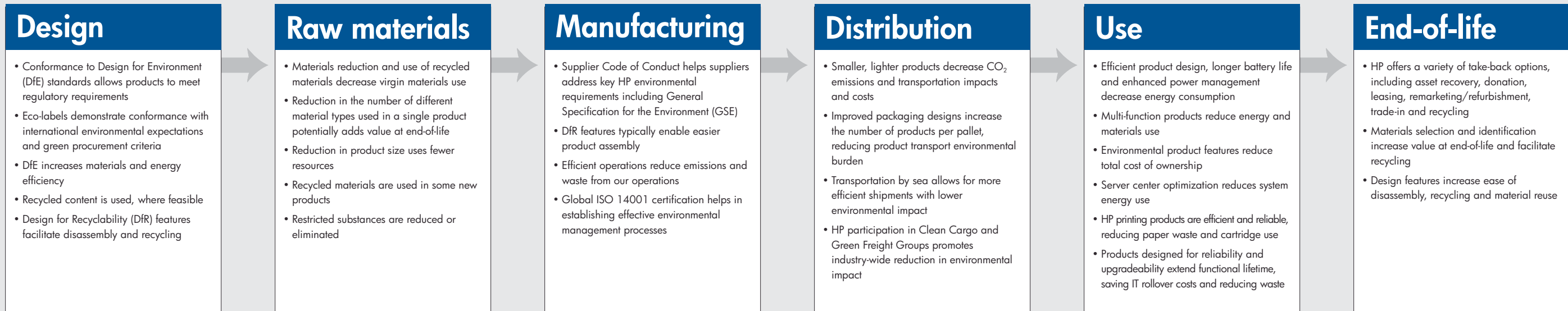
Since 1992, we have focused on specific environmental issues – through our Design for Environment program. For example, HP introduces new materials to meet customer expectations, to capitalize on emerging technologies and to substitute for materials of concern.

In packaging, we minimize materials, utilize recycled and recyclable materials when possible, and reduce packaging size and weight to improve transportation fuel efficiency.

As a global company with customers worldwide, product transport also offers opportunities to improve our environmental impact. Through logistics initiatives such as more efficient transport planning and alternative pallets, we reduce the energy needed to move each product.

We also work to ensure that as many people as possible can use our products and information, by integrating accessibility into product and website design.

Reducing environmental impacts across the product life cycle



DfE

HP's greatest impact on the environment is through our products and services. The design stage provides the opportunity to minimize those impacts. Our policy is to design products and services that are environmentally sound and safe throughout their life cycle (see Environmental, Health and Safety Policy on page 34 of our FY05 report).

We established our Design for Environment (DfE) program in 1992. Our DfE priorities are product energy efficiency, materials innovation and Design for Recyclability to reduce the quantity and environmental impact of the materials in our products. The DfE program also addresses packaging.

HP's Environmental Strategies Council coordinates the implementation of our DfE strategy. This group includes representatives from each global business unit and sales region, as well as from supply chain, operations and other corporate functions. Our global network of product stewards works with design and development teams to incorporate environmental innovations into our products.



Customer requirements

Customer demand increasingly influences environmental product design. As a result, DfE innovation provides competitive advantage. Customers increasingly care about environmental factors such as product energy use and recyclability (see Customers and global citizenship). Governments in many countries often set demanding public procurement criteria.

Eco-labels help customers identify products that meet certain environmental criteria. We conform to and certify products to many eco-labels around the world (see detail about compliant products). This is essential to sell products in some markets and it provides a competitive advantage in others.

Industry standards

Harmonizing product standards encourages innovation by avoiding local regulatory barriers. Even when regulations introduce new objectives, industry members may collaborate to determine how to best achieve them. Harmonizing environmentally related product standards can also help manufacturers maintain consistent levels of quality products and services.

In addition, harmonized product standards can facilitate making informed environmentally responsible purchasing decisions. For example, HP was instrumental in the multi-stakeholder process that developed the environmental performance standard IEEE 1680, published by the Institute of Electrical and Electronics Engineers in 2006. This standard integrates a wide variety of existing regulations and standards, including U.S. Energy Star® and the European Union Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE) Directives.

The IEEE standard, which was adopted as the basis for the EPEAT tool for computers, specifies 23 required and 28 optional criteria across eight areas of environmental impact covering all product life cycle stages. It defines three levels of compliance and provides an evaluation tool for buyers to assess the environmental performance of desktop and notebook computers and displays.

HP is also active in various bodies that develop standards for the electronics industry such as the International Electrotechnical Commission (IEC) and Ecma International. For example, HP has supported the IT Eco Declaration since its launch in 1996. We have issued more than 1,000 product IT Eco Declarations, participated in the Ecma working group that made this an international standard in 2006, and led the project to broaden the standard to include print supplies. See more information about Design for Environment.

New company acquisitions

Part of HP's business strategy is to grow through acquisition. When we acquire a company, we first ensure that current products meet applicable regulatory requirements and then we start their transition to HP's more demanding DfE standards. This transition may take several product introduction cycles to complete. Until then, we do not include these products in our product goals or progress reports. In 2006, HP acquired Voodoo PC, a manufacturer of high performance and personalized gaming computer systems, and in 2005, we acquired Scitex Vision, a manufacturer of large format printers. We are currently working with both these companies to transition their products to HP's environmental product design requirements.

Materials

Materials innovation at HP means reducing the environmental impact of materials we select or already use for our products. This innovation often aligns with our objective of reducing materials and recycling costs. HP considers three aspects of materials innovation:

- Materials substitution and elimination
- Reduction of materials quantity
- Innovative and recycled materials



Materials substitution and elimination

We may replace or eliminate substances of concern due to customer requirements (including criteria for eco-labels valued by our customers), legislative requirements or because we believe it is otherwise appropriate.

Customers at times encourage us to replace materials in our products. For example, some HP customers requested that we remove brominated flame retardants in the external case plastic parts of our products. We removed most of them more than ten years ago, and in 2006 we met our goal to remove remaining brominated flame retardants from external case plastic parts in all new HP product models introduced after December 31, 2006, with a single, short-term exception. Another example is PVC, which we eliminated from most product uses several years ago and which we removed from new packaging designs for HP product models in 2006.

Legislation regarding hazardous substance restrictions, such as the EU Restriction of Hazardous Substances (RoHS) Directive and Japan J-MOSS, has also required us to substitute materials. In 2006, we achieved compliance with these regulations (see Goals) for hundreds of thousands of hardware parts, substituting new materials in many of them, while developing numerous HP and industry standards to ensure these products meet our customer's expectations for performance, quality and reliability.

HP also supports a precautionary approach, by which we mean that we strive to replace a material when scientific data has established a potential health or environmental risk, even if its use is legally permitted. Before substituting a material for these reasons, we identify an alternative that has a lower environmental impact and meets quality and cost requirements. For example, in 2006 we replaced solvent-based paints on some of our workstations and digital televisions. The water-based paints we are using avoid organic vapor emissions during the coating process and make the plastics using these paints easier to recycle.

We work with the electronics industry and our suppliers to introduce new materials when alternatives do not yet exist. For example, we continue to investigate alternatives to PVC-coated wires and cables as well as replacements for TBBPA on printed-wiring boards.

Ideally, we design products to remove the need for materials of concern, rather than replacing a substance with lower environmental impact.

Implementation

To achieve materials substitution or elimination in our products, HP and our suppliers must have effective control processes for both the design and the manufacturing of our products, to ensure that only compliant materials are used and to ensure that HP's specifications are met. We communicate materials restrictions to our design teams and to our manufacturing suppliers through our General Specification for the Environment (GSE), which prohibits or restricts the use of certain substances in HP products and in manufacturing processes. The GSE is integrated into our product development process and into supplier contracts as part of our standard contractual terms and conditions.

Suppliers must ship materials, components, parts and products to HP that comply with the GSE, as specified in our contracts, hardware drawings and specifications. Additionally, suppliers must provide a signed verification statement of compliance with the RoHS Directive.

We use "active verification" to manage the restriction of materials in our products. This includes data sampling and conducting chemical analysis of components and materials by our suppliers and by HP as required. Established supplier corrective action processes are used as needed to resolve any issues that arise.

The compliance verification process has four key steps, each of which includes feedback to the supplier:

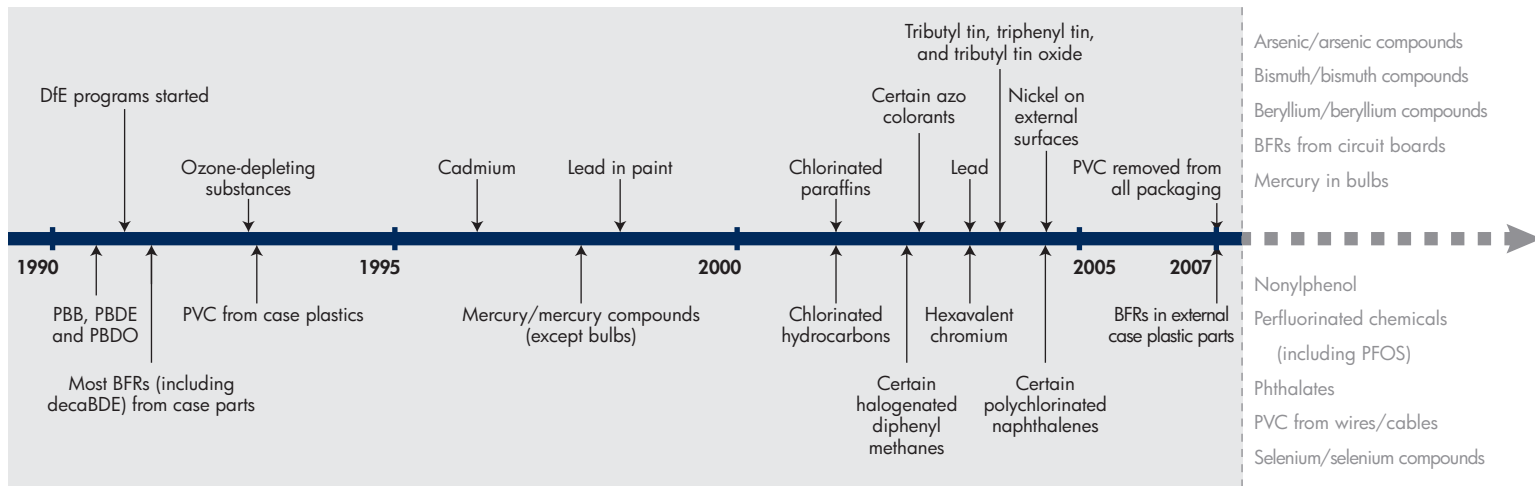
- Compliance declaration and tracking – we communicate requirements to suppliers, who confirm that all materials shipped to HP and subject to RoHS are compliant with our contracts, drawings and specifications. We track and document supplier compliance information.
- Supplier process verification – we verify supplier compliance management processes and request that they correct any deficiencies.
- Supplier data validation – we validate supplier compliance declarations through data sampling, as needed.
- Analytical testing – we or our suppliers perform physical or chemical analyses of components or materials, as needed, to validate supplier compliance declarations or on a random sampling basis.

Regrettably, we occasionally find that unapproved materials have entered our supply chain. For example, in 2006 we discovered that a restricted flame retardant was present in the fans of some notebook products. We immediately worked with the supplier to understand the deviation from our specification and to ensure future compliance.

We are working towards being able to provide customers with materials declarations for new HP products as the data becomes available from our supply chain (see Goals).

The timeline lists substances that HP has restricted. Additionally, it identifies substances that HP is considering for possible future materials restrictions.

HP product materials restriction/substitution timeline¹



¹ Dates refer to when the materials restrictions were adopted by HP. Materials in gray text beyond 2007 have been identified by stakeholders as potential materials of concern. Future possible restriction of those materials depends, in part, on the qualification of acceptable alternative materials.

Reduction of materials quantity

HP strives to use less material in products through improved product design and technological advances. For example, HP All-in-One products that combine printers, scanners, copiers and fax machines in a single unit can reduce materials use by up to 40%, compared to separate standalone devices.

As the balance of products HP sells has shifted from PCs to notebooks and from cathode ray tube (CRT) monitors to flat panel displays, material use per unit has decreased. A typical flat panel display uses little more than half the weight of materials in a conventional CRT screen and requires approximately 60% less energy in use. The weight difference between PCs and notebooks is even more dramatic – typically an 80% reduction. Combined, a notebook with an additional flat screen display represents only one-third of the weight of a PC with a CRT. This smaller size saves roughly a third of the packaging weight and decreases energy consumption in transport to customers.

Innovative and recycled materials

HP works with suppliers to identify materials that will reduce the environmental impact of HP's products and that of our customers.

We evaluate the total life cycle, environmental impact and cost of any new material, and we strive to identify substitute materials that have lower total environmental and health impacts than the materials they replace. It can be difficult to confirm claims for new materials because they may not have been researched as thoroughly as existing materials. For example, we cannot yet be confident about materials to replace PVC from wires and cables. Thermoplastic rubber/elastomer (TPR/TPE) and polyethylene-derived hybrids are emerging, but these materials are not sufficiently developed for wide-scale use. Long-term environmental impact assessments and safety approval for these materials have yet to be finalized.

HP has an extensive recycling network which is a potential source of recycled plastics for use in new products. While HP would like to take advantage of this fact, the potential is limited for several reasons. The greatest difficulty is that most recycled plastics contain substances that we have eliminated from our current products. Also, mixed plastics do not have the mechanical properties necessary for use in new IT products, and it is difficult to separate dissimilar plastics during recycling to produce a homogenous material. Finally, logistical constraints limit our ability to move large volumes of material from the regions where recycling is conducted to the regions where most new products are made. Recycling is an area in which we continue to look for improvements.

The future

We continue to reduce the environmental impacts of materials in our products, with input from our new Stakeholder Advisory Council. We are educating our customers on the environmental impacts of our products, including our materials choices.

Several countries are developing regulations similar to the RoHS Directive. We work with industry organizations such as the American Electronics Association and the European Information and Communications Technology Association to encourage harmonized approaches, and we are actively participating in the development of China's RoHS-like legislation. Regulators increasingly ask us to share the details of our verification programs, as an example of industry best practice.

A global trend in materials regulation is to move from ensuring that a few specific substances are not in a product (for example, EU RoHS) to reporting of specific substances that are present (for example, the EU's REACH Directive). This trend will require significant data collection and aggregation processes throughout the supply chain. HP is evaluating several approaches to respond to this trend.

Goals

Goal for 2006

- Eliminate lead, mercury, cadmium and hexavalent chromium in 100% of electronic products sold worldwide, as defined by the EU RoHS Directive.
Progress: Completed worldwide for virtually all HP branded products, except where it is widely recognized that there is no technically feasible alternative (as indicated by an exemption under the EU RoHS Directive).

Goals for 2007

- Eliminate the use of brominated flame retardants (BFRs) in the external case plastic parts of all new HP brand product models introduced after December 31, 2006.
Progress: Met, with the exception of a single low volume product that will be complete in the first half of 2007 due to a materials qualification delay.
- Eliminate the remaining uses of BFRs and PVCs in HP brand products as acceptable alternatives are identified that will not compromise product performance and will lower product health and environmental impacts.
Progress: HP continues to identify and test alternative materials for remaining product uses of these materials, both on our own and as part of multi-stakeholder efforts.

Goal for 2008

- Provide customers, on request, with declarations for the materials listed in the GSE for all new HP products or as required by law.
Progress: We have refocused our goal on a broad list of substances as we have received few customer requests for *Joint Industry Guide (JIG) to Material Composition Declaration for Electronic Products* data. We provide declarations for JIG annex A substances and some JIG annex B substances that are restricted in HP's GSE.

Packaging

HP minimizes the environmental impacts of our product packaging while making sure it protects products cost effectively.

Packaging environmental impact depends largely on the quantity, type and recyclability of materials used, as well as how the packaged product is transported. HP's packaging engineers use our packaging guidelines and other tools (see page 27 of FY05 report) to address these factors.

Assessing packaging environmental performance is complex, and it involves trade-offs. For example, expanded polystyrene is easily recycled in many regions, but in some cases its use increases package size compared to use of other, less readily recyclable, materials. Its use also increases box material and reduces units per pallet. To weigh these factors, we base packaging decisions on the best available evidence regarding overall impact.



The cost of alternatives can also impact substitution. In North America, boxes with 35% minimum post-consumer recycled content cost up to 10% to 15% more than boxes with virgin content. In addition, to match virgin fiber performance, the box weight needs to increase, which may raise transportation costs. In such cases, we consider total costs, including transport and disposal, as opposed to material cost only.

Eliminating materials of concern from our product packaging is a special focus. We stopped using PVC in new packaging designs for HP product models in 2006, and we will eliminate it entirely during 2007 as we deplete inventory that is already produced. We are developing replacement polyethylene terephthalate (PET) materials with 100% post-consumer recycled content where that material is available. We are also moving from polystyrene foam to molded pulp (made from recycled paper) when feasible; in fact, we transitioned all camera products to paper-based alternatives in 2006. In some instances, we have begun using biopolymer – biodegradable materials made from crops such as sugar beet and corn.

Improved packaging can also bring benefits in product transportation. For example, we reduced the weight of our standalone camera packaging from 396g/unit in 2003 to 164g/unit in 2006. The smaller size allowed us to increase the number of units per pallet from 200 to 720, which translated into less energy required to ship each item (see Logistics for more information).

Additionally, by redesigning box and cushion requirements for two commercial desktop platforms, as well as qualifying alternate cushion materials, we reduced average packaging weight by up to two pounds per unit and increased pallet density.

Collaboration

We participate in packaging industry forums such as the Sustainable Packaging Coalition and the Institute of Packaging Professionals (IoPP). We worked with the Bren School of Environmental Science and Management at the University of California, Santa Barbara, to establish an industry-wide environmental packaging certification program, which IoPP adopted as the basis for a worldwide certification exam. Our target is for all HP product packaging design team members to complete this certification or the internal HP program. Starting in 2007, we will require IoPP certification for major packaging suppliers and makers of HP-branded products.

Performance

In 2006, we updated HP's product packaging data collection system to track packaging material use by product line. We will establish baseline data for the first half of calendar 2007, and we will set material reduction goals later in the year.

The table below shows the average weight of packaging per product, by type of packaging material. The data show a significant decrease from 2005 to 2006.

Packaging per product sold globally, 2005-2006
[average grams]

	2005	2006	% change
Paper	290	273	5.9% decrease
Plastic	48	53	10.4% increase
Total	338	326	3.6% decrease



Goals

Goals for 2006

- Use molded pulp for 10 million printers, replacing 1.75 million pounds of expanded polystyrene (EPS) foam.
Progress: Achieved.
- Switch packaging material from EPS to molded pulp for the small form factor business PC in Europe, Middle East and Africa.
Progress: Not achieved due to technical issues found in testing.
- Certify HP packaging design team members through the IoPP exam by October 2006.
Progress: Not achieved. Changed requirement to either IoPP or HP's internal program, which 80% of packaging design team members completed.

Goals for 2007

- Complete benchmarking of packaging material amounts by product line, by June 2007.
- Establish packaging material reduction goals and measure performance for the second half of calendar 2007.

Case study

Replacing PVC plastic

In 2006, we introduced in North America new paperboard packaging for the HP photo value pack. This new packaging replaced a PVC plastic shell with recycled paperboard¹. The new design uses 10% less packaging material, by weight. The change will eliminate nearly 140 tonnes of PVC packaging in 2007.

In 2006, we also replaced PVC in North America inkjet cartridge tripacks² with recycled plastic. Additionally, while the previous design contained separately-packaged cartridges, the new design eliminates the interior packaging. This greatly reduces paperboard use. The display trays also need less corrugated material and pack more densely. In all, the redesigned tripacks will result in the replacement of 1,100 tonnes of PVC packaging with 300 fewer tonnes recycled PET plastic and an overall reduction in packaging material of approximately 40%, by weight.



A new HP inkjet print cartridge tripack (left) as compared to a previous model.

¹ A limited number of larger Photo Value Packs require "virgin" paperboard due to packaging strength requirements.

² The term "tripacks" is used here to describe club store packages, most, but not all of which contain three cartridges.

Logistics

HP is working to reduce each year the environmental impact of transporting our products around the world. Most of our computer and imaging products are assembled in Asia, while the majority of HP's sales are in Europe and the Americas. We typically transport these products by ship from Asia to regional distribution centers, for transport to their final destination by truck or by rail. We use air transport for lighter products, such as cameras, and when urgent deliveries are necessary. We typically produce servers in the region in which they are sold.



Our logistics network uses significant fossil fuel for ships, trucks and aircraft. The resulting vehicle emissions contribute to climate change and can increase local air pollution. We are unable to measure these emissions because we use third parties rather than our own transport fleet.

Our Design for Logistics program improves transport efficiency throughout HP and decreases energy use per pound of product transported. It ensures that we consider the broad logistics implications of new product packaging and transport, including issues such as pallets and truck loading (see Performance).

We also seek to reduce environmental impacts of our logistics network through a shift from air to ocean freight where practicable. Every tonne of freight transported by air for one kilometer results in 0.6 Kg of CO₂ emissions, compared to just 0.003 Kg for ocean transport¹.

¹ According to the World Resources Institute GHG Protocol.

Performance

In 2006, we reduced the environmental impacts of transporting our products by continued modal shift from air transport to sea transport and by improving transport planning and pallet use.

Modal shift

- Switched more products from air to ship. Although in 2005 we chartered 19 aircraft specifically to transport printer products from Asia to the United States, in 2006 we used none.



Transport loading

- Improved loading to use full truck loads rather than partial loads, increasing capacity utilization from 75% to more than 80%. This reduced the number of trips per product sold by 10% for the Imaging and Printing Group in the United States, avoiding more than 100,000 transport miles, saving 18,000 gallons of diesel fuel and so avoiding 182 tonnes of carbon dioxide emissions¹.
- Used special pallets in air transport containers, which created space for one additional pallet and improved capacity utilization by approximately 9%.

Pallet programs

- Introduced plastic pallets for notebook computer shipments by air from China to Europe. Plastic pallets weigh less than a quarter of wooden ones and require less energy to transport.
- Used taller pallets in trucks, eliminating one pallet layer. This saved approximately 100,000 pallets and \$800,000 in 2006, as well as 21,000 board feet of wood.

¹ Assuming a conversion rate of 10.1 kg (22.3 pounds) of CO₂ vehicle emissions per gallon of fuel consumed (<http://www.epa.gov/otaq/climate/420f05001.pdf>).

Goals

Goal for 2006

- Conduct risk assessment and extend the Supply Chain Social and Environmental Responsibility (SER) policy and program to relevant, high priority logistics suppliers. Progress: HP has adapted the supply chain assessment for logistics purposes by providing inputs to the EICC risk assessment tool, released late in 2006, so this goal has not yet been achieved. We have created new, industry standard SER tools for assessing logistics suppliers.

Goals for 2007

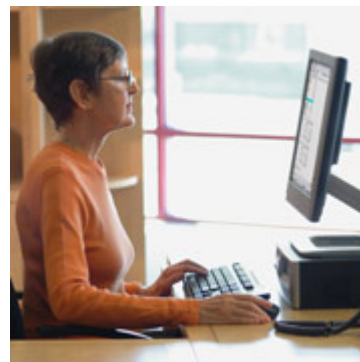
- Increase capacity utilization in truck transport in the United States to at least 85% (from approximately 80% in 2006).
- Conduct risk assessment and extend Supply Chain SER policy and program to high priority logistics suppliers.
- Investigate benefits and requirements for joining the U.S. Environmental Protection Agency's (EPA) Smartway Transportation Program to determine feasibility of becoming a partner.

Accessibility

Using information and communications technology (ICT) and the Internet can be difficult for people with disabilities or age-related limitations, a significant and growing percentage of the population. For example, more than 50% of working-age computer users in the United States are affected by mild to severe visual, hearing, dexterity, speech or cognitive impairments that limit their abilities¹. By 2010, 20% of the U.S. workforce will be 55 or older².

Reflecting these trends, the number of accessibility regulations and standards is rapidly increasing globally. In the Canada, the European Union, Japan, parts of Latin America, and the United States, government agencies must purchase accessible ICT.

Everyone should have the opportunity to use and benefit from ICT. We integrate accessibility into HP products and websites to improve the user's experience and meet customer requirements.



Approach

Accessibility features on HP products include buttons identifiable by touch, switches positioned within easy reach and large adjustable displays. In addition, some customers need specialized "assistive technology" (AT) devices such as screen magnification or large-print keyboards. HP works with AT vendors to improve product compatibility with these devices.

HP's Accessibility Program Office facilitates implementation of our Accessibility Policy. We provide training to our customer support, sales, marketing and web development teams. Our Accessibility Toolkit for product designers includes information on requirements and best practices in accessible design.

Keeping up with the rapid increase in accessibility regulations worldwide is a challenge. HP advocates for harmonized accessibility standards through our membership of the European-American Business Council and the United States Information Technology Industry Council. We participate in the ISO/IEC Joint Technical Committee Special Working Group on Accessibility. This group is defining user accessibility needs and developing an inventory of current accessibility standards.

Case studies detailing our accessibility products and services are available on our Accessibility website.

"HP's commitment to improve accessibility to technology and information through its products and partnerships provides real benefits to people with disabilities."

Andrew J. Imparato
President and CEO
American Association of People with Disabilities (AAPD)

¹ Based on a research report commissioned by Microsoft Corporation and conducted by Forrester Research, Inc., in 2003. See <http://www.microsoft.com/enable/research/workingage.aspx>.

² According to Bureau of Labor Statistics.

Performance

Product accessibility

HP documents the accessibility features of products offered to public sector customers through our voluntary product accessibility template (VPAT) database. In 2006, this included information for 67% of applicable HP products (compared with 72% in 2005 and 65% in 2004). We extended the list of applicable products in 2006 to include servers, which accounts for this decrease.



We partner with over 50 of the largest assistive technology (AT) vendors worldwide to ensure compatibility with their specialized products. They receive free membership of our Developer and Solution Partner Program, enabling them to use HP technologies and products and to benefit from technical, sales and marketing support.

We work with others to raise awareness of accessible ICT products. For example, during 2006 we provided accessibility newsletters to employees, customers and suppliers. HP is donating PCs for a U.S. network of Microsoft Accessibility Resource Centers where businesses, schools, and individuals receive advice and training.

Our product design teams are exploring ways to enhance accessibility and comfort for users. For example, our HP XB3000 series Expansion Base allows customers to adjust display height for improved comfort.

Information accessibility

Our website (www.hp.com) is designed to support Worldwide Web Consortium (W3C) Guidelines and Section 508 web accessibility standards.

The U.S. National Federation for the Blind recertified HP as an e-business leader for web accessibility in 2006 for the fourth consecutive year.

Goals

Goals for 2006

- Provide VPAT documentation at product launch for 85% of applicable products.
Progress: Provided VPAT documentation for 79% of applicable products as defined. Added servers to the list of applicable products in 2006, and provided documentation for 67% of total applicable products.
- Add VPAT information to the U.S. government's new Buy Accessible Wizard, a tool for enforcing Section 508 requirements.
Progress: Met target.
- Ensure that 90% of hp.com pages comply with W3C Web Content Accessibility Guidelines and support Section 508 Standards.
Progress: Met target.
- Increase the number of assistive technology vendor partners from 52 to 60.
Progress: Missed target, due to challenges identifying non-U.S. AT vendors.
- Develop web-based accessibility training programs for HP web and content developers and update our sales and marketing training.
Progress: Met target.
- Document and analyze worldwide accessibility regulations, legislation and standards.
Progress: Met target.

Goals for 2007

- Update VPAT documentation process and Accessibility Toolkit to address new standards, including Section 508 refresh.
- Expand membership of our Developer and Solutions Partner Program to 72 AT vendors, including 15 from outside the United States.
- Launch accessibility training for HP's web development team.
- Conduct accessibility awareness training for all Global Business Units.
- Develop VPATs for 90% of all applicable products.

Operations



HP uses an environmental management system to assess and reduce the environmental impacts of our **global operations** while enhancing the workplace and saving HP money

In this section:

HP's operations continually evolve as we develop new products and services. We adapt our facilities to meet business needs, allowing employees to work efficiently and safely and to minimize environmental impacts. Worldwide, approximately 156,000¹ people work for HP in over 170 countries.

In May 2006, we announced a new program of facilities consolidation. The HP Workplace Transformation program provides us the opportunity to improve our space utilization and install more energy-efficient equipment. Our goal is to reduce carbon dioxide emissions from HP owned and HP leased facilities worldwide to 15% below 2006 levels by 2010. The Workplace Transformation program is described in Sustainable buildings and Energy – Operations.

Our environmental, health and safety (EHS) management system helps us to identify, evaluate, control, manage and reduce environmental impacts in all our facilities. The system accommodates regular changes in our operations and ensures compliance with regulations and company standards. See Management system for more information.

Our environmental management also creates cost savings. In 2006, we saved \$4.9 million dollars by recycling 87.3% of the solid waste generated from our large U.S. sites (compared to landfill or incineration costs). Our reuse program accounts for about 60% of the savings and recycling rebates provide the remaining 40%.

- » Management system
- » Sustainable building design
- » Waste and recycling
- » Hazardous waste
- » Ozone
- » Water
- » Emissions to air
- » Compliance
- » Remediation
- » Goals

HP's most significant environmental aspects from operations and main focus areas have remained consistent for the last several years:

- Energy use
- Solid waste (nonhazardous and hazardous)

The other environmental aspects that we also monitor and manage are:

- Fossil fuel use for HP owned vehicles, business travel and employee commuting
- Water use in our facilities
- Chemical use in manufacturing (PFCs, air emissions, chemical releases) and facilities (ozone depleting substances)

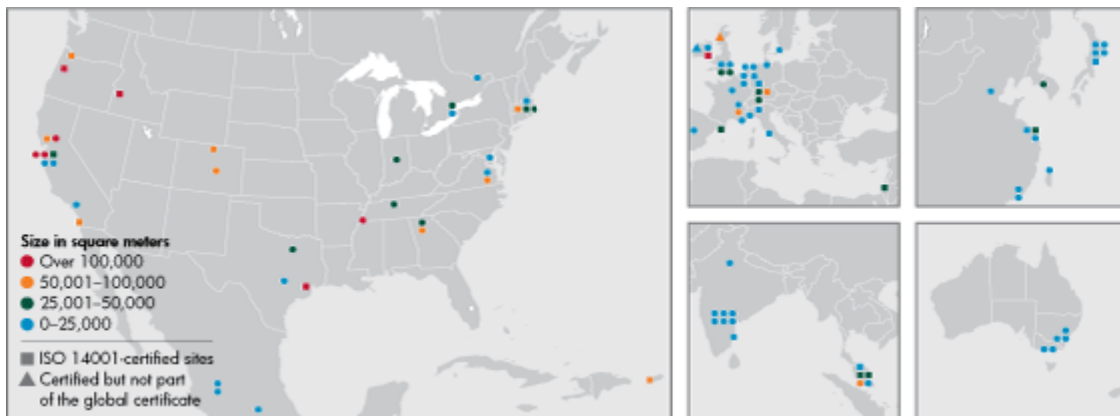
Each year we analyze the main environmental aspects of our operations to determine which are the most significant and where we should prioritize our efforts. Our annual review focuses on:

- Significant changes to our operations, causing us to increase or decrease attention to environmental aspects
- Regional variations in our operations environmental impacts
- Trends in our environmental data
- Significant accidents or violations
- External views including issues raised by socially responsible investors

The scope of this section

- Data is based on HP's fiscal year (ending October 31, 2006).
- In 2006, HP collected data from 98 of our largest sites, which account for 67% of our floor space, or approximately 4 million square meters.
- This data represents all manufacturing sites and the largest office, warehouse, data center and distribution sites. We extrapolate data from comparable facilities, primarily leased small office space, for the remaining

Map of major operations



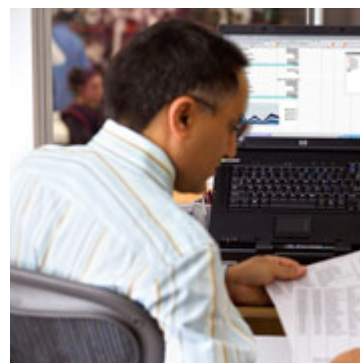
¹ As of October 31, 2006.

Management system

The core of HP's environmental, health, and safety management system is our EHS Policy.

We use our environmental, health, and safety management system to achieve our EHS objectives at all sites. Our management system incorporates audits, training, performance standards, operational controls and emergency preparedness and response programs. At our manufacturing operations, we go a step further and have achieved a worldwide certification to ISO 14001, the accepted international standard for environmental management systems (see map).

For details see environmental, health, and safety management system. For details of worldwide certification see ISO14001. Health, safety and wellness management is covered in the Employees section of this report.



Sustainable building design

In May 2006, HP announced the HP Workplace Transformation (HPWT) initiative, a program to consolidate HP owned and HP leased locations worldwide into core sites that will be upgraded, in a phased approach over time, with new technology infrastructure. Some of the upgraded facilities will include green features such as:

- Increased natural light – saving electricity and enhancing productivity
- Increased use of flat panel monitors, which use roughly 60%¹ less energy and require less space than CRTs
- Greater use of laptop stands and separate keyboards to encourage mobile employees
- Occupancy sensors for lighting in conference rooms
- Retrofitted bathroom fixtures with infrared sensors that regulate water use
- Low volatile organic compound paints, coatings, carpets and furniture



Photo of an HP site in Solna, Sweden

In addition, at all locations we are replacing personal printers, fax machines and shared copiers with multifunction printers that perform all these functions. They reduce electricity consumption by 30%, while reducing waste.

HP has investigated LEED² certification for many of our U.S. facilities. Due to cost, we have chosen instead to use LEED certified architects and to implement LEED criteria into our buildings whenever possible. Outside the United States, we pursue other green building ratings. For example, one of our buildings in Adelaide, Australia meets the 5 Star Green Star Certified Rating.

Data center consolidation is a key aspect of our facilities efficiency drive. Two facilities in Austin, Texas, were recently converted to data centers that comply with the LEED standard although they have not been formally certified. The data centers incorporate the following environmental improvements:

- Decrease building energy use by 21% compared to projected consumption without the improvements
- Install heating and cooling systems that minimize our impact on ozone depletion and climate change
- Reduce potable water use for irrigation by 50%
- Reduce building water use by 20%
- Use adhesives, paints, carpets and wood with low or no emissions of solvents and other chemicals
- HP's Dynamic Smart Cooling Technology. This technology enables real-time changes to air conditioners, fans, vents and even computing, and it is anticipated to reduce our data center energy consumption related to cooling by 15% to 40% (see case study)

We are planning similar data center initiatives at other U.S. sites, as well as at other sites outside the United States.

¹ A 2003 study by Kingsland Scott Bauer Associates determined that flat panel monitors use approximately 60% less energy than conventional CRTs.

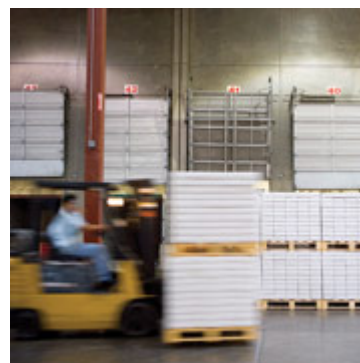
² Leadership in Energy and Environmental Design (LEED) is a green building rating system accepted in the United States as the benchmark for the design, construction and operation of high performance green buildings.

Waste and recycling

We are committed to reducing the waste generated by our operations at the source. Where this is not feasible, we strive to divert waste to beneficial uses. When disposal is necessary, HP ensures wastes are managed in an environmentally responsible manner.

Nonhazardous waste

Nonhazardous waste remains a key focus at HP with targeted initiatives and widespread employee participation to reduce waste volumes.



Total nonhazardous waste increased by 3% during 2006, partly due to site consolidation that generates waste when buildings are vacated. Even with this increase, we raised the global landfill diversion rate slightly from 87.1% in 2005 to 87.3% in 2006. Our target is to maintain an 87% landfill diversion rate globally through the end of 2007. We are continuing to improve separation of waste materials at our largest sites and pursue markets for recycled materials.

Our recycling program created \$4.9 million of benefits for HP in 2006. Approximately 60% of this saving comes from reusing items and avoiding landfill costs and approximately 40% is the revenue from selling recycled materials.

HP facilities globally sponsor e-waste collection efforts. In 2006, 100 sites in Canada, Latin America and the United States celebrated Earth Day, which included employee home computer take-back campaigns at 70 sites. Employees recycled approximately 128,000 pounds of personal IT equipment through these events.

Recycling programs

HP operates recycling programs at its facilities worldwide, including the following examples:

Brazil. HP Brazil's paper recycling project collects and transforms white and recycled paper into packaging materials for HP printer products. We encourage employees to support the program through site communications, recycling bins and giveaways. HP Brazil has collected more than 26 tonnes of recycled paper, of which 35% has been transformed into packaging materials, reducing packaging costs by 10% and saving \$54,000.

United Kingdom. As part of the Workplace Transformation program in the UK, HP refurbished its Bracknell facility and relocated employees from the neighboring Reading site. This created a large amount of waste as people cleared their work areas. The team recycled as much as possible – 136 tonnes of e-waste and 666 tonnes of general office waste.

United States. In 2006, to increase our landfill diversion rate, we expanded the office recycling program across the San Francisco Bay Area, Houston and San Diego sites (approximately 650,000 square meters). We identified new markets for co-mingled paper, which increased paper recycling. The facilities also introduced receptacles that accept multiple material types at convenient locations.

Paper purchase and recycling

Paper and paper products are a major solid waste stream at HP. The Horizontal Print Transformation team works to increase recycled paper use and reduce paper waste. Our commitment to sustainable forests increases paper manufactured from sustainable sources.

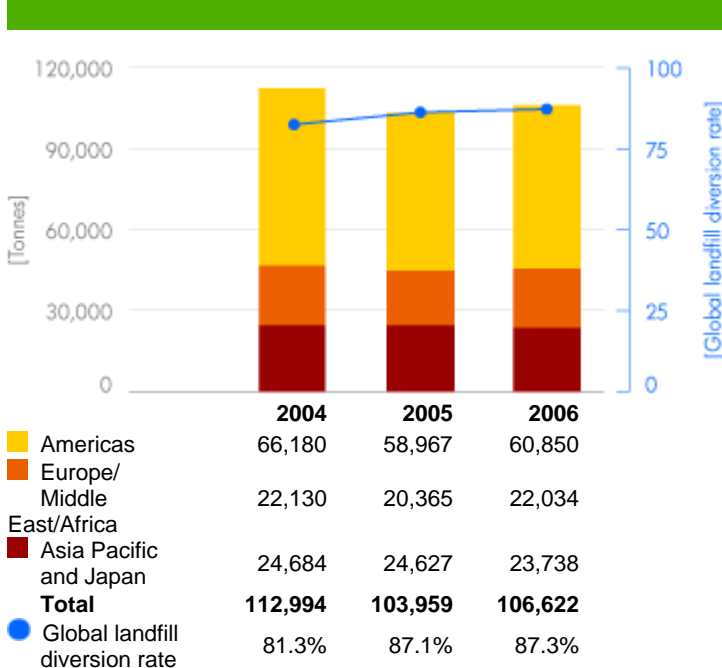
In 2006, in partnership with 11 large enterprise paper consumers, we launched the Environmental Paper Assessment Tool (EPAT), a web-based resource that helps paper buyers and suppliers to collaboratively evaluate and report on the environmental properties of different papers. HP uses EPAT across our global businesses to increase our use of environmentally preferable papers.

HP is reducing paper waste in our office printing environment as well. After an analysis showed that duplexing (double-sided printing) fluctuates by printer and by site, in 2006 the team conducted a pilot to make duplexing the default. This increased the percentage of documents printed double-sided from 13% to over 60%. We plan to expand this program across the company in 2007. Decreasing paper use by 25% will equal a savings of \$6 million and 680 tonnes of paper. Our goal is for 80% of general office printing and copying to be double-sided by 2008.

Performance

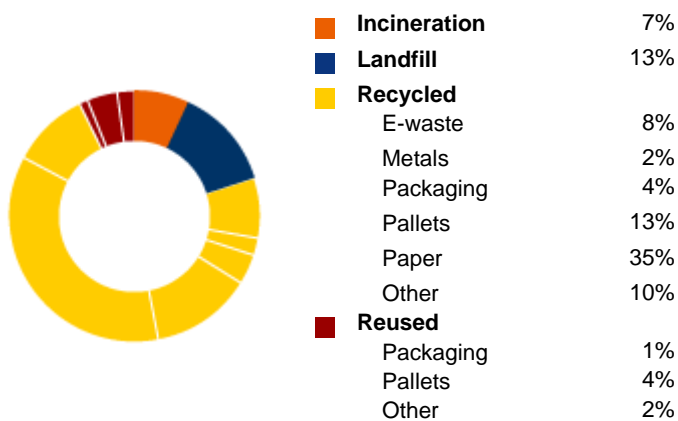
Total nonhazardous waste increased 3% in 2006. The global landfill diversion rate increased from 87.1% in 2005 to 87.3% in 2006. The highest volume waste streams are paper and pallets. These waste streams are also the largest waste streams diverted from landfill.

Nonhazardous waste, 2004-2006 [Tonnes]



See regional landfill diversion rate data in the data table.

Global nonhazardous waste disposition, 2006¹ [% of total]



¹ Total equals less than 100% due to rounding.

Hazardous waste

Hazardous waste classification varies by country. HP data includes some wastes not considered hazardous in the country where generated.

In 2006, total hazardous waste disposed by HP site operations increased 23% compared to 2005. The largest volume of hazardous waste comes from the manufacturing and recycling of dilute ink waste, which increased due to increased production. The second largest category of hazardous waste material is solvents used in manufacturing, including n-methyl pyrrolidone, which we recycle. We also recycle off-specification inkjet cartridges from manufacturing.



We did not meet our target to reduce the amount of incinerated hazardous waste by 10%. The total amount incinerated increased by 3%. However, we reduced the percentage of hazardous waste disposed by incineration from 46% in 2005 to 39% in 2006.

Examples of hazardous waste reduction during 2006 include:

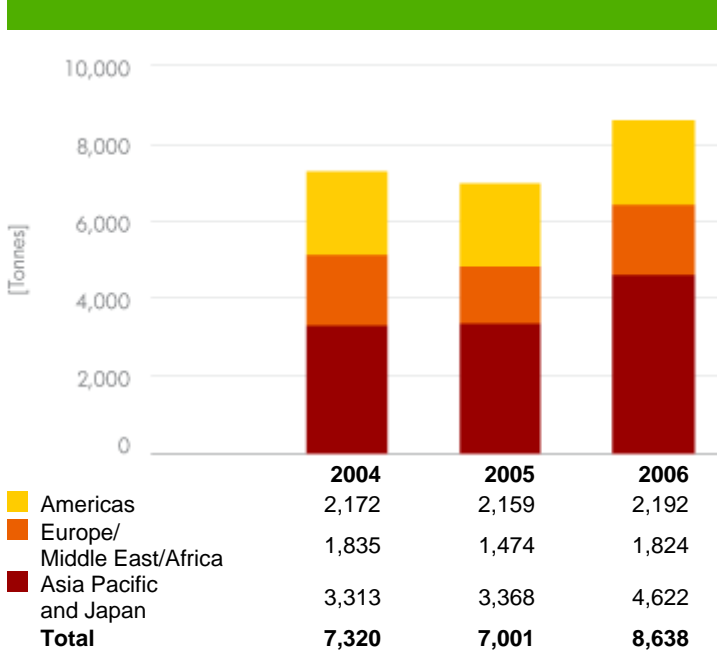
- **Dublin, Ireland.** Installed a nickel treatment process to treat nickel waste. In 2004 and 2005, the site sent a yearly average of 122 tonnes at a cost of \$125,000 for incineration. By the end of 2006, the site had reduced the total waste on site by 9%, saving \$35,000.
- **Nashville, Tennessee.** Diverted 132 tonnes of ink from incineration to reuse within an ink cartridge recycling and evaporation process, saving HP \$50,000.

In 2007, we are expanding our audit program to identify additional solid waste reduction opportunities outside of the United States.

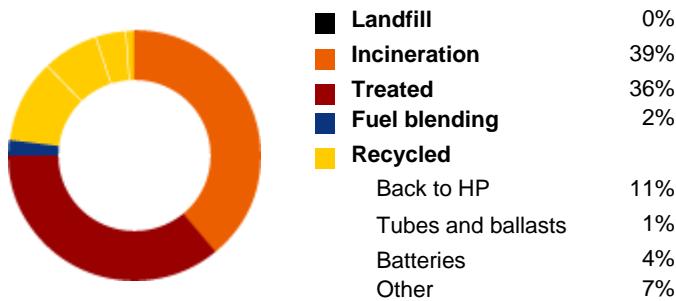
Performance

Total hazardous waste increased 23% in 2006 due mainly to increased production. We reduced the percentage of hazardous waste incinerated from 46% to 39% and the percentage sent to landfill was further reduced from 0.8% to 0.1%. The percentage recycled was increased from 10% to 11%.

Hazardous waste, 2004-2006 [Tonnes]



Hazardous waste disposition, 2006 [% of total]



See historical hazardous waste disposition data in the data table.

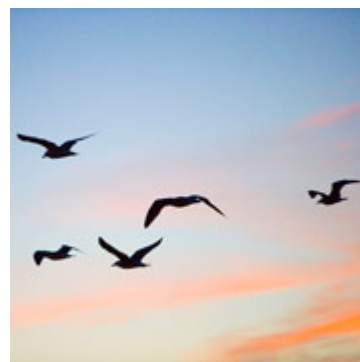
Ozone depleting substances

Since eliminating ozone depleting substances (ODS) from HP manufacturing in 1993, we only use ODS at HP facilities in cooling and air conditioning systems. Although these systems are sealed, leaks during operation and maintenance can cause emissions. HP continues to reduce the ozone depleting potential of its cooling and air conditioning systems by replacing chlorofluorocarbons (CFCs) with hydrofluorocarbons (HFCs). HFCs do not deplete ozone but are greenhouse gases.

We do not measure ODS emissions, but estimate leakage using information from the Third Assessment Report published by the Intergovernmental Panel on Climate Change. We estimate that our ODS releases decreased 10% in 2006 compared with 2005 and 21% compared with 2004, due to replacing old air conditioning systems with more efficient units that use gases with a lower global warming potential.

Of particular note, we reduced Dichlorodifluoromethane (CFC-12) by 65% and Bromotrifluoromethane (Halon 1301) by 12%. The CFC-12 reduction has an additional benefit as well, since it has one of the highest global warming potentials of all refrigerants, 10,600 times that of carbon dioxide.

See performance data, including regional breakdown, in the data table.

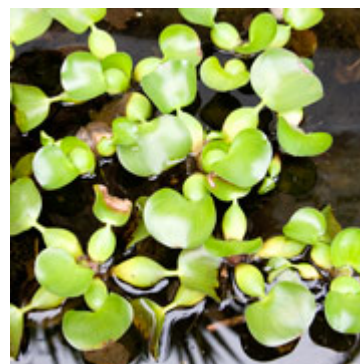


Water

Although HP's operations are not water intensive, we recognize that water consumption is a growing concern, particularly in water-stressed regions. Our largest water use is for cooling.

Many of our sites work to reduce water consumption. Examples in 2006 include:

- **United States.** The Vancouver, Washington site implemented landscaping changes to use more native plants, converted to drip irrigation and reduced grass watering. These changes decreased landscaping water use by 50%.
- **United States.** The San Francisco Bay Area and Roseville, California sites implemented a computerized irrigation system, which adjusts irrigation schedules based on soil moisture content. We expect water savings of up to 30% in 2007.



HP global water consumption increased 3% in 2006, compared to 2005. Consumption in the Europe, Middle East and Africa region decreased 27%, primarily due to temperature decreases in those areas compared to the unusually hot 2005. Water use in the Americas and Asia Pacific and Japan regions increased by 6% and 12%, respectively, due to relocations and business growth.

See performance data, including regional breakdown, in the data table.

Emissions to air

HP's operations result in few emissions into the air, and we work to reduce those emissions that do occur. Using sampling data and equipment operating information, we estimate emissions from the seven manufacturing sites that account for the vast majority of the total.

The main substances emitted to air are shown in the table.

Air emissions, 2004-2006 [Tonnes]

Pollutant	Americas			Europe, Middle East and Africa			Asia Pacific and Japan		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Particulate matter (20 microns or less)	4.75	4.54	4.69	1.58	1.58	1.58	0.00	0.00	0.01
Carbon Monoxide (CO)¹	38.00	36.80	16.90	15.80	15.80	15.80	0.00	0.00	0.10
Volatile organic compounds (VOCs)	30.40	23.80	21.60	3.21	3.21	3.21	2.34	1.91	1.75
Nitrogen Oxides (NOx)^{1,2}	74.20	71.30	37.90	63.10	63.10	63.10	0.00	0.04	0.10
Sulfur Oxides (SOx)	6.68	5.03	2.26	15.80	15.80	15.80	0.00	0.00	0.12

The U.S. Environmental Protection Agency (EPA) Toxics Release Inventory (TRI) is a required annual report on specified chemicals used in our operations in the United States. HP's operations, primarily in the manufacture of our imaging products, require the use of several TRI chemicals. We extend TRI reporting criteria to seven manufacturing sites worldwide that account for the majority of HP's TRI emissions. TRI reports are due July 1 of each year, so the most recent data are for 2005.

HP TRI emissions decreased 3% between 2004 and 2005, primarily due to continued reduction in the use of our largest production solvent, n-methyl pyrrolidone.

Disposition by type of TRI material, 2004-2005 [Tonnes]

Chemical	Air		Water (to sewer/ off-site treatment facility)		Shipped off-site for recycling/ energy recovery		Shipped off-site for treatment or disposal		Total	
	2004 ³	2005	2004	2005	2004	2005	2004	2005	2004	2005
N-methyl pyrrolidone	0.13	0.09	0.00	0.00	657.00	619.00	4.16	4.58	661.3	623.7
Ethylene glycol	0.00	0.00	0.00	0.00	0.00	0.00	4.69	1.93	4.7	1.9
Nitrates	0.00	0.00	31.00	42.40	5.96	0.00	0.41	0.00	37.4	42.4
Hydrofluoric acid	0.30	0.35	14.10	15.30	0.00	0.00	0.00	0.00	14.4	15.7
Nitric acid⁴	0.39	0.37	30.40	43.80	0.00	0.00	67.81	67.50	98.6	111.7
Copper	0.00	0.00	0.00	0.05	0.00	0.00	0.02	0.02	0.0	0.1
Lead	0.00	0.00	0.02	0.02	19.00	14.30	0.00	0.00	19.0	14.3
Mercury	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.0	0.0
Chloroform	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Methyl ethyl ketone	0.01	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.2
Xylene	0.00	0.06	0.00	0.00	0.00	0.00	0.36	0.59	0.4	0.7
Toluene	0.00	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.1
Total	0.84	1.12	75.52	101.57	681.96	633.33	77.45	74.62	835.80	810.80

¹ Changes in CO and NOx for the Americas from 2005 to 2006 are largely due to a change in the calculation methodology in Boise, Idaho.

² Our Asia Pacific and Japan operations did not measure nitrogen oxides (NOx) emissions in 2004.

³ 2004 data restated due to calculation errors.

⁴ 2004 Nitric Acid corrected due to a calculation error found during our audit process.

Environmental compliance

Full legal compliance is HP's minimum requirement for environment, health and safety (EHS). Our environmental, health, and safety management system is designed to ensure we have the processes to comply. We investigate any violation to determine the root causes and implement corrective action to prevent recurrence. See Health, Safety, and Wellness for information on compliance in that area.



Environmental violations resulting in fines, 2004-2006 [U.S.]

	2004	2005	2006
Total fines	\$75	\$7,679	\$1,000

In 2006, HP had one fine in the amount of \$1,000 for exceeding an air permit in Palo Alto. There were no legal actions or community or customer complaints about our operations.

We had one fine in 2005, from the improper labeling of hazardous waste drums by a contractor at one of our California sites. The site has since updated several processes and conducted additional training with the contractor.

In 2006, we changed our methodology to only report fines resulting from compliance violations. We therefore modified our reporting for 2004.

Remediation

HP is involved in the remediation of soil and groundwater at 31 locations where releases of chemicals have occurred. We have taken on these liabilities in three primary ways: through chemical spills from manufacturing operations in the 1970s and 1980s, through mergers and acquisitions of other companies, and through improper waste management by disposal and recycling facilities of HP's wastes where we share the responsibility with other companies.



HP is committed to addressing chemical releases resulting from historical site operations. HP utilizes its environmental, health, and safety management system with company-wide standards to prevent and respond to chemical spills at HP operations. Prior to acquiring companies and property, HP conducts due diligence to evaluate if there is existing contamination. In some situations, we may acquire property with existing soil or groundwater contamination and remediate the contamination during redevelopment. Our waste vendor management program includes auditing third-party recycling and disposal facilities.

To address contamination, we evaluate and adopt new remediation technologies when they offer advantages compared to traditional methods. We have used innovations such as in situ oxidation, biostimulation, iron filings and high vacuum systems in addition to traditional remedial measures.

Goals

Goals for 2006

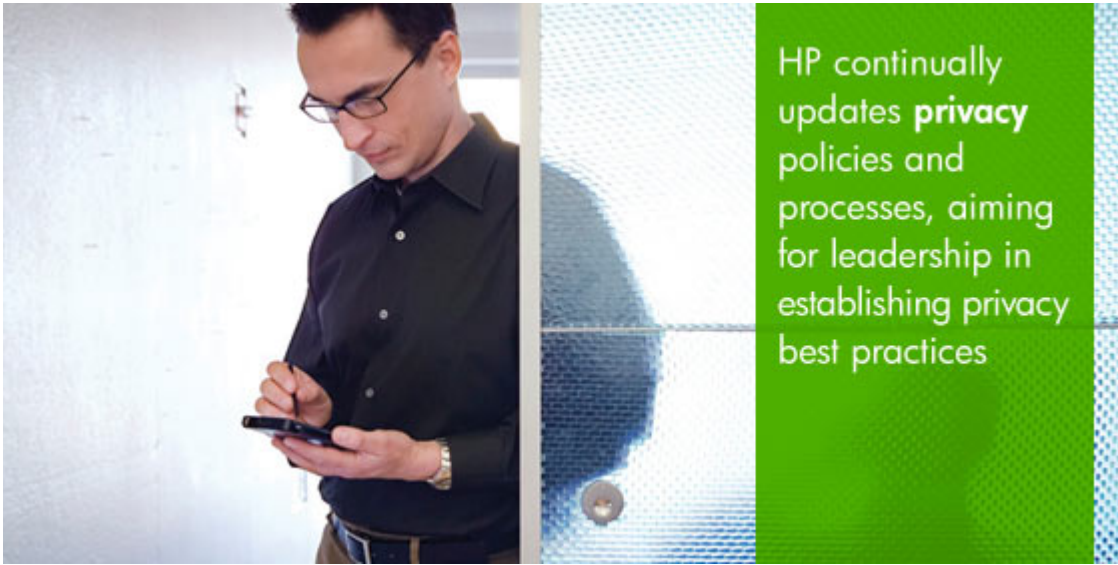
- Continue to divert 87% of solid (nonhazardous) waste from landfill globally by the end of 2006.
Progress: Even with an increase in waste volume, we increased the global landfill diversion rate from 87.1% in 2005 to 87.3% in 2006.
- Reduce the amount of hazardous waste incinerated by an additional 10% or 325 tonnes.
Progress: The amount of hazardous waste incinerated increased 3%, missing our target. Nonetheless, we decreased the percent of total waste incinerated from 46% to 39%.

Goal for 2007

- Continue to divert 87% of solid (nonhazardous) waste from landfill globally through the end of 2007.

HP's energy goals are included in the Energy efficiency section.

Privacy



In this section:

Privacy is a basic human right and a fundamental element of global citizenship. High data protection standards are vital in developing and maintaining trusted relationships with customers and employees and helping to prevent fraud and identity theft. Privacy supports the appropriate handling of data in e-commerce and the information society.

- » HP's approach
- » Performance
- » Goals

Privacy is a key issue for HP for several reasons:

- We process and hold information such as addresses, credit card and other financial details for customers, as well as health data and social security or national identity numbers for employees.
- We manage IT services and data storage for many enterprise and public sector customers.
- Customers use our products and services to store and transmit data regarding their own customers and employees.
- Emerging technologies, such as radio frequency identification (RFID) technology, can raise new privacy concerns.

Because HP has partners and providers that process data on our behalf, we work to ensure that appropriate standards of handling personal data all along the processing chain are in line with HP policy and applicable laws.

Recent events related to the use of pretexting on behalf of HP may have undermined confidence in our commitment to privacy.

The methods that were used to uncover the source of confidential information leaks within our Board were inconsistent with HP's values and decades of ethical behaviors. This was an unfortunate departure from normal behavior. Our commitment to privacy remains strong and undiminished. It has alerted us, however, to a need for the right procedures at all levels within HP to ensure that we meet privacy expectations and has shown us opportunities to strengthen our commitment further.

We are learning from these events and are expanding and reinforcing our accountability systems to help ensure that HP, our Board members, employees and those working on HP's behalf act in a manner that reflects our values, policies and individuals' expectations of us.

See Ethics and compliance for details on how we have strengthened our wider accountability, governance, ethics and compliance systems.

Approach

Our commitment to privacy is built into our Standards of Business Conduct and our privacy policy, and is supported by extensive training and monitoring.

In 2006, we reviewed and strengthened our approach to ensure that our board members, employees and contractors comply with our policies and act in accordance with our values.

HP Privacy Policy

HP's Global Master Privacy Policy is built on the principles of Safe Harbor, the Organization for Economic Cooperation and Development (OECD) Fair Information Practice principles. It governs the collection, storage, transport and use of customer and employee personal data as well as personal data on products returned to HP for refurbishing or recycling. The policy also provides the governance principles for more detailed customer and employee privacy policies.

After the events of 2006, we began a process of clarifying and strengthening our policy:

- Board members are now more clearly accountable for upholding our privacy policies.
- HP writes its contracts to require contractors who are collecting, storing or processing personal information to confirm in writing that they will handle any personal data in a manner consistent with the current privacy policy.
- Privacy training and orientation have been expanded to include the board of directors.

For seven consecutive years, HP has been certified by the Better Business Bureau's BBB*OnLine* Privacy Seal Program, which sets high standards for protecting the privacy of online users worldwide.



Governance and implementation

In 2006, we strengthened our privacy governance and implementation processes by:

- Expanding our Chief Privacy Officer's (CPO) role through formal membership in our Standards of Business Conduct Compliance Council and the Ethics and Compliance Committee.
- Ensuring that employees conducting internal investigations consult the HP Privacy Office in appropriate situations, depending on the type of data to be acquired, the method of acquisition, who will have access and the extent of international data transfer.
- Giving our CPO formal responsibility for raising any concerns with senior executives.

We will create a separate code of conduct that addresses privacy and business ethics, for use by outside investigators. See Ethics and compliance.

In addition, HP has numerous internal tools to help us implement our privacy policies. Among them are:

- Privacy Impact Assessments – help ensure new sales and marketing programs meet legal and HP privacy requirements.
- Online Interactive Rulebook – helps employees review privacy rules and function-specific guidelines and templates.
- Dedicated websites – provide self-paced support and assistance to field employees and management.
- IT Application Development Questionnaire – enables system developers to assess privacy compliance for all IT systems that handle employee data.

Training

All HP employees are required to take HP's annual privacy training. In 2006, more than 125,000 employees completed this privacy training.

We will again train employees on our privacy policies in 2007, as well as provide:

- Ethics and privacy training for the board of directors and senior executives
- Privacy training for contractors who may store or process personal information

Monitoring and compliance

We monitor compliance with our policies through:

- Customer and employee feedback submitted online, by post or by phone
- HP privacy team compliance reviews and assessments
- Privacy audits, which extend to suppliers

By contract, all suppliers and third-party vendors worldwide who handle HP customer and employee personal data must comply with applicable portions of our privacy policies. We help ensure this through our compliance program.

Privacy and HP products and services

HP's Design for Privacy (DfP) program incorporates privacy features into products to build trust with consumers and help corporate customers comply with privacy regulations. We are developing a company-wide privacy product development standard, which we will begin implementing across HP products.

Industry leadership

HP works with other companies and organizations to establish privacy standards, share best practices and address new issues and challenges. In 2006, HP co-founded the Consumer Privacy Legislative Forum with Microsoft and eBay. This organization is comprised of privacy leaders across all industries who promote U.S. Federal baseline privacy legislation. The goal of this work is to simplify laws and regulations, enhance consumer protection, and help companies align laws and practices globally. HP's Chief Privacy Officer testified to the U.S. Congress in June regarding this position.

In addition, we continued our leadership efforts with the U.S.-based Center for Democracy and Technology (CDT) on privacy issues related to radio frequency identification (RFID) tags and spyware. HP contributed to CDT's Anti-Spyware Coalition (ASC).

HP is a founding grantor of the Certification for Information Privacy Professionals (CIPP), launched in 2004. The program includes rigorous training, a code of conduct and a comprehensive exam for privacy professionals.

Performance

When asked to rate the statement: "HP adheres to and respects privacy concerns," customers gave us an average score of 8.5 (out of 10) in 2006, compared with 8.3 in 2005. We included this survey question in our Enterprise Relationship Assessment Process, which surveyed more than 300 major business customers in 22 countries.

Consumers and employees can raise privacy issues by sending email to privacy@hp.com. The number of email messages received at this address increased by 18% in 2006 to 6,651 (compared with 5,637 in 2005). Most email messages concerned routine matters, such as updating information and opting out of HP marketing announcements.



Photo showing a service operator of Senior Citizen Home Safety Association (SCHSA) supporting the SCHSA's Personal Emergency Link 24-hour call center

Goals

Goals for 2006

- Expand compliance assessments to at least two other company audit processes in addition to Internal Audit.
Progress: Extended privacy compliance assessments to IT Security and SBC investigations. Increased coverage in internal audits.
- Adopt one new industry best practice, such as "layered" consumer privacy notices.
Progress: Implemented call monitoring and recording guidelines to help comply with telecommunication and privacy laws globally.
- Update the Standards of Excellence Data Privacy training module to reflect new policy requirements
Progress: Complete.
- Have 60% of HP workforce complete updated Standards of Excellence Data Privacy training.
Progress: 81.7% of employees completed HP's data privacy training.
- Collaborate with HP Real Estate and Workplace Services Security group to broaden the application of privacy standards in business processes, IT systems and supplier selection.
Progress: HP's Chief Privacy Officer joined the investigatory team for Standards of Business Conduct to help promote adherence to privacy policies and processes in business processes.

Goals for 2007

- Have 80% of HP workforce complete updated Standards of Excellence Data Privacy training.
- Further embed HP privacy standards in business processes, IT systems and supplier selection.
- Implement improved privacy guidelines for investigations.
- Establish an online tool for employees that incorporate all privacy implementation standards.
- Advocate for stronger U.S. Federal privacy legislation and industry-wide adoption of an accountability-based privacy model.
- Roll out Design for Privacy training for technical and product development employees.

Employees



HP fosters a high-performing, diverse workforce and provides a safe, healthy and supportive environment that helps **employees** to achieve their potential

HP employs approximately 156,000¹ people at more than 700 sites in over 170 countries. Our people are key to our success. Their skills, knowledge, ideas and enthusiasm drive our business.

We want a high-quality, diverse workforce and employees who fulfill their potential. We seek to achieve this by offering development and advancement opportunities, providing competitive compensation and benefits that reward performance, and offering flexible work-life options. Our goal is for HP to be among the best places to work. We communicate widely with employees to demonstrate how their efforts contribute to HP's success and to listen to their concerns. We also encourage them to align with HP's global citizenship efforts by contributing to and volunteering in community programs.

We continue to implement the restructuring plan that we launched in July 2005. Under that plan, we expect to eliminate approximately 15,200 positions through workforce restructuring or early retirement programs. We eliminated approximately 14,200 of these positions by October 31, 2006. We expect to eliminate a majority of the remaining 1,000 positions during fiscal 2007. Most of the positions that were eliminated were in support functions such as information technology, human resources and finance.

In this section:

- » Diversity
- » Compensation and benefits
- » Communications
- » Learning and development
- » Work-life programs
- » Health, safety and wellness
- » Employee giving and volunteerism
- » Case studies
- » Perspectives

Employment policies

Our basic employment policies apply globally and underscore our commitment to fair treatment of all employees wherever we operate. At a minimum, we comply with local laws, but our own policies often set a more demanding standard:

- Open Door policy – commits us to open communications and a workplace where everyone's voice is heard.
- Human Rights and Labor policy – commits us to ensure fair treatment of all employees in every country where we operate. We are committed to the Universal Declaration of Human Rights and respect employees' rights to organize in labor unions in accordance with local laws and established practice.
- Best Work Environment policy – defines the standards of personal conduct we expect employees to meet to contribute to a positive, productive work environment.

We provide anonymous channels to report policy violations and all issues raised are fully investigated.

¹ As of October 31, 2006.

Diversity

A diverse workforce encourages creativity and innovation and helps build a stimulating work environment. A workforce that reflects the values and demographics of HP's many markets helps us win new business. We want to maximize diversity at HP, capitalizing on our differences and enabling people to realize their highest potential.

For the first time in HP's history, our workforce is spread almost evenly across all three regions of the world (the Americas; Europe, the Middle East and Africa; and Asia Pacific and Japan). Most of our employment growth is outside the United States, which makes it essential that we have a global diversity focus. We concentrate globally on increasing the representation of women in HP, and in the United States our focus is on people of color. The aging workforce in many countries requires us to emphasize new models for employee retention and flexible work arrangements. See Performance for details of activity in 2006.



More information is available on our Diversity and Inclusion website.

Policies

Our diversity policies require that every employee is treated and treats others with dignity, respect and courtesy. We do not under any circumstances tolerate discrimination or harassment based on such factors as race, age, sex, national origin, disability or sexual orientation. We encourage employees to report suspected discrimination or harassment by using HP's Open Door Policy, by contacting Employee Relations locally or by using our confidential and anonymous GuideLine (1-800-424-2965), as applicable with local law. HP complies with all applicable national and local laws, and operates to our own global policies wherever they are stronger.

Our approach

We seek to recruit a diverse range of people and develop them as leaders, build an inclusive work environment and reinforce positive attitudes to diversity through community activity. These diversity priorities are described in the following table.

Priority/Components	Approach/Examples
Expand workforce diversity	
Attract a wider range of recruits	<ul style="list-style-type: none"> • Use of specialist search firms • Conferences and careers fairs such as the National Society of Black Engineers, the Out and Equal Summit, and the Global Summit of Women • HP Scholar program
Develop diverse talent	<ul style="list-style-type: none"> • Accelerated leadership development programs • Sponsorship of conferences such as Women's Information Network Global Leadership Forum • Working with organizations that promote employment for people with disabilities, such as the Brussels-based Business and Disability Network
Build an inclusive work environment	
Expand dialogue and involvement	<ul style="list-style-type: none"> • Diversity dialogue sessions – 45 with over 1,000 employees in 2006 • Employee Resource Groups – 72 worldwide, bringing together employees with common characteristics, especially groups for women • "Values Made Real" workshops – five workshops (about 20 people per workshop) in 2006 • Equipment and services for employees with disabilities such as notebooks for single-handed operation and closed captioning for hearing impaired employees • HP Argentina video highlighting the importance of creating and supporting employment opportunities for people with disabilities
Promote flexible work arrangements	<ul style="list-style-type: none"> • Flexible Work Arrangements website and seminars
Extend employees' diversity experience	
Support community activity	<ul style="list-style-type: none"> • Outreach activities such as Disability Mentoring Day, when HP employees spend time with students with disabilities

Performance

Training and awareness

In 2006, HP provided online diversity training to 2,500 new employees and a face-to-face course (Partnering Across Cultures) for 450 employees in teams that interacted with colleagues and partners from a different culture. HP offices in 12 countries celebrated Disability Mentoring Day events, when employees spend time with students with disabilities.



Equal opportunity audits

As a U.S. Federal contractor, HP is subject to reviews by the U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP). The OFCCP evaluates HP's equal employment opportunity policies and practices by reviewing our Affirmative Action Program (AAP) and supporting data at selected U.S. locations.

In 2006, the OFCCP performed compliance reviews of 13 locations. These included a Corporate Management Compliance evaluation, which covers equal employment opportunity policies and practices within upper management as well as standard compliance testing. The OFCCP found no apparent violations of federal regulations under their jurisdiction.

Diversity data

We track gender diversity globally and ethnic diversity in our U.S. workforce. The charts below show performance over the past three years.

Worldwide workforce demographics, 2004-2006

[% female of total employees]

Region	2004	2005	2006
Americas	31.7%	31.8%	31.4%
Asia Pacific and Japan	28.5%	29.6%	29.6%
Europe/Middle East/Africa	27.4%	27.4%	27.7%
Worldwide	29.7%	29.9%	29.9%

U.S. workforce demographics, 2004-2006

2004 U.S. workforce demographics

	Male	Female	White	All minorities	Black	Hispanic	Asian	Native American	Total
Officials and managers	6,051	2,261	7,047	1,265	288	402	547	28	8,312
Professionals	29,213	13,219	32,767	9,665	1,955	2,222	5,342	146	42,432
Technicians	4,999	737	4,508	1,228	422	343	420	43	5,736
Sales workers	1,092	389	1,296	185	63	86	31	5	1,481
Office and clerical	639	2,828	2,665	802	328	298	165	11	3,467
Craft workers (skilled)	62	2	58	6	2	1	3	0	64
Operatives (semi-skilled)	457	180	359	278	129	91	51	7	637
Laborers	1,124	785	1,220	689	193	262	221	13	1,909
Total	43,637	20,401	49,920	14,118	3,380	3,705	6,780	253	64,038
% of total	68.1%	31.9%	78.0%	22.0%	5.3%	5.8%	10.6%	0.4%	100%

2005 U.S. workforce demographics

	Male	Female	White	All minorities	Black	Hispanic	Asian	Native American	Total
Officials and managers	5,701	2,158	6,634	1,225	256	405	538	26	7,859
Professionals	28,639	12,958	32,039	9,558	1,945	2,206	5,266	141	41,597
Technicians	4,292	624	3,822	1,094	371	316	374	33	4,916
Sales workers	726	323	1,340	135	48	61	23	3	1,049
Office and clerical	538	2,461	2,280	719	301	260	148	10	2,999
Craft workers (skilled)	45	1	40	6	3	1	2	0	46
Operatives (semi-skilled)	331	153	251	248	97	85	46	20	484
Laborers	795	629	898	526	150	185	184	7	1,424
Total	41,067	19,307	47,304	13,511	3,171	3,519	6,581	240	60,374
% of total	68.02%	31.98%	78.35%	22.38%	5.25%	5.83%	10.90%	0.40%	100%

2006 U.S. workforce demographics

	Male	Female	White	All minorities	Black	Hispanic	Asian	Native American	Total
Officials and managers	5,020	1,848	5,776	1,092	225	355	492	20	6,868
Professionals	26,578	11,747	29,338	8,987	1,782	2,054	5,023	128	38,325
Technicians	3,792	515	3,320	1,019	329	320	342	28	4,307
Sales workers	505	253	653	719	653	43	18	5	758
Office and clerical	371	1,939	1,736	574	231	214	123	6	2,310
Craft workers (skilled)	27	1	24	4	3	1	0	0	28
Operatives (semi-skilled)	212	99	192	130	43	38	35	14	311
Laborers	635	543	713	547	132	164	165	86	1,178
Total	37,140	16,945	41,752	13,072	3,398	3,189	6,198	287	54,085
% of total	68.67%	31.33%	77.20%	24.17%	6.28%	5.90%	11.46%	0.53%	100%

Compensation and benefits

HP's business success depends on the talent and contributions of our employees. We recognize strong performance and provide competitive rewards to attract and retain talented people.

In 2006, we introduced our Total Rewards strategy, which supports a performance-based culture. Rewards reflect company and individual performance, consistent with our values and leadership standards. Career development is based on an individual's results and capabilities, in line with business requirements.

Employees' total rewards are intended to be competitive based on local markets, but the individual components remain flexible depending on business needs. For more information, including benefits by country, see our website.



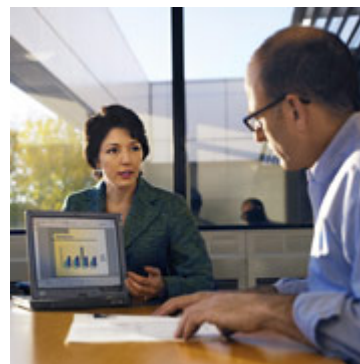
Pension and retiree medical program

In January 2006, HP froze the U.S. pension and retiree medical program benefits of most employees at that time. Instead, for affected employees, HP increased its matching contribution in the 401(k) pension plan from 4% to 6%. These changes do not affect benefits currently received by retirees or employees whose age plus years of service added to 62 or more at the time the determination was made. Current employees will retain the benefits they have already earned. These changes to the U.S. pension and retiree medical program bring HP into line with industry benchmarks.

Communications

Strong internal communication ensures employees are well informed and provides feedback to management. HP aims for a workplace where everyone's voice is heard, issues are raised and resolved promptly and communication flows across all levels of the company.

We use several channels to communicate with employees, including an internal web portal and company news website, regular e-newsletters, quarterly all employee web casts, and regular communication sessions with the CEO and other senior leaders. In 2006, the CEO alone held 15 communication sessions at locations around the world. Web cast replays, transcripts and written summaries of all major employee events are posted on our web portal for employees to access.



Employees provide feedback formally through the annual Voice of the Workforce global survey (see below) as well as monthly "pulse surveys" on specific issues. They can also ask questions to HP business groups and functions at any time through the award-winning "Ask HP" service.

Human Resources (HR) professionals work with employees and managers to address performance issues through our Employee Relations channel, and employees can raise issues directly with managers, HR staff or the Ethics and Compliance Office.

Voice of the Workforce

In 2006, more than 112,000 employees (74% of the total workforce) responded to HP's annual global employee survey – the Voice of the Workforce (VoW). The survey is available online in 25 languages and employee confidentiality is strictly protected.

The results provide an annual assessment of employee satisfaction and are inputs for business planning, management decision-making and company strategy development. HP's Chairman, CEO and President, Mark Hurd, and HP's Executive Council personally participate in reading employees' anonymous written comments. Senior managers assess the data to gauge progress and identify issues requiring further attention. Results and next steps are shared with employees at the work group level.

Based on the 2006 results, HP's strengths continue to be in the areas of integrity and people management. There were significant improvements in senior management, innovation and employee engagement. The main areas requiring improvement relate to:

- Simplifying tools and processes, to make it easier for employees to perform their jobs and for customers to work with HP
- Building a high performance work environment and fostering career development, by creating clear career paths, expectations and rewards for employee success

Employee communications on global citizenship

We communicate with employees on global citizenship issues and programs through monthly global and regional newsletters. Internal global and regional global citizenship websites cover areas such as environment, philanthropy, ethics and privacy. They provide tips on subjects such as saving energy and helping local schools apply for HP educational grants.

We also encourage employees to participate in global citizenship events. HP celebrates Earth Day in the United States and the United Nations Environment Day in other countries. In Europe, Middle East, and Africa, 2,600 employees participated at 16 sites in 11 countries, and collected more than six tonnes of e-waste.



Events throughout the year increase employees' citizenship awareness. For example, in 2006, HP Germany launched Mitarbeiter vor Ort, an employee engagement program through which 100 employees provided technology grants on behalf of HP to local communities.

Employees are also encouraged to support local communities through giving and volunteering.

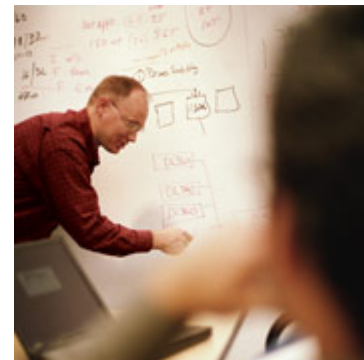
Learning and development

Training and development enable employees to reach their full potential. HP's global training program aligns individual learning with business group or function needs, which in turn support HP's overall business strategy. In 2006, we began developing new training processes to help managers address low performance.

As part of the annual performance review process, each employee creates a development plan with his or her manager. We support employees in pursuing external opportunities such as conferences, seminars and technical certifications as well as training at accredited institutions.

We survey participants after completing courses. Participant feedback improved during 2006. For the fourth quarter, 82% of participating employees rated their course "excellent."

Additionally, our Standards of Excellence training helps employees implement company policies, meet high standards of conduct and ensure their behavior reflects company values and policies.



Topics include customer experience management; data privacy; environment, health and safety; information security; and standards of business and personal conduct.

Leadership development

In 2006, we redesigned HP's leadership development programs to reflect the company's strategic direction and operating model and to provide managers with the awareness and skills they need.

Our new Leadership Development Framework is built on HP's core values and objectives, and consists of:

- Core learning, which clarifies HP's expectations regarding leadership and aligns with company strategy
- Group learning, which applies core learning to improve organizational performance and instills management practices and tools
- Personal learning, which builds on group learning to focus on individual effectiveness and leadership development

The program will be launched in 2007, initially for the top 150 executives and then for all managers. Our goal is for 30% of all managers to participate during 2007.

In 2007, we will also launch a series of development programs for approximately 300 senior executives, managers and individuals.

Performance in 2006

In 2006:

- HP invested \$306 million on workforce development, compared to \$380 million in 2005, reflecting increased efficiency in our programs and bringing HP in line with industry benchmarks.
- We delivered more than 2,800 instructor-led and 6,200 e-learning courses, through self-paced and web-based vehicles including HP's virtual classrooms and online "Virtual Labs."
- Employees received an average of 28 hours of formal training.
- Our learning portal received an average of 6,000 to 7,000 visits daily.

We are transitioning leadership training programs to the new program described above, so there is no data on these for 2006.

Global learning and development spending, 2004-2006 [Million \$U.S.]

	2004	2005	2006
Total spending	\$405	\$380	\$306

See more on our Training and Development site.

Goal for 2007

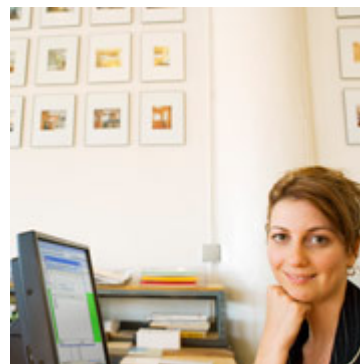
- Thirty percent of all managers participate in Leadership Development Framework program.

Work-life programs

HP recognizes that employees may not wish to work full-time on our premises. Offering flexibility helps us attract and retain a more diverse workforce, which makes HP more competitive.

We support the following flexible arrangements:

- Flex-time – varying the length and times when employees must be available around standard business hours. Approximately 80% of our workforce takes advantage of this option.
- Part-time – working reduced hours on an ongoing or temporary basis. More than 3,000 people work part-time.
- Job Share – sharing the tasks and responsibilities of one full-time position between two employees with part-time status (see case study).
- Telework – working full-time from home rather than at an HP site where this is consistent with customer and business needs. Nearly 13,000 employees are teleworkers.
- Flexwork – occasionally working from home but primarily based on HP premises.



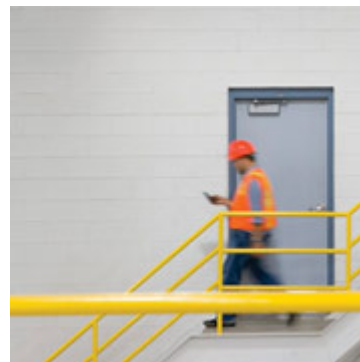
Several benefits vary from country to country, such as time off for new parents and services that support employees and their families with special circumstances such as elder care and legal cases.

See our Work-life website for more information.

Health, safety and wellness

HP seeks to meet leading health, safety and wellness standards to enhance HP's business performance while optimizing employee health. We believe that work-related injuries are preventable and we create work environments and foster practices that allow employees to work safely. Our policy objectives are achieved through programs that are designed to continually reduce the risk of occupational injury and illness while promoting employee health and well-being.

We implement our health, safety and wellness (HSW) programs as part of a comprehensive environmental, health and safety management system that meets or exceeds applicable regulatory requirements globally and is aligned with Occupational Health and Safety Assessment Series (OHSAS) 18001, the most widely accepted health and safety standard worldwide. In addition, four HP sites are registered to OHSAS 18001.



Health and wellness

Our health and wellness strategy raises awareness about health issues and encourages employees to adopt healthy lifestyles. Programs include health screenings, stress management workshops, travel health advice, and smoking cessation initiatives, among others.

We offer U.S. employees health assessments and follow-up by a personal health advisor with a \$300 incentive credit toward their health insurance premiums, to encourage participation. About 80% of U.S. employees took advantage of this in 2006. Our goal is to use the aggregated results of these assessments for targeted health education programs.

Avian flu

In 2006, we developed contingency plans against the threat of avian flu, building on initial work in 2005 that included simulations of how an outbreak could affect HP. This year we focused on operational preparedness, including:

- Acquiring respirator kits for targeted groups and sites
- Benchmarking our preparedness against other large companies
- Helping HP businesses evaluate their critical operations and contingency plans
- Defining avian flu "triggers" that would prompt corporate action plans

We developed employee communication programs, stressing the importance of hygiene in preventing virus transmission, and regularly updated HP's Preparedness and Resiliency and Environmental, Health and Safety Avian Flu intranet websites. We also targeted supplier preparedness, reviewing business continuity plans for HP's top 50 suppliers and assessing the resilience of customer support.

Performance

Health, safety and wellness training and communications

We include general health, safety and wellness (HSW) information in new employee orientation and annual online refresher training, and we provide training tailored to employees' jobs and in local languages. More than 127,000 employees took the annual online training class in 2006.



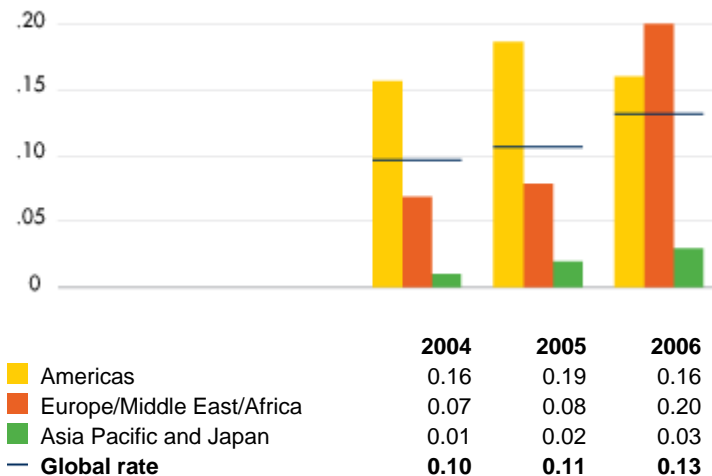
We conduct quarterly global employee surveys to measure HSW program effectiveness. In 2006, the approval rating was 89% for health and wellness questions and 95% for workplace and job safety questions.

Health and safety metrics

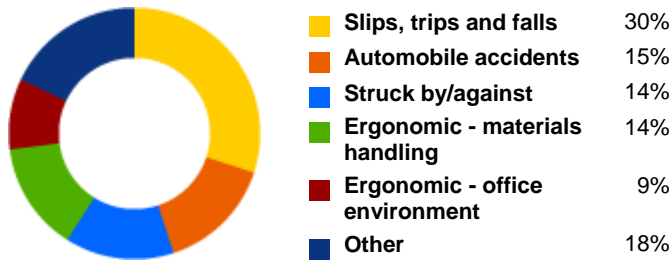
HP tracks work-related injuries and several other health and safety metrics (see the table). We record and investigate injuries to identify and eliminate root causes, aided by an automated system that reflects the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases.

We simplified the reporting process worldwide in 2006, making it easier for non-U.S. team members to report health and safety data. We also held educational sessions to improve data reporting and accuracy. We believe this worldwide focus on reporting injuries resulted in the slight rise in reported incidents from last year.

Lost workday case rate¹, 2004-2006



Leading causes of lost workdays, 2006



Although almost half of the recordable cases were related to office ergonomic issues, only 9% of the lost workday cases were in this category. We attribute this largely to the effectiveness of our ergonomics self-assessment, training and risk reduction program.

Select health and safety metrics, 2004-2006 [Worldwide]

	2004	2005	2006
Fines [\$U.S.]	\$0	\$0	\$0
Work-related fatalities	0	0	2
Percentage of employees completing the on-line office ergonomics self-assessment and training (cumulative)	35%	56%	63%

We deeply regret two work-related fatalities in 2006 – one due to a commercial airline crash and the other an HP employee in South America who was killed while en route to the airport for international business travel.

There were no violations with penalties from governmental regulatory agencies worldwide.

Ergonomics

Our online office ergonomics self-assessment, training and risk reduction program, available in 10 languages, helps employees identify and lower job-related ergonomic risks.

By the end of 2006, 63% of HP employees had completed the program, exceeding our target of 60% and an increase of 25,000 users over 2005.

We follow up self-assessments with personalized communications, targeted at employees with the highest self-identified risks. In 2006, 93% of participants reported the likelihood that "they will work more comfortably" after participating in the program. Each region develops plans to target high-risk issues.

Our goal for 2007 is to maintain HP employee participation in our office ergonomics self-assessment and training process at a level of at least 60% of the employee population.

¹ Lost workday case rate is the number of work-related injuries that result in time away from work per 100 employees working a full year.

Employee giving and volunteerism

Many HP employees contribute time, money and HP products to help others. This contributes to the improvement of employee morale and productivity, and strengthens our reputation and relationships with local communities and other important stakeholders. In addition, product donations increase awareness of the HP brand.



Approach

Local HP offices identify specific programs for employees and the local community. However, in many of our programs we aim to link product donations to volunteering by giving preference to organizations where HP employees volunteer. This increases the benefits of employee involvement for the charities and for HP.

For example, HP + vous is our employee-sponsored grants program in France. Employees identify grant opportunities and help community organizations apply for funding in four categories (culture and education, humanitarian aid, social integration and assisting people with disabilities). Successful applicants receive cash and HP equipment grants worth from €1,500 to €5,000 (\$2,000 to \$6,500).

We encourage employees to volunteer in ways that capitalize on their professional skills, to increase impact and provide them with valuable experience.

HP has employee giving programs with a company match in many locales, including the United Kingdom, the United States and Canada. Our largest giving and volunteering programs are in the United States. HP offers one-to-one cash matching for employee gifts to qualified nonprofit organizations, up to \$1,000 per employee per year. Employees can also donate designated HP products to qualified charitable organizations or schools. Employees contribute 25% of the list price up to \$5,000 and HP contributes the remaining 75%. HP encourages managers to support employees engaged in volunteer activities by allowing these activities to take place on company time within set limits (in the United States, up to four hours per month) with local management approval and discretion.

Many other HP offices worldwide operate employee giving and volunteer programs. We are exploring how to expand volunteering programs to all regions where HP operates and further engage employees in our strategic philanthropic efforts, such as Technology for Teaching.

We are examining how to measure the impact of employee involvement on communities. In our Asia Pacific and Japan region, in 2006 we began working with the London Benchmarking Group (LBG) to do this and will report initial results next year. LBG helps companies to measure the inputs and the outputs of their community investments.

Performance

In 2006, more than 7,700 employees participated in the U.S. Employee Giving Program. Together with HP matching resources, employees contributed more than \$14.8 million in cash and products to more than 5,000 community organizations and schools.

We have developed a web-based reporting tool to help U.S. sites track employee volunteering and report volunteering hours. We are exploring how to encourage more employees to use the tool and introduce similar tools in other regions.

We have decreased the value of our social investment giving during the last two years, reflecting company-wide cost reduction efforts. This has impacted the number of employees participating in our giving programs.



Employee giving in the United States, 2004-2006

	2004	2005	2006
Employees participating in our U.S. Employee Giving Program	13,200	10,300	7,700
Value of cash and products donated including HP matched funds [Million \$U.S.]	\$18.5	\$16.9	\$12.6

Goals

Goals for 2006

- Number of employees who donate products to schools and charities through employee giving programs increase by 30% over 2005.
Progress: Exceeded target with a 44% increase.
- Number of employees and retirees who volunteer through HP-sponsored programs increase by 5% over 2005.
Progress: Did not meet target. Achieved a 2.5% increase.

Goals for 2007

Worldwide

- Improve data collection and further recognize volunteerism worldwide.

Europe, Middle East and Africa

- Establish employee engagement opportunities for all local social investment programs.

United States

- Increase the number of employees who donate products to schools and charities through employee giving programs in the United States by 10% over 2006.
- Increase the number of employees and retirees who volunteer through HP-sponsored programs in the United States by 5% over 2006.

Case studies – Employee giving and volunteerism

Below are some of the many initiatives HP employees supported during 2006.

Global

The International Telementorship Program (ITP) connects students with professionals from companies around the world. Currently, more than 130 HP mentors from seven countries volunteer with ITP. Since the program's inception in 1995, more than half of the 33,000 students involved in the program have been mentored by HP employees.

Americas

Brazil. The "HP is YOU" program aims to make HP Brazil "a better place to work every day." It organizes events such as bring your children to work days and employee volunteering opportunities. In 2006, more than 1,200 employees and their families participated in the Party of June. Attendees donated 1,250 kilograms of food to four charitable foundations.

Canada. One hundred HP employees participated in Junior Achievement, a program targeted at eighth grade students that reinforces the importance of staying in school. Employees delivered the Economics of Staying in School (ESIS) Program, which teaches students how to create a budget, plan expenses associated with living on their own, assess needed career skills and prepare for their first job interview.

Europe, Middle East and Africa

HP has employee giving programs in many European markets that match employee donations with HP funding or products. Programs currently operate in France, Germany, Italy, Switzerland and the UK.

Employees across our Europe, Middle East and Africa (EMEA) region volunteer with Junior Achievement – Young Enterprise (JA-YE), which helps students prepare for working life by running their own companies. HP launched the "HP Responsible Business Competition" in 2006, a joint initiative with JA-YE in nine countries. HP volunteers advise students on how to make their businesses more socially responsible and environmentally friendly and the best companies are selected once a year to receive the "HP Responsible Business Award". See Social investment.

Germany. HP Germany launched a new employee engagement program, Mitarbeiter vor Ort. More than 340 employees entered a competition to win an HP notebook, projector or HP Photosmart package for the organization where they volunteer. One hundred prizes have been distributed.

Asia Pacific and Japan

Employees in HP's Asia Pacific and Japan region raised over \$230,000 for the Indonesian earthquake relief effort and \$30,000 to help victims of flooding in China's Guandong region.

India. Community Service Club of HP India is HP's employee volunteering organization in India that comprises thousands of HP employees working to make a difference in the lives of underserved, disadvantaged people. HP volunteers designed one particular effort, the Budding Artist event, as a platform to identify artistically inclined youth who could be nurtured to build a career in commercial arts. The HP team created a competition that resulted in the selection of 750 award winners out of more than 1,500 students.

Case studies – Employees (general)

Unique and seamless

Florence Billat and Murielle Igier share the role of global OpenCall Software Finance Director, Technology Solutions Group Software HQ, Worldwide Finance and Administration in France.

Muriel says they were trying desperately to juggle personal and professional commitments before they shared a job. Now they have time for both, and for activities such as hiking the Kalahari Desert.



They started sharing at the end of 1996 and have been promoted twice. "Our approach was to manage it as a project. We set our objectives, defined our operating model, established metrics, and designed a formal review process and continuity plan," Muriel says.

They believe they are better as a team than either would be alone. "Two heads are stronger than one, especially when solving problems and sharing our concerns with one another. Our organization gets the energy and the creativity of two finance directors for the price of one."

Women's Summit in India

HP India held its first ever Women's Summit in July 2006 for more than 120 senior women managers. The two-day event developed a new charter for HP women in India.

Senior HP executives from India and around the world participated in the conference, including Marcela Perez de Alonso, the Global Executive Vice-President of Human Resources, and Michael Vavakis, Vice-President of Human Resources, Asia Pacific and Japan.

Attendees participated in a workshop facilitated by senior executives, which presented recommendations to a leadership panel.

As a result, HP India is developing programs to accelerate the development of women through:

- Promoting talent management, including rotational assignments, accelerated development programs and career counseling.
- Fostering women's networks to support and create a culture of inclusion, encourage knowledge sharing and peer-to-peer coaching.
- Expanding the awareness of diversity issues for business and function managers.

"The HP India Women Summit was one of a kind in promoting diversity. It was a wonderful platform where women met across various divisions and functions in HP India and where we shared our career experiences, our strengths, successes and some of our obstacles and barriers and how we managed them in our career life."

Archana Paul
Implementation Project Manager
Transition Team, Global Solution Center Bangalore



Perspectives

Simmons School of Management

Deborah Merrill-Sands, Ph.D.

Dean
Simmons School of Management
Simmons College
Boston, Massachusetts, United States



How is HP doing?

Hewlett-Packard is a leader in the field, recognizing the critical link between organizational innovation and performance and diversity in the workforce as well as the leadership team. HP excels in using an innovative multi-pronged strategy of education, policies, leadership norms, and work practices to strengthen the recruitment, retention, and advancement of women of diverse backgrounds worldwide.

How would you like to see HP improve in this area?

With women comprising nearly a third of the HP workforce and 25% of the officers and managers, we encourage HP to continue to give special attention to developing future women leaders and managers. Women's perceptions of opportunities for leadership are the single most important factor affecting their retention. As HP pursues its commitment to excellence and innovation, it will be important for the company to continue to ensure that high performing women are developed for leadership, particularly in line management positions.

Women's International Networking

Kristin Engvig

Founder and CEO
W.I.N. (Women's International Networking)



How is HP doing?

HP has been a leader in the area over a long period of time and is still evolving. What is so interesting is that the entire organizational culture embraces diversity and inclusion in a very strong and enthusiastic fashion. I think this openness stimulates the entire organizational learning and gives HP a competitive edge as a company.

How would you like to see HP improve in this area?

We believe that HP needs to do more of what it is already doing; stimulate more diversity and increase the number of women in all positions and in particular at the top. A continuous focus on the female consumer and what their needs are and how they make decisions is a must. Likewise, integrating a female way of thinking and operating when developing people, markets and products will give HP the leading edge as a company for years to come.

Social investment



In this section:

We use our strengths – our technology, our people and our profits – to help benefit communities around the world. We focus this social investment where there are pressing community needs, where we can have a meaningful impact and through programs that are relevant to our business.

- » Education
- » Community
- » Performance
- » Goals

In 2006, our programs covered two areas:

- Education – helping educators use technology to improve teaching and enhance learning, and increasing access to technology in education from kindergarten through the university level.
- Communities – accelerating economic development in underserved communities and helping nonprofit organizations use technology to become more efficient and effective.

Our social investments help benefit grant recipients and their clients while adding value to HP's business. We believe that by contributing to society we strengthen our relationships and improve our reputation with communities, customers, governments and other stakeholders, and enhance employee satisfaction. As an example, our grant recipients are an excellent source of feedback on our products, and through these product donations we raise the visibility of HP's brand with potential future customers.

In the last five years we invested \$277 million in education, e-inclusion and communities worldwide. Our donations in 2006 represented approximately 0.63% of our pre-tax profits (see Performance).

We measure the impact of our social investment to ensure that communities, and therefore HP, receive the maximum benefit from our contributions. For example, in our Asia Pacific and Japan region, we have joined the London Benchmarking Group (LBG), a membership organization that helps companies to measure the impact of their investments on the community. HP is proud to be the first LBG member in that region.

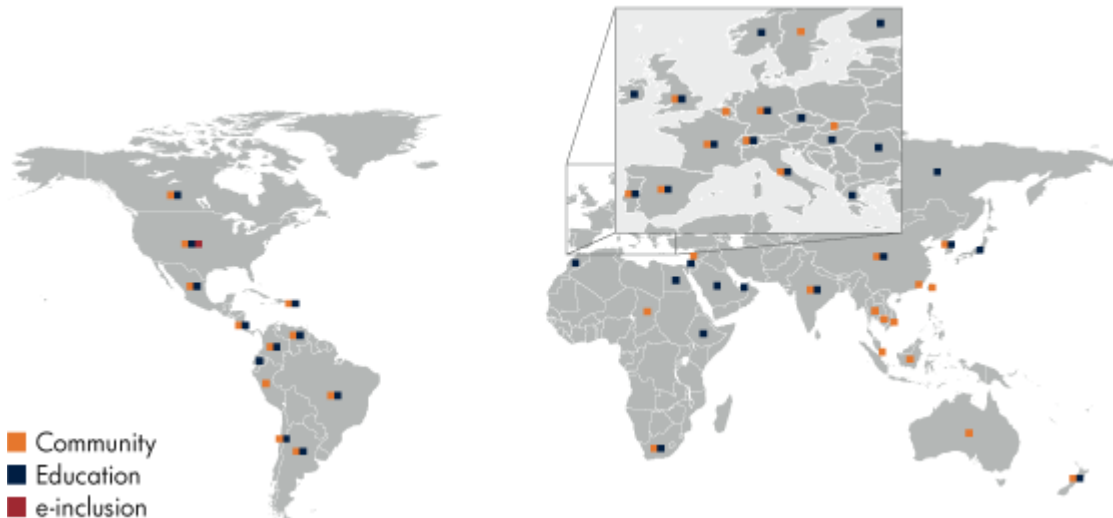
Read about employee giving and volunteerism in our Employees section.

Next steps

Our priority in 2007 is to align our social investment even more closely with our business. We have identified three focus areas – economic development (particularly support for microenterprise development), education and the environment. The first two areas will help to raise HP's profile with two important customer groups – small and medium-size businesses, and schools, colleges and universities. The third area aligns with our global citizenship priorities and will contribute to HP's leadership on environmental issues. We aim to launch new projects in Brazil, China, India and Russia – priority markets for HP.

Our other priorities for 2007 are to develop programs with a broader global reach, make programs in different regions more consistent, improve measurement and evaluation of program results, and extend our learning communities for grant recipients.

Partial list of social investment locations during fiscal year 2006¹



[» View data](#)

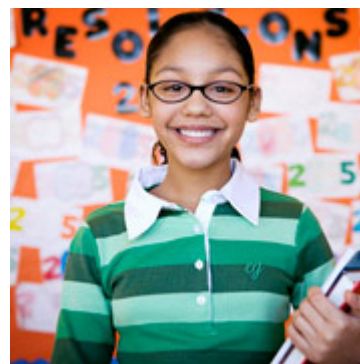
¹ Squares represent programs (could be multiple locations) in that country.

Education

Quality education is essential for economic growth, productive citizens and prosperous communities. Information technology (IT) benefits education by improving access to information, supporting innovative and engaging teaching methods and increasing student academic achievement.

HP donates products and cash and provides technical and professional development support to improve teaching and enhance student success. Our priority areas for investment include math, science and engineering and assisting educational institutions in underserved communities.

We require status updates and final reports from the projects we support. Using this information, we track the impact of our social investments, identify projects for possible reinvestment and improve our grant programs.



Worldwide education programs in 2006

HP Technology for Teaching

HP's Technology for Teaching grants help educators use technology in the classroom to improve teaching and make lessons more exciting and engaging for learners.

Each selected school or university receives a package of HP products such as Tablet PCs, multimedia projectors, digital cameras and printers. We provide professional development training and support to help schools receive more value from HP technology. For example we partner with the International Society for Technology in Education (ISTE) to offer customized professional development and mentoring for K-12 teachers in the United States and Canada.

We encourage grant recipients to share good ideas, successes and challenges through online communities, conferences and online speaker sessions. These include:

- An online learning community for school teachers run by ISTE
- A showcase of the most successful projects at the annual National Educational Computing Conference
- A monthly online speaker series, an annual conference and a blog for university grant recipients

In 2006, we donated \$13.4 million in cash and HP products to 77 universities and colleges in 22 countries and awarded grants to 130 K-12 public schools in the United States and Canada. We have made HP Technology for Teaching grants of more than \$36 million to nearly 650 educational institutions in 32 countries since the program began in 2004.

Grant recipients who demonstrate a positive impact on student achievement may receive reinvestment Leadership Grants. These enable recipients to expand their programs to benefit their entire school or university department. In 2006, HP provided reinvestment grants to 15 K-12 schools in the United States and Canada and 10 universities and colleges worldwide.

Digital publishing grants

HP's Digital Publishing for Teaching and Learning in Higher Education aims to enhance learning in higher education by making it easier to create personalized learning materials. In 2006 we provided grants totalling \$1 million to 14 universities in 9 countries including, Australia, Brazil, Italy, Mexico, Russia, Singapore, South Africa, UK and the United States.

Each grant, valued at approximately \$56,000, consisted of HP digital printing and imaging products, including large format printers, high speed color LaserJet printers and \$15,000 cash. For Rice University in Houston, Texas, the grant coincided with the launch of the new Rice University Press and they expect to create a national model for efficient, open-source publishing and will provide more works of original scholarship at costs more reasonable than currently possible.

Local education programs

HP offices worldwide also support country-specific education programs. These are just a few examples from 2006.

Africa – In 2006, we launched a new project with UNESCO to counteract the "brain drain" in Africa. Skilled professionals, scientists, academics and researchers are estimated to be leaving the continent at a rate of 20,000 per year, depriving many African countries of the human and intellectual capital they need to develop. This project, "Piloting Solutions for Reversing Brain Drain into Brain Gain for Africa," will provide grid computing technology to universities in Algeria, Ghana, Nigeria, Senegal and Zimbabwe to help re-establish links between researchers who have stayed in their native countries and those that have left, and to connect scientists to international colleagues, research networks and funding opportunities. Faculties and students will also be able to work on major collaborative research projects with other institutions around the world. The project follows a similar successful joint HP-UNESCO initiative to address brain drain in South Eastern Europe.

China – Many students in western China lack access to technology infrastructure, hindering their academic performance and future employment prospects. HP is the first private sector partner in Pathways to Higher Education (PHE), a collaboration between the Institute for Environment and Development, Chinese Ministry of Education, The Ford Foundation and the China Foundation for Poverty Alleviation. In 2006, we donated HP products worth \$350,000 to equip PHE-HP Internet Service and learning centers in 16 higher education institutions. This is expected to help over 40,000 students improve their IT skills. In 2007 we will launch a platform for participating colleges to share ideas and best practices.

Costa Rica – According to the Costa Rican Ministry of Education, over 42% of the country's K-12 students do not have access to information technology. HP created a Mobile Digital Garage to bring this technology to students in areas of San Jose where there is little computer access. We converted a bus into a digital classroom in which 243 school students were trained in PowerPoint and Excel on HP laptops. The Digital Garage has been endorsed by the Costa Rican Ministry of Education and we are considering expanding the program to other countries in the region.

Mexico – In 2006, HP donated HP PCs and printers worth more than \$200,000 to schools in Mexico through the Union of Entrepreneurs for Educational Technology (UNETE). UNETE promotes equal opportunities and improves education in public schools in Mexico through the use of computers and the Internet. So far, UNETE has equipped media rooms in 3,114 schools, benefiting over 1 million students, and has trained 42,000 teachers to use IT in the classroom. HP's donations helped to set up seven media classrooms in schools in four Mexican states in 2006 and more than 90 media classrooms since 1999. This philanthropic engagement has created a strong business relationship as well among HP, UNETE and the Mexican government to extend the reach of computers into more schools.

See HP's blog related to teaching, learning and technology in higher education.

Community

HP offices worldwide give money and technology to support their local communities. Often they focus on improving access to technology, thereby accelerating economic development or helping charitable organizations use technology to improve their efficiency and effectiveness.

HP fulfilled its e-inclusion commitments in 2006, but we are still supporting many of the projects that evolved from this initiative. The 5th Ward/HP i-community in Houston (funded by a \$3 million cash, equipment and services grant from HP over 3 years) was successfully transitioned to community ownership in 2006. Thousands of community members have benefited from technology labs in schools, local Technology Access Points (TAPs), and the new community portal as part of this project.

Below are just a few examples of HP's community investments in 2006.

Americas

Technology for communities. In 2006, HP awarded 104 nonprofit organizations in the United States and Puerto Rico with mobile and wireless technology packages worth \$17,000 and training to set up a wireless network. The recipient organizations provide much-needed services to their communities in the areas of health and human services, workforce development, the environment, arts and technology, and community and economic development. The initiative helps them reach more people through the innovative use of technology, access information and resources online and network virtually with key stakeholders. The program has helped us to better understand the technology needs of nonprofits and identify where HP can have the biggest impact in supporting their work.

POETA centers. HP donated 60 computers to three new POETA (Partnership in Opportunities for Employment through Technology in the Americas) centers in Bogota, Colombia. POETA is a technology-based job training and placement program operated by the Trust for the Americas. HP's grant helped set up technology classrooms that will provide job-skills training and technology access to disabled people and wounded veterans. Local HP employee giving and volunteerism supplemented the product grant to help construct and equip one of the classrooms. All three classrooms were inaugurated in 2006, and the initiative aims to serve more than 6,000 people in 2007.

Asia Pacific and Japan

Youth Business China (YBC). HP has donated technology to four YBC training centers for potential micro-entrepreneurs. YBC is an initiative of the International Business Leaders Forum to provide skills development and mentoring to potential micro entrepreneurs in China. We will continue working with YBC to develop IT training curriculum during 2007.

APJ community portal. We established a portal enabling all HP past and current grant beneficiaries to access a community of best practice. A discussion board is one of the many features of the community portal that will assist our grant beneficiaries to share information and experiences. Moderators are HP employee volunteers with a wealth of knowledge on getting the most out of their HP information technology products.

Europe, Middle East and Africa

Encouraging entrepreneurship. Educating small and medium enterprises and entrepreneurs is one of the best ways to support local economic development. In 2005, HP launched the Micro-Enterprise Acceleration Program (MAP) to establish training for micro-entrepreneurs on using technology to build and grow a business. To complement MAP, HP launched "Smart Technology for a Smarter Business", a new curriculum on how to use technology to build a business. In 2006 the objectives of MAP were successfully transitioned to the Micro-Enterprise Acceleration Institute (MEAI), a new nonprofit organization. With support from HP, MEAI will help local government and business associations in the Europe, Middle East and Africa (EMEA) region launch teaching programs centered on technology for entrepreneurs.

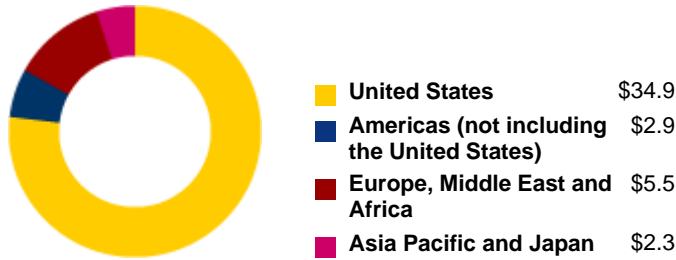
In 2006, HP EMEA and Junior Achievement – Young Enterprise (JA-YE) launched the first "HP Responsible Business Award", a competition directed at participants in JA-YE's enterprise and economic education programs. The competition recognized student companies that balanced financial performance, social responsibility and environmental impact. Winners included VOLL1 in Estonia, which makes wallets out of recycled orange juice cartons.

Performance

Social investment, 2004-2006 [Million \$U.S.]

	2004	2005	2006
Overall			
Total	\$61.6	\$45.3	\$45.6
% of pre-tax profits	1.5%	1.3%	0.63%
Type			
Cash	\$16.6	\$18.0	\$17.5
Products and services ¹	\$45.0	\$27.3	\$28.1

Social investment by region, 2006 [Million \$U.S.]



The value of our social investment has decreased over the last two years. This reflects our company-wide efforts to reduce costs, restructure our business and reinvest in company growth. Our efforts to prioritize and improve the effectiveness of our social investments have minimized the impact of this reduction.

The impact of our grants

The International Society for Technology in Education (ISTE) is helping us to review the impacts of our HP Technology for Teaching grants. Preliminary results from their research suggest that recipients of HP Technology for Teaching grants have experienced direct, positive effects on teaching and student learning, as measured by classroom-based and standardized assessment instruments, assessment of teacher proficiency with technology and the use of technology to enhance classroom instruction. Findings demonstrated that HP had increased the positive effects of its grants by including professional development in its support for K-12 educators.

Higher education benefits include a change in teaching methodology from lecturer to facilitator (supported by professors knowing what students know, in real time, as they teach). Specific benefits for K-12 schools include higher student achievement on classroom, school, district or state assessments when compared to similar groups in classrooms untouched by the HP grant. And at all education levels, there was a positive impact on student learning as evidenced by increased student engagement, participation and academic achievement. Schools also increased their ability to meet the needs of individual learners, including special education students, and customize teaching to reach the entire class rather than the majority. New practices, such as the creation of electronic textbooks that support collaboration and an improved presentation recording platform, influenced higher class participation on college campuses. This enables faculty and students to easily record live presentations for future viewing.

¹ Product donations are valued at the Internet List Price. This is the price a customer would have paid to purchase the equipment through the HP direct sales channel on the Internet at the time the grant was processed.

Goals

Goal for 2006

- Eighty percent of education grant recipients report that HP products received had positive impact on teaching and learning as measured against goals they set for their projects. Progress: Our partner, the International Society for Technology in Education, found that all of the HP Technology for Teaching grantee reports indicated direct, positive effects on teaching and student learning.

Goal for 2007

- One hundred percent of education grant recipients report that HP products received have a positive impact on teaching and learning as measured against goals they set for their projects.
- Measure social investment impact in our Asia Pacific and Japan region to ensure maximum benefit to communities and HP.

About this report



This report describes HP's global citizenship policies, programs and performance in the fiscal year 2006 (ending October 31, 2006).

Reporting is a fundamental aspect of our global citizenship activities and an important form of communication with many stakeholders. We consider our global citizenship reporting a process of continual improvement. We update our report based on changes to HP's business, emerging issues, analysis and research that includes benchmarking of industry reports, assessment of cross-industry leadership reporting trends, evolution in external standards such as the Global Reporting Initiative, and stakeholder feedback from past reports.

In this section:

- » Assurance
- » GRI index
- » Subject index
- » Site map
- » Glossary

Report versions

This comprehensive web report is our primary means of communicating about our global citizenship efforts with stakeholders, such as socially responsible investors and corporate responsibility specialists who want in-depth information. It covers a broad range of global citizenship issues at HP, led by our three priority areas: supply chain responsibility, energy efficiency and product reuse and recycling.

Each major report section describes our approach to managing the issues, supported by detailed pages with performance data and in some instances case studies, goals and external perspectives. We also explain our approach to assurance.

We also produce a shorter, customer-focused PDF version, The Hidden Component, aimed at business customers and others who want focused coverage of our global citizenship activity. It highlights how our efforts in our three priority areas create value for customers, discusses several

other important issues, provides targeted regional content and provides relevant links to the full report. The current version has been localized and translated into several languages.

This is HP's sixth annual Global Citizenship Report. Previous reports are available from the Downloads page.

External reporting standards

We considered the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3) in preparing this report and include a comprehensive GRI index. We self-declare this report to GRI Application Level B.

United Nations Global Compact

The United Nations Global Compact is a voluntary UN initiative relating to human rights, labor, the environment and anti-corruption. HP became a participant in 2002.

HP's Chairman, Chief Executive Officer and President, Mark Hurd, references the company's support of the Global Compact in his executive letter. The table below includes links to sections in this report that address each of the Global Compact's 10 principles.

Principle	Information in report
Human rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	Supply chain Employees
Principle 2: make sure that they are not complicit in human rights abuses.	Supply chain
Labour standards	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Supply chain Employees
Principle 4: the elimination of all forms of forced and compulsory labour;	Supply chain
Principle 5: the effective abolition of child labour; and	Supply chain
Principle 6: the elimination of discrimination in respect of employment and occupation.	Supply chain Diversity
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	Materials
Principle 8: undertake initiatives to promote greater environmental responsibility; and	Supply chain Energy efficiency Product reuse and recycling Products Operations

Principle 9: encourage the development and diffusion of environmentally friendly technologies.	Energy efficiency Products Operations
Anti-corruption	
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.	Ethics and compliance – Approach Supply chain

Feedback on FY05 Global Citizenship Report

The consulting firm SustainAbility gathered feedback on our FY05 Global Citizenship Report (GCR) from 23 external stakeholders in the United States, Europe and Asia. Stakeholders included companies, NGOs, investors and academics.

Participants welcomed our attempts to provide more transparency on concerns and challenges and our efforts to articulate our global citizenship vision and strategy.

Key feedback included:

- HP's report is too long and dense.
Our response: We have decreased our report length by over 20% and divided long web pages into discrete sections to make information more accessible.
- HP should continue to increase transparency and be more candid about difficult issues and problems.
Our response: This has continued to be a focus in our reporting. The Ethics and compliance and Privacy sections are examples of our commitment to talk candidly about issues.
- HP should articulate the business case for global citizenship and show how it is integrated into core business activities.
Our response: We briefly describe several general aspects of the business case for GC in Managing global citizenship, and provide several specific examples such as Dynamic Smart Cooling, paper purchasing and recycling, packaging and supplier training.
- The report should be externally assured.
Our response: We have decided not to pursue a full external verification process for our report, but some key data and processes related to our priority areas are externally verified. See Assurance.

In April 2006, HP won the Ceres-ACCA North American Awards for Sustainability Reporting for its FY04 Global Citizenship Report. It is the second consecutive year HP has won this award. We were ranked 15th in SustainAbility's 2006 Global Reporters Survey of Corporate Sustainability Reporting (first in the Information Technology Hardware category).

Reference pages

To increase the usability of this report, we also include the following pages and features:

- » Awards summary
- » Case studies summary
- » Glossary

- » Data table
- » Perspectives summary
- » Policies summary
- » Site map
- » Subject index
- » Text search

Scope, dates and measures

- This report covers all HP operations but does not include joint ventures.
- Unless otherwise noted, all references to 2006 refer to the fiscal year ended October 31, 2006.
- All references to dollars are to U.S. dollars.
- "Tonnes" refers to metric tonnes.

Feedback

HP takes stakeholder feedback seriously. We welcome it, whether it is positive or negative. We invite all readers to offer feedback on this report and on HP's global citizenship activities. Please send feedback using our online form.

Assurance

HP recognizes the need to provide stakeholders with assurance regarding the content and data in our Global Citizenship Report. Our approach combines external verification of selected report content, other forms of external review and review by HP's internal audit group.

External verification

HP focuses external verification on sections of this report related to HP's global citizenship priorities:

- Supply chain responsibility – Environmental Resources Management (ERM) reviewed our supply chain SER program, assessing our policies, procedures, tools, resources, audit model and auditor qualifications. ERM also conducted verification audits of 24 supplier sites in China, Malaysia, Mexico, and Thailand. See more detail.
- Greenhouse gas (GHG) emissions – Independent auditor Bureau Veritas Certification verified 2005 GHG emissions measurements and reporting from HP operations under the protocols of the World Economic Forum's Global Greenhouse Gas Registry. Bureau Veritas Certification also verified our 2005 California CO₂ emissions using the protocols from the California Climate Action Registry. We plan to repeat this verification for 2006 data. See more detail.

- Product reuse and recycling – Environmental Resources Management (ERM) is performing external verification of HP's vendor audit processes. We will report on the results when they are available in Spring 2007.

Those sections include further detail about the verification providers, processes and findings.

We have decided to not pursue external verification of our full 2006 Global Citizenship Report at this time. Based in part on external feedback, we believe that the value to HP and our stakeholders would not justify the cost and complexity of doing so.

Other external reviews

Several programs and data described in this report receive external review from various sources, such as:

- Employee diversity – As a U.S. federal contractor, HP is subject to reviews by the U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP). The OFCCP evaluates HP's equal employment opportunity policies and practices by reviewing our Affirmative Action Program (AAP) and supporting data at selected U.S. locations. See more detail about results in 2006.
- Environmental, health and safety – As part of HP's global ISO 14001 and site OHSAS 18001 registrations, we utilize independent, accredited auditors Bureau Veritas Certification and BSi. In addition, qualified professionals conduct internal audits of the environmental, health and safety management systems at our larger operations and we report the results to senior management.
- Supplier diversity – As a commercial contractor to the U.S. Federal Government, HP is subject to periodic audits by the U.S. Department of Defense (DoD), Defense Contract Management Agency (DCMA). These audits review HP's compliance with Federal Acquisition Regulations (FAR) and HP's Small Business Subcontracting Plan. HP was last audited in 2002, and received an "Outstanding" rating, the highest rating assessed by DCMA.

Internal Audit

The primary focus of HP Internal Audit is financial processes and associated controls. However, compliance and ethics, Supply Chain SER, product recycling, RoHS/GSE compliance processes, privacy and environment, health and safety may be evaluated depending on the nature of the operation being audited.